EFFECTIVE IMPLEMENTATION:

KEY TO

DEVELOPMENT IMPACT

Portfolio Management Task Force
September 22, 1992
### Acronyms and Initials

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ARIS</td>
<td>Annual Review of Implementation and Supervision</td>
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<td>ARPP</td>
<td>Annual Report on/Review of Portfolio Performance</td>
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<tr>
<td>CAM</td>
<td>Country Assistance Management Process</td>
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<tr>
<td>CESW</td>
<td>Country economic and sector work</td>
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<tr>
<td>CHRIS</td>
<td>Comprehensive Human Resources Information System</td>
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<tr>
<td>CIR</td>
<td>Country Implementation Review</td>
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<tr>
<td>COD</td>
<td>Central Operations Department</td>
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<tr>
<td>CPPR</td>
<td>Country Portfolio Performance Review</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
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<td>DEC</td>
<td>Development Economics Department</td>
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<tr>
<td>ECON</td>
<td>Economic Analysis of Projects</td>
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<td>EDI</td>
<td>Economic Development Institute</td>
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<tr>
<td>EPS</td>
<td>Executive Project Summary</td>
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<td>ERR</td>
<td>Economic Rate of Return</td>
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<td>FEPS</td>
<td>Final Executive Project Summary</td>
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<td>FRS</td>
<td>Risk Management and Financial Policy Department</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>ICB</td>
<td>International Competitive Bidding</td>
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<td>ICR</td>
<td>Implementation Completion Report</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IEC</td>
<td>International Economics Department</td>
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<td>IEPS</td>
<td>Initial Executive Project Summary</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ITF</td>
<td>Information, Technology and Facilities Department</td>
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<td>LAC</td>
<td>Latin America and the Caribbean Region</td>
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<td>MIS</td>
<td>Management Information System</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>OD</td>
<td>Operational Directive</td>
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<td>OED</td>
<td>Operations and Evaluations Department</td>
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<td>OPRC</td>
<td>Advisory Operations and Procurement Review Committee</td>
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<td>ORG</td>
<td>Organizational Planning Staff</td>
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<td>OSP</td>
<td>Sector and Operations Policy</td>
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<td>PCR</td>
<td>Project Completion Report</td>
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<td>PMD</td>
<td>Personnel Management Department</td>
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<td>PPAR</td>
<td>Project Performance Audit Report</td>
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<td>PSE</td>
<td>Programs of Special Emphasis</td>
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<td>RAL</td>
<td>Review of Adjustment Lending</td>
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<td>RCI</td>
<td>Cote d'Ivoire</td>
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<td>RVP</td>
<td>Regional Vice President</td>
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<td>SAL</td>
<td>Structural Adjustment Loan</td>
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<td>SAR</td>
<td>Staff Appraisal Report</td>
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<td>SECAL</td>
<td>Sectoral Adjustment Loan</td>
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<td>SOE</td>
<td>Statement of Expenditure</td>
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<td>SW</td>
<td>Staffweeks</td>
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<td>TOR</td>
<td>Terms of Reference</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>WDR</td>
<td>World Development Report</td>
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EFFECTIVE IMPLEMENTATION:

KEY TO

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Introduction and Summary of Recommendations

A. Background

i. The Portfolio Management Task Force, announced by Mr. Preston in February, 1992, has examined problems affecting the quality of the Bank’s portfolio of loans and credits. This report assesses current problems in the portfolio of projects, discusses the Task Force’s assessment of their causes, and sets forth the Task Force’s recommendations for change. It does not attempt to provide a comprehensive assessment of the Bank’s overall record. As a development institution, the Bank has continuously broadened its activities. Increasingly ambitious goals and development priorities have expanded its reach in a rapidly growing membership at a time of substantial volatility in the global economy. The projects the Bank supports -- as a lender of last resort -- of necessity entail substantial risk taking. This calls for vigilance, realism, and constructive self-evaluation. The Bank must be no less restrained in diagnosing and seeking to remedy its own shortcomings than it is in seeking to help member countries recognize and address theirs. For only through rigorous and continuous self-assessment based on exacting standards can a large and influential institution such as the Bank maintain its effectiveness.

ii. The Task Force’s review of existing documentation and its own analyses have been deepened by "feeder papers" prepared by senior consultants and staff members, by focus groups convened to discuss specific problems, and by several special surveys of staff and management opinion. In addition, the Task Force benefited greatly from three international workshops -- respectively of Borrower officials familiar with the Bank, representatives of other assistance agencies, and representatives of the international contractors industry. Much of the Task Force’s assessment reflects views that are widely held. Many of the Task Force's recommendations build on existing best practices and on initiatives already underway in various parts of the Bank.

B. Conclusions

iii. Five conclusions are basic to the recommendations of the Task Force:

- **On-the-ground benefits**: The Bank's success is determined by benefits "on-the-ground"—sustainable development impact—not by loan approvals, good reports or disbursements.

- **Commitment and implementability**: Successful implementation requires commitment, built on stakeholder participation and local "ownership".

- **Quality at entry; implementation planning**: Quality at entry into the portfolio is a critical determinant of success in project outcome. Specific factors critical to project success, and obstacles to be overcome, must begin to be addressed as early as identification. Results-oriented implementation planning as a basis for later monitoring is essential.

- **Country focus**: The project-by-project approach to portfolio performance management needs to proceed within a country context to address generic problems of implementation and systemic opportunities for portfolio improvement, and to focus accountability within the Bank for portfolio results.

- **Taking account of portfolio performance**: If the Bank is to remain effective, portfolio performance must be taken into account in the Bank's country assistance strategies, business processes, and personnel policies.

C. The Problem

iv. **Declining portfolio performance**: Measured against the stringent performance criteria the Bank adopted for itself nearly two decades ago, the overall performance of the portfolio remains satisfactory. More than 75% of the projects demonstrate acceptable performance during implementation. There has been, however, a gradual but steady deterioration in portfolio performance. The share of projects with "major problems" increased from 11% in FY81 to 13% in FY89 and 20% in FY91. In the Annual Report on Implementation and Supervision (ARIS) for FY91, 30% of the projects in their fourth or fifth year of implementation were reported as having major problems—including 43% of those in Water Supply and Sanitation, and 42% of those in Agriculture. Performance problems were most severe in Africa; in the Latin America region, two countries accounted for nearly 50% of the problem projects, but other regions also had 30-40% of problem projects in their 4-5 year old portfolios. Worldwide, 39% of the borrowing countries had more than 25% problem projects. By the Operations Evaluation Department's (OED's) reckoning, based on staff assessments after completion of disbursement, the decline has been more severe. The number of projects judged unsatisfactory at completion increased from 15% of the cohort reviewed in FY81 to 30.5% of the FY89 cohort and 37.5% of the FY91 cohort. Perhaps reflecting the decline, cancellations have increased by some 50% in the past three years.
v. There are other factors corroborating the decline. The actual time required for project completion (nearly 7 years) exceeded the time estimated at appraisal by an average of more than 2 years. Borrowers' compliance with legal covenants—especially financial ones—remained startlingly low. Whatever the causes of noncompliance, absence of enforcement does not induce the behavior expected, and the credibility of loan agreements as binding documents has suffered. Despite these trends, the Bank's optimism at appraisal, as indicated by the gap between estimates of economic return at appraisal and at completion has increased.

vi. **Contributing factors of decline:** Factors other than poor design, poor management and poor implementation contributed prominently to these disturbing trends—including worsening global conditions (e.g. the oil shock, the debt crisis, and declining terms of trade) and deteriorating country institutional, policy and macroeconomic environments. Policy responses, including structural adjustment, have often changed priorities and restrained outlays for public investment programs. The Bank's portfolio was not—and should not have been—immune to these events. Also, the need for more complex and challenging undertakings in response to new development priorities has played a role, as may have more realistic project performance ratings in recent years. The most common types of problems reported were (in descending order) institutional constraints including Borrower inertia, shortages of counterpart financing resulting from deterioration in the macro environment, poor project management and defective procurement. Given the severity of these problems, technical deficiencies did not emerge as prominent causes of decline.

D. The Bank's Role in Support of Project Implementation

vii. **Emphasis on loan approval:** The uncontrollable—i.e. global—causes and the deficiencies in national policy, regulatory frameworks, and institutional capabilities are critical determinants of project performance. However, there are also aspects of Bank practice that either may contribute to portfolio management problems or are insufficiently effective in resolving them. Underlying many of these aspects is the Bank's pervasive preoccupation with new lending. In the eyes of Borrowers and co-lenders as well as staff, the emphasis on timely loan approval (described by some assistance agencies as the "approval culture") and the often active Bank role in preparation, may connote a promotional—rather than objective—approach to appraisal. Borrowers allege that loans feature conditions thought to be conducive to approval by management and the Board, even where these may complicate projects so as to jeopardize successful implementation. As a result, the quality of projects at the time of their entry into the portfolio—quality being defined to include *inter alia* implementability and sustained local commitment—is not always what it might be.

viii. **Treatment of risks, sensitivity, and implementability in design and appraisal:** The pervasive emphasis on loan approval is not matched by equal emphasis on implementation planning and identification and assessment of major risks to project performance. Sensitivity/risk analysis is limited, and virtually no attention is given to macroeconomic risks. The project concepts are not always well calibrated to the implementation capacity of executing agencies. Statistical analysis has confirmed that both the number of cofinanciers and the number of project components correlate substantially with unsatisfactory performance. Yet there remains a bias for complexity—perhaps caused by the urge to include as many novel features as possible to secure a favorable management and Board response.
ix. **Weaknesses in portfolio performance management**: The Bank's role in supporting project implementation is inadequately defined. Facilitation of implementation, compliance review, and "core" supervision (i.e. of end use, procurement and disbursements) are all normal parts of portfolio performance management. Substantive implementation assistance beyond "trouble shooting" is an aspect of portfolio performance management that, if needed, can be arranged with Bank help or, if it so decides, provided directly. Staff needs guidance as to whether it should become involved in providing substantive implementation assistance. The elaboration of such guidance should take into account that the Bank may not possess a comparative advantage to render such support, that its budgetary implication is open-ended, and that a preeminent role of Bank staff may undermine "ownership" on the part of the Borrower. The methodology for project performance rating is deficient; it lacks objective criteria and transparency, and poorly identifies the risks and factors that most influence project performance. While problem projects receive special attention, recourse to project restructuring or the exercise of remedies is infrequent. Procurement—which is estimated to take more than a third of the Bank's total staff time devoted to portfolio performance management—is another cause of major problems. Part of the weaknesses rest on poor understanding by executing agencies of Bank policies and requirements; another part is poor country capabilities and practices; a third cause is inadequate bid documents (when ICB is required) which take extensive time and resources to review and rectify.

x. **Limits of the project-by-project approach**: For the most part (although with some exceptions), portfolio performance management is based on a project-by-project approach. Country-wide implementation reviews are not as yet standard practice. As a result, generic country or sectoral obstacles to successful implementation, even if identified, are not systematically addressed. Also, because portfolio performance is not explicitly taken into account in the formulation of country assistance strategy, business planning, the CAM process, lending allocation reviews and performance assessments, these processes lose in realism and do not reinforce managerial accountability.

xi. **Need for development impact evaluation**: An independent and robust Bank-wide evaluation system has been put in place. Its contribution is increasingly being felt throughout the institution, though its attention to actual development impact remains inadequate. Project Completion Reports (PCRs) and most OED audit work seek to evaluate and draw lessons from the implementation of projects. Prepared shortly after the last disbursement, PCRs tend to be completed when benefits have not yet begun to materialize. Little is done to ascertain the actual flow of benefits or to evaluate the sustainability of projects during their operational phase. This weakens accountability for sustainable development impact based on observable results and, in consequence, impairs the Bank's ability to learn what really works and what does not.

E. **Recommendations**

xii. To improve upon the Bank's portfolio performance management the Task Force advances (in Chapter V and Annex A) six principal recommendations and a comprehensive program of measures for their implementation. The principal recommendations are:

- Introduce the concept of country portfolio performance management linked to the Bank's core business processes;
- Provide for country portfolio restructuring in adjusting countries including the reallocation of undisbursed balances of loans/credits;

- Improve the quality of projects entering the portfolio through better project analysis, appraisal methodology, and contractual arrangements;

- Define the Bank's role in, and improve its practices of project performance management;

- Enhance OED's role as an instrument of independent accountability and refocus ex post evaluation on sustainable development impact; and

- Create an internal environment supportive of better portfolio performance management.

Together, these recommendations and the implementing measures comprise a long-term program of institutional change in need of sustained leadership from management at all levels and of continuous support from the Board.

xiii. The principal thrust of these recommendations is to:

- Make the country portfolio the unit of managerial accountability in composition, size, and performance;

- Concentrate attention selectively on critical performance variables throughout the project cycle;

- Define the Bank's role in support of implementation so as to promote borrower commitment and accountability; and

- Rebalance internal priorities and incentive systems so as to ensure continuous and adequate emphasis on portfolio performance management.

The ultimate objective of these changes is the achievement of sustainable development benefits through efficient implementation of a high-quality portfolio.

xiv. The institutional implications are threefold:

1. This renewed focus on implementation and portfolio performance will sustain the Bank as a leader not only in development policy initiatives but also in effectively supporting its members in the painstaking task of development on the ground;

2. Added analytical rigor transformed into more decisive action prior to approval and more rigorous monitoring in the course of portfolio performance management are intended to enhance the quality of the portfolio, but at the same time they may make annual lending programs more volatile, and they will require increased agility in the management of committed resources; and
3. Potential efficiency gains will only partially offset the extra costs likely to be incurred in the short- and medium-term. Managerial discretion in redeployment should be guided by operational judgement and not be curbed by the imposition of rigid ceilings on portfolio performance management work or the application of budget "norms" to individual projects. Attention to the existing portfolio should have a priority claim on staff resources over new lending.

Current concerns of borrowers, donors, staff and managers alike make this an especially propitious time to act with dispatch on the proposed program of change.
I. CONTEXT

1. In his memorandum of February 7, 1992, establishing the Task Force on Portfolio Management, Mr. Preston stated: "Successful implementation of approved operations outweighs new annual commitments as an indicator of the Bank's development effectiveness." The Bank and IDA currently have close to US$140 billion in lending commitments helping finance about US$360 billion worth of projects and programs under implementation. Annual disbursements against some 113 country portfolios containing about 1800 projects are estimated to have reached US$16.5 billion in FY92. In FY93, total disbursements are expected to increase to about US$20.4 billion. The Bank's support for the effective implementation of its portfolio is one of the most important forms of development assistance it can render, for without effective implementation, the benefits anticipated at appraisal will not materialize.

2. Progress made in the evolution of development policy in the past decade, the inclusion of more challenging and more complex projects in the lending program, and a declining trend in portfolio performance, combine to add priority to the task of ensuring sustainable development impact through successful implementation. One of the Bank's most pressing medium term challenges will be to ensure that sustainable benefits result from the resources it provides. That is why the Bank must now focus attention on implementation and must adapt its processes, incentives and skills and deploy its resources to support the effective management of the performance of the portfolio of projects it finances. While the Bank may influence, it does not control and cannot be responsible for the actions of the Borrowers, who own the projects the Bank helps finance. This report outlines a program--built largely on initiatives and changes already underway in many parts of the Bank--to focus continuous attention on the performance of its portfolio. The program is designed to enhance the development impact of the Bank's portfolio through a return to diagnostic sector work prior to preparation, better appraisal practices, more effective implementation support, clearer accountability for portfolio performance results, and an independent and credible evaluation process key to the objective of institutional accountability.

3. While the Task Force initially interpreted the scope of its inquiry to encompass the "downstream" stages of the project cycle (i.e. from negotiations through impact evaluation) it recognized that the ultimate success of a project is, to a significant degree, determined by what happens in the "upstream" stages of the cycle (i.e. identification, preparation and appraisal) and by the effectiveness of linkages between portfolio performance, ex post evaluation and the conceptualization and design of new projects. The scope was therefore extended to encompass factors that affect the quality of projects when they enter the portfolio and others that influence the process of learning from experience. The term "project performance management" as used in this report, is essentially synonymous with what is usually known in the Bank as "project

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1/ Circulated to the Board on March 12, 1992, see Annex F.
2/ Reference throughout the report is to both IBRD and IDA unless otherwise indicated.
4/ References to projects include operations of all types.
5/ For composition see Annex G.
The more inclusive term "portfolio performance management" is used to connote country focus and accountability. The "upstream" or "lending" phase of the project cycle is most often referred to in terms of its sub-phases (identification, pre-appraisal, appraisal and negotiations). And the post-implementation phase is generally termed the "operational" phase.

4. There is a clear and immediate need for significant changes in the way the Bank helps to plan and evaluate projects, monitors and supports their implementation, and applies lessons of portfolio performance to ongoing work. The Task Force believes the proposed changes are, for the most part, evolutionary in nature; that they are consistent with prevailing trends in borrowing countries and with the views of Bank staff; that they support the development mandate the Bank has defined in its policies; and that they reflect the need for efficiency as well as effectiveness. Against the background of the respective mandates and accountabilities of the Borrower and the Bank, change is needed in five broad areas:

- Establishing the practice of "Country Portfolio Performance Management" and its linkages to and integration with the Bank's core business processes;
- Improving quality at entry into the portfolio;
- Strengthening project performance management;
- Evaluating project results after implementation; and
- Creating a supportive environment for improved portfolio performance management.

5. The Task Force's conclusions and recommendations on each of these five areas are covered in Chapter V. Chapter II discusses the current condition of the portfolio. Chapter III reviews the causes of the decline in portfolio performance. And Chapter IV defines the role of the Bank in project and portfolio performance management.

II. THE CONDITION OF THE PORTFOLIO

6. The Task Force's assessment of portfolio performance is based on several sources. First, quantitative information was drawn from the MIS-Portfolio Module, the Annual Review of Implementation and Supervision (ARIS), the Operations Evaluation Department's (OED) Annual Review of Evaluation Results and from such recent reports as those of the Task Force

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# The Task Force has dropped the use of "supervision" as it distorts Bank/Borrower relationships by implying hierarchy.

on Lending Quality\(^{9}\), the ECON Task Force\(^{9}\) and the OED Report on Supervision\(^{10}\). Second, special studies were prepared specially for the Task Force, some of which generated new data. Third, qualitative information on the Bank's business performance was drawn from interviews with managers, staff and focus groups, and from three international conferences— with, respectively, representatives of international contracting industries\(^{11}\), Borrower governments and institutions\(^{12}\), and development agencies\(^{13}\).

7. Quantitative information about the portfolio must be interpreted with caution since current Bank methodologies for assessing performance during project execution, outcome at completion, and likely development impact, are far from perfect. There is no consistent rating methodology based on objective criteria agreed with the Borrower and applied from the time of appraisal through completion and impact evaluation. Recent efforts to promote realism in ratings by staff may have contributed to the apparent decline. Current ratings during project execution focus largely on progress, whereas completion ratings focus mainly on implementation results and predicted development impact. Performance objectives reflect the exacting standards the Bank has set for itself, i.e. a minimum 10% rate of return in real terms or its qualitative equivalent in cases in which quantification of benefits is not feasible. Current country portfolio ratings are based on assessments for individual projects under execution which do not weight their relative importance in the portfolio.

8. Bearing both the standards and these reservations in mind, the ARIS data show that, in FY91, 80% of the current portfolio was estimated to be performing well and that 20% was incurring major difficulties. The estimated average return on the portfolio remained well above 10%.\(^{14}\) An average 20% incidence of projects in difficulty may not be considered excessively high given the Bank's role as a development institution. Certainly, if the incidence were very low it could imply the Bank was not taking risks in a high-risk business. There is, however, little doubt that the high proportion of borrowing countries with poorly performing portfolios (39%)\(^{15}\) is a cause for concern.

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\(^{9}\) "Report of Task Force on Relationship of Loan Processing to Lending Quality." (March, 1992).


\(^{11}\) "Bank Experience in Project Supervision". OED, March, 1992.

\(^{12}\) Conference held in Washington on May 27 with representatives of contractors from Europe, Japan and USA.

\(^{13}\) Conference held in Washington on May 28 and 29 with 18 individuals with extensive knowledge of Bank operations from 12 Borrowing countries that account, between them, for more than 50% (in $ terms) of the active portfolio.

\(^{14}\) Conference held in Washington on June 4 and 5 with representatives of major multilateral and bilateral development institutions.


\(^{16}\) Defined as country portfolios in which 25% or more of projects are problem projects (i.e. rated 3 or 4 in Form 590 reports).
9. The main concern, however, is the trend in portfolio performance. A gradual deterioration is apparent in portfolio performance over recent years, the share of problem projects under execution having almost doubled from an average of about 10% in FY79-81 to about 17% in FY89-91. Deterioration has accelerated in the last three years. OED data based on "completed" projects, confirm an increase of unsatisfactory projects over the past decade, and indicate a significantly higher proportion (35%) than does the ARIS data based on the current active portfolios. The challenge to the management and staff of the Bank is not merely to arrest the erosion in portfolio performance but to reverse the trend in the number of country portfolios showing a high incidence of problem projects.

10. The portfolio's deterioration has been steady and pervasive and is apparent in an increasing number of sectors. While the performance of agriculture and water supply projects has been relatively weak for several years (25% problem projects in FY91 according to ARIS), some traditionally strong performing sectors are now affected too: among them (in FY91); telecommunications (18%), power (22%), industry (17%), and technical assistance (27%). New areas of lending are also encountering major problems: poverty (28%), environment (30%), and private and public sector reform (23%). Adjustment lending was less affected than investment lending: in FY91 only 11% of adjustment projects were in trouble.

11. As evaluated in PCRs after the completion of implementation, the overall success rate declined from an average of 87% in FY79-81 to 65.7% in FY89-91. Subsequent PCR audits by OED suggest a further decline of the success rate by about 10%. At the same time, according to a recently published study of 1,015 investment projects, there is a systematic and growing bias towards excessively optimistic rate of return expectations at appraisal. Optimism does, however, diminish as implementation progresses, and ratings generally become more realistic by the fourth and fifth years of implementation. There are too few impact evaluations by OED to allow conclusions about operational performance and actual results.

16/ There is a statistical bias in this evidence, because the data for FY79-FY81 were based on three project ratings, with only one category (3) for problem projects, while the data for FY89-FY91 were based on four project ratings, with two categories (3 and 4) for problem projects. Furthermore, the portfolio definition differs between the two time periods. The FY79-FY81 portfolio included only projects which had become effective whereas the definition introduced in FY89 included projects as soon as they were presented to the Board. Therefore, projects rated 3 or 4 as a result of signature or effectiveness bottlenecks are included in the FY89-91 portfolio, but excluded from the portfolios for earlier years.

17/ The term "unsatisfactory", as used by OED, denotes projects that do not reach the minimum rate of return of 10% unless it can be demonstrated that their objectives have been otherwise achieved. A few projects that do return 10% may also be deemed "unsatisfactory" for special reasons.

18/ 172 OED audits of PCRs in 1990-91 confirmed PCR ratings in 85% of the cases while in another 10% a switch to "unsatisfactory" ratings occurred. OED, Annual Review of Evaluation Results, R92-162, Page 2, August 21, 1992.

Table 1: Comparison of Success Rates for On-Going Projects and Projects Completed in Year

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>A. On-going Portfolio</th>
<th>B. Projects Completed in Year</th>
<th>C. Divergence Ratio</th>
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<tbody>
<tr>
<td></td>
<td>% Well-Performing Projects</td>
<td>% Satisfactory Projects</td>
<td>(ARIS) (OED)</td>
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<tr>
<td></td>
<td>All Years</td>
<td>Years 4-5</td>
<td>Overall</td>
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<tr>
<td>91</td>
<td>80</td>
<td>70</td>
<td>63</td>
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<tr>
<td>90</td>
<td>86</td>
<td>79</td>
<td>69</td>
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<td>89</td>
<td>87</td>
<td>83</td>
<td>70</td>
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* Defined as projects not rated 3 or 4 overall in the ARIS.

12. Further refinement of the analysis would not alter the conclusion that the portfolio is under pressure. This pressure is not temporary; it is attributable to deep-rooted problems which must be diagnosed and resolved. The Bank's limited use of remedies is sending the wrong signals to both Borrowers and staff. The cost of tolerating continued poor performance is highest not for the Bank, but for its Borrowers. Improvements must be consistent with the causes of declining performance.

III. THE CAUSES OF DECLINING PORTFOLIO PERFORMANCE

13. The findings of recent OED and Country Operations Department (COD) studies and of the research underlying the 1991 World Development Report (WDR) on factors influencing project performance, were validated in interviews with Bank staff and at the Task Force conferences with Borrowers and representatives of international development agencies in May and June. Consequently, the Task Force concludes that the performance of Bank-financed projects and programs is a function of three closely interrelated factors:

- At a global level, the volatility of the international economic environment during the last two decades has strongly affected—mostly indirectly—the outcome of Bank-supported projects;

- At a country level, macroeconomic conditions and policies, changes in developmental priorities, deficient regulatory environments, and the lack of or decline

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21/ Confirmed by findings of the Task Force on "The Relationship of Loan Processing to Project Quality"; March 27, 1992.

22/ Political instability can, of course, threaten an entire country portfolio.
in capacities of local institutions, have had a significant direct and indirect impact on project performance; and

- At the project level, institutional capacity, "ownership" and technical design are critical determinants of project outcome. The broadening scope of lending for programs of special emphasis and increasing recourse to cofinancing have added to project complexity, even as institutional weaknesses have prevented Borrowers from effectively implementing increasingly complex projects. Local commitment and "ownership" have received little attention, while the focus has been on technical soundness.

GLOBAL FACTORS

14. Changes in the world economy in the 1970s and 1980s had an adverse influence on the environment in which projects were implemented. These effects largely resulted from declining terms of trade, rising international interest and inflation rates, and declining capital inflows. The volatility of world petroleum prices also had a substantial negative impact. In retrospect, it is perhaps not surprising that, within uncertain and destabilized international and country environments, local institutions did not perform as well as anticipated at the time of appraisal and that, in consequence, overall project performance declined. Indeed the external environment plus the country growth rate can—in terms of statistical correlations—explain most of the deterioration in project performance since the early 1980s.

15. The influence of macroeconomic variables on the more than 1700 projects completed in 1972-91 was analyzed by the Task Force on Project Quality. It measured the effect of these variables on the probability those projects would have (otherwise) received "satisfactory ratings." The statistical analysis showed their impact varied from one sector and subsector to another. But across sectors, their influence was consistently significant: an improvement of 15 percent in the terms-of-trade index increased the probability of a satisfactory project rating by 1.8 percentage points; an increase of 1 percent in international interest rates was associated with a decline of two percentage points in the probability of a successful investment; and the negative impact of international inflation was close to 3 percentage points.

16. The 1989 Annual Review of Evaluation Results pointed out that "a group of 25 early intensive adjustment lending countries suffered a loss equal to nine percent of their 1980 Gross Domestic Product (GDP) during 1985-88 compared to 1970-80". And the recent study on Project Quality demonstrated that declining GDP decreased the probability of satisfactory project implementation in the same period, by nearly 18 points below the sample average of 74 percent. Such global developments will occur from time to time and remain largely unpredictable. The issue is not to design against their occurrence but to understand the

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2/ Ibid.
sensitivity of an investment decision to such events and to retain flexibility to adjust to and to contain potential damage.

COUNTRY FACTORS

17. Country factors, often conditioned by changes in the global environment, have a strong impact on project outcomes. The 1991 WDR presented extensive evidence on the determinants of success in investment projects, based on evaluation results for a large number of completed projects. Examining the relationship between projected economic rates of return (ERRs) for these projects on the one hand and trade distortions, exchange rate distortions, interest rate distortions, and the government deficit on the other, it was found that, by every measure, ERRs were highest in undistorted markets, and lowest in distorted markets. On average, projects implemented in undistorted policy climates had an ERR, estimated at completion, that was at least five percent higher than the ERR for those implemented in a distorted climate. Follow-up research suggests that economy-wide policies also affect success in the implementation of social sector projects. The findings support the need for linking strategy, especially in social sectors, even at project level, to the overall framework of policies at country level. Even very well designed projects cannot succeed in a poor policy or regulatory environment.

18. The Borrower's institutional, managerial, organizational, and technical capacity to implement projects, and its capacity to audit managerial decisions, all have a strong impact on project outcomes. The 1991 WDR confirmed that the productivity of capital is much higher when institutional objectives are achieved. Expected ERRs for appraised public sector projects were, on average, 22 percent. When institutional objectives had been attained during project implementation, the reestimated ERRs turned out to exceed 20 percent — that is, close to expectations. This contrasts sharply with public sector projects for which institutional objectives had not been attained; in those cases the reestimated ERRs averaged less than 10 percent. While the Task Force's inquiry did not extend to field research on institutional capacities, staff have reported a decline in institutional strength in many borrowing countries.

PROJECT FACTORS

19. The most common types of problems reported (in regular supervision reports) during project execution, concern (1) institutional constraints, (2) the scarcity of counterpart financing, (3) poor project management, and (4) defective procurement. This pattern, and the overall decline in portfolio performance, were confirmed by staff interviews conducted by the Task

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Not a new insight but so important it bears repetition.

These categorizations are of necessity general and hide complex relationships of rewards and vested interests, policy conflicts and political agendas. They vary in prominence and significance. In turn they underline the importance of "ownership" and an intimate understanding of the workings of local society.
Force on Loan Processing and Project Quality. Statistical analysis based on 1715 completed investment projects also highlights the role of project complexity in determining project outcomes.

20. Project complexity cannot always be avoided and complex project designs may be the only appropriate instruments of change in specific sectoral and policy contexts. Nonetheless, project complexity—particularly organizational complexity—inevitably complicates project implementation. Many of the Bank's current practices generate complexity:

- The number of cofinanciers—especially when more than one cofinancier participates in a given operation—substantially increases the probability of poor project performance. Resort to parallel financing, to reserving procurement, and to particular sources of supply, complicates project management. In projects involving two or more cofinanciers the probability of a satisfactory rating falls by almost 8 percent;

- The number of project components or disbursement categories impairs project performance, whether considered separately from, or in conjunction with, cofinancing;

- The rapid introduction of various programs of special emphasis (the environment, women in development, poverty reduction, etc.) has caused staff to feel compelled to address many or all of them in each project. There is no countervailing effort or incentive to make simplicity—in project designs and implementation plans—a specific goal;

- Excessive reliance on covenants in legal documents, especially if they obligate different parties, can increase the complexity of compliance, and complicate monitoring and reporting;

- Project complexity can be compounded when implementing agencies do not systematically participate in loan/credit negotiations or are not properly briefed or trained in Bank requirements and procedures.

21. Given that project complexity is a common cause of implementation difficulties, efforts are often insufficient to ensure the number of project objectives, components and sponsors is realistically calibrated to the Borrower’s implementation capacity. Attention to local commitment and ownership and to coalitions that sustain the project/program through implementation is inadequate. Bank leadership, especially in the areas of special emphasis, is often indispensable, but if it is exerted through coercion rather than persuasion and, in

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\(^{22}\) Op cit.

\(^{22}\) Two-thirds of the staff interviewed see this as a major cause of increased project complexity.
consequence, results in aspects of a project which lack borrower support, the outcome is likely to be deficient ownership and poor implementation. The risks arising from weak borrower commitment receive inadequate attention, as do other risks. Inadequate attention is also given to sensitivity analysis, implementation planning (including procurement scheduling) and sustainability.

22. "Satisfactory" projects (using OED criteria) share certain characteristics. The use of more Bank resources (e.g. staff time) on preparation, appraisal and negotiations is not correlated with project success. Faster completion of negotiations and reduced elapsed time between approval and effectiveness — possible proxies for Borrower commitment and ownership — are correlated to project success. The most satisfactory projects tend to be those in which there has been most Borrower participation during preparation and, as a result, the greatest likelihood of high Borrower commitment.

23. Borrowers' compliance with legal covenants is another major problem. Although only partial data are available, the evidence of gross non-compliance is overwhelming. A recent COD study showed that only 22% of the financial covenants in loan/credit agreements were in compliance. A recent OED study of water supply projects financed by the Bank in 1967-89 showed similar results: only 25% of financial covenants were in compliance. The preliminary findings of a review of compliance with financial covenants for revenue earning entities in one region shows only 15% of projects in full compliance. The Task Force found multiple explanations for these trends. Some were straightforward cases of non-compliance. Others were complex mixtures of poor project design, unrealistic multiplicities of covenants, and changing macroeconomic environments (particularly in countries undergoing adjustment) where loan documents (and covenants) had not been adapted to changed circumstances and where compliance was thus all but impossible.

24. The actual average project implementation period is about 7.0 years, compared with an estimate of 4.5 years at appraisal. As a result, disbursements are also perennially below appraisal estimates; on average by about 30%. Delays are most common in investment projects, often caused by poor procurement planning, and in IDA-financed adjustment operations.

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29 From statistical analysis of 1478 completed projects rated by OED, satisfactory projects have the following characteristics (in relation to "average" projects):

- Fewer (-21%) preparation SWs
- Fewer (-20%) appraisal SWs
- Fewer (-4%) negotiations SWs
- Faster preparation (elapsed time -13%)
- Faster appraisal (elapsed time -9%)
- Faster processing between negotiations and Board (elapsed time -13%)
- Quicker effectiveness (elapsed time -14%)
- Quicker closing (elapsed time -21%)
25. Problem projects tend to get extra attention (see Box 1). Semi-annual Reports on Projects under Execution show, however, that major project restructuring affects only 12% of all projects in the portfolio\(^{24}\). Such restructuring usually implies the redesign of project components and/or the reduction of project scope. The reasons vary. They include financial constraints; changes in the institutional environment; cost increases; poor contractor performance (particularly in the Human Resource sectors); and the need to address new sectoral priorities. Occasionally, project scope is expanded to capitalize on first year results. The number of restructurings doubled in FY91 and in the first three quarters of FY92, compared to an annual average of 50 in the period FY89-90. This may suggest increasing concern and flexibility on the part of the management to respond to changing Borrower environments. Certainly the need for that sort of flexibility was strongly suggested by Borrowers attending the international conference in May (see Annex B).

\(^{24}\) Reluctance to restructure—on the part of the Bank managers—may be partly attributable to the costs involved. It is far from easy for a Division Chief to embark on what may amount to a comprehensive redesign, if the only resources available are the nominal 12 staffweeks per project for "supervision".
The detailed review of problem projects revealed that the most problem projects resulted from government interventions over several years. The projects that had been identified as problem projects in the period 87-90 (50) were identified as problem projects in the period 85-86 (114) and 83-84 (114) and 81-82 (66). The projects that had been identified as problem projects in the period 85-86 (114) and 83-84 (114) and 81-82 (66) were identified as problem projects in the period 87-90 (50).

In FY89-90, a total of 167 projects, excluding 17 projects in non-normal countries, were identified as problem projects for three consecutive years. These projects were concentrated in the Agriculture, Power, Industry, Trade, and Finance sectors.

The evidence shows that some projects were identified only in the last 2 years, reflecting the difficulties in identifying problems in projects that were identified as problem projects in the last 2 years. The problems identified in these projects were generally technical, and the main implementation issues were (1) technical financing, (2) project management, (3) procurement, and (4) implementation.

A detailed analysis of the 28 projects in the sample revealed that the problems described in the corresponding supervision reports in 59% of the cases were clearly focused on the issues identified as problems. In the remaining cases, the recommendations continued to be made for the same issues, whether they were identified as problems or not.

The project plans for the 28 projects were generally good, with most of the recommendations focused on the issues identified as problems. The project plans were generally focused on the issues identified as problems, and the recommendations continued to be made for the same issues, whether they were identified as problems or not.

With few exceptions, the project plans for the 28 projects were generally good. In the remaining cases, the recommendations continued to be made for the same issues, whether they were identified as problems or not.
IV. THE BANK’S ROLE IN SUPPORT OF PORTFOLIO PERFORMANCE

26. The Bank’s role in supporting project implementation is inadequately defined as "supervision"; it, in fact, encompasses four distinct roles: (1) supervising the procurement, disbursement and end use of IDA and IBRD funds; (2) monitoring compliance with loan/credit contracts; (3) facilitating implementation by helping Borrowers interpret and respond to the Bank’s requirements; and (4) providing substantive implementation assistance to Borrowers.

27. The first two functions are mandatory, arising either from the prescriptions of the Articles or from Loan and Credit Agreements. The other two are discretionary and reflect the Bank’s mission as a development institution. There is an evident temptation to concentrate more and more staff resources on them. Yet, the Bank may not have a comparative advantage as a source of extended substantive implementation assistance, and it could face a potential conflict of interest that can arise from making substantive managerial and/or professional inputs to implementation. The Bank’s proper role is that of a provider of finance, counsel and advice to, rather than in substitution for, the Borrower. In the interests of enhancing Borrower commitment, developing Borrower capabilities, and ensuring accountabilities, a clear definition of the Bank’s role vis-a-vis that of the Borrower in identifying, preparing, appraising and supporting the implementation of projects it supports is of critical importance. It reconciles its developmental role in these phases of the project cycle with its fiduciary responsibilities to taxpayers and savers. The intensity of the Bank’s involvement—not its role—can, of course, vary with the capabilities of the implementing agency and the type of project and will naturally vary from one country to another.

28. Bank involvement in portfolio management has changed over time. Its involvement has substantially increased from simply verifying compliance with procurement, accounting and reporting requirements to a far more active role in attempting to ensure that projects are properly designed, implemented and, if advisable, modified to meet changing circumstances. OD 13.05 describes the spectrum of activities Bank staff is expected to undertake. It goes well beyond the obligations imposed under the Articles and under loan documents. Bank staff is instructed that project execution and resolution of implementation problems "are the joint concern of the Bank and the borrower". Staff is further directed to inform the Borrower in writing what corrective action is to be taken "by whom, by what date, and what results are expected". This implies a major though perhaps inadvertent shift in the direction of managerial co-accountability. Mandates as set forth in ODs need to clearly circumscribe the role and accountabilities of the Bank without inhibiting the exercise of initiative and judgment but also without casting doubt on the responsibilities of the Borrower.

\footnote{The resource absorption implications are almost unlimited.}
29. Within this framework of mandates and accountabilities, the Bank's effectiveness in supporting project implementation depends on four main factors: the quality of operations when they enter the portfolio; the quality of the Bank's efforts to support project implementation; the quality of the Bank's interactions with Borrowers before, during and after project implementation; and the quality of the feedback cycle to staff from Management and Board, and from staff who evaluate projects to those who identify and appraise them. Each of these topics is discussed in turn in the remainder of this chapter.

QUALITY AT ENTRY

30. Quality at entry is critical to achieving project success. Today the Bank finances such a wide variety of projects that it defies easy definition of what quality means. Capital intensive civil works projects may continue to derive part of their quality from detailed engineering and cost estimates. Projects defined by coordinated sets of activities of numerous participants with relatively little capital investment and a higher reliance on operating expenses may derive part of their quality from a robust definition of objectives and appropriate flexibility in employing means for their attainment. However well designed and suited to the country context, projects must also enjoy Borrower commitment. And in addition, quality at entry entails careful identification of critical risks and the project's sensitivity to them. With these considerations in mind, the Task Force also examined the Bank's present practices in the pre-appraisal, appraisal, and negotiations phases of the project cycle.

Pre-Appraisal

31. During the project identification phase, the tasks are to determine that there is a constraint that an intervention could relax, that the broad outlines of the likely costs and benefits suggest that the intervention will be worthwhile, and there is a particular catalytic role that the Bank can play. This part of the project cycle is critically dependent on diagnostic sector work and on active dialogue with the potential borrower on sectoral priorities. Vital tasks at this stage are to agree on how and in what detail the project/program should be prepared and to ascertain the commitment of the borrowing country. Borrowers report a decline in the kind of sector work needed for the identification of priorities and an increasingly prominent role of Bank staff in project preparation, one that they fear can prejudice its objectivity at appraisal.

32. Formally, project preparation is the responsibility of the borrowing government. The Bank does maintain facilities (Project Preparation Facility, Engineering Loans, and Technical Assistance Loans) to provide financial support for the carrying out of activities (surveys, studies,

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3v Economic and sector work of the Bank is a major source of project identification as well as a source of inputs to the Bank's appreciation of a potential investment activity. Although these contributions are of great importance, assessment of their quality exceeded the mandate of this inquiry.

3w See OD 8.00, Project Preparation Facility.
designs) needed in project preparation. The Bank can also act as executing agency for UNDP or under trust fund arrangements under which it assumes responsibility for the management of financial resources in support of project preparation. Furthermore, it subsidizes project preparation carried out under cooperative programs with U.N. specialized agencies. These resources are frequently brought to bear through staff initiative; their use is supervised by staff, and the product is at least informally subject to staff approval and/or acceptance. It is in this context that borrower concern about the lead role of Bank staff in project preparation must be understood. There is clearly merit in the exercise of initiative by staff, but there is also need to enhance the Borrowers' sense of ownership as there is concern about insufficient local involvement and commitment.

**Appraisal**

33. The Task Force found that the credibility of the Bank's appraisal process is under pressure. Many Bank staff perceive appraisals as marketing devices for securing loan approval (and achieving personal recognition). Funding agencies perceive an "approval culture" in which appraisal becomes advocacy. And whereas Borrowers used (and would like again) to see appraisal as a disinterested, reliable assessment leading to a "Seal of Good Housekeeping" (a critical, yet constructive, professional assessment of a project or reform proposal), that is not always the case today.

34. The Bank's approach to appraisal was evaluated in light of Chapter III's discussion of the determinants of project success, which focused on global, country, and project factors. (See also Box 2). The major findings are that Bank appraisals are not making clear the macroeconomic, financial, and institutional assumptions and risks underlying the analysis. Nor are they making clear the sensitivity of project outcomes to those variables which experience shows are critical for project success.

35. Other appraisal shortcomings noted by the Task Force included: unreliable assessments of institutional, managerial and organizational capacities for project implementation; poor assessments of Borrower capacities in the area of financial management (including auditing capabilities during implementation); the frequent absence of explicit consideration of alternative technical solutions and options; inadequate assessments of risks and their impact on expected benefits; and (not infrequently yet critically) failure to accurately gauge country commitment and local support.
Box 2. Evidence from Staff Appraisal Reports

The ECON Task Force reviewed the 181 Staff Appraisal Reports (SARs) on investment projects approved in FY91. The ECON Task Force found that the weakest part of project economic work was risk/sensitivity analysis. Recognizing that judgments about the quality of economic analysis in Staff Appraisal Reports and judgments about the quality of economics underlying a project are not the same, the ECON Task Force concluded that, since the Bank does not systematically consider project risks, it does not systematically reject project designs which—because of these risks—generate unacceptably low expected returns and/or cost-effectiveness. The ECON Task Force pointed out that identifying—and where possible quantifying—risks and their implications for project costs and benefits exposes weak aspects of projects and points the way to more robust project designs. Moreover, sensitivity to macroeconomic, financial, and institutional risks can be considered during project identification, thereby influencing project selection early on.

Projects Subject to an ERR Test: Evidence

Among the 92 projects subject to an economic rate of return (ERR) test, there is wide variation in the quality of economic analysis in the SARs. Most SARs quantify project costs and benefits on the basis of technical parameters and market growth factors. Twenty-four of the SARs provided no sensitivity analysis. In forty-nine of the remaining 68 SARs, 30 presented only cosmetic analysis (the effects of 10 percent increases/decreases on total costs and benefits). Only 19 employed sensitivity analysis to test the effect of one or more of the risks identified in the “project risk” section. Only 24 presented switching values (that is, the values for key variables that turn the project from being viable to nonviable). Based on its review of these SARs, the ECON Task Force concluded that sensitivity/risk analysis was not being used to shape projects or to designate variables for intensive monitoring during implementation.

Although some SARs acknowledge that the macroeconomic environment is important for determining project outcomes, macroeconomic variables, along with assumptions about government implementation capacity, and the availability of local cost financing are not explicitly taken into account in calculating ERRs. True, these factors are frequently cited in the risk section of the SARs and are sometimes considered in sensitivity analyses. But even the best SARs do not quantify the risks—to project costs and benefits—of slippage on the macroeconomic, financial, and institutional capacity/implementation fronts, notwithstanding they are prominent sources of failure. The result is an upward bias to ERR estimates, which are supposed to describe the expected value—that is, the statistical mean—of possible project outcomes. This neglect largely explains the so-called “ERR gap”—that is, the difference between the ERR at appraisal and the ERR at the time of project completion. Given an appraisal ERR based on “everything goes according to plan” and a completion ERR based on the cold reality of project implementation, it is not surprising there is a gap. Nor is it surprising that, in a period of macroeconomic decline, it has widened considerably in recent years.

Projects Not Subject to an ERR Test: Evidence

Among the 89 investment operations that were not subject to an ERR test, 26 were in population, health and nutrition, and 26 were in education. Eight were in agricultural research and extension and 17 were financial intermediary operations; the remainder were multisector or environmental. In some of the agricultural research and extension projects, evaluation issues were addressed, and there were attempts to quantify benefits and ERRs based on proxy variables and experience elsewhere. However, institutional and macroeconomic risks received virtually no attention. With a few notable exceptions, SARs for social sector projects did not focus on evaluation issues. Consequently, implicit macroeconomic and implementation assumptions were not addressed; and risks were not evaluated.

36. More than half (56 percent) of the respondents to a survey conducted by the Task Force on Project Quality said their Division Chiefs lacked the time and/or sectoral expertise to help them achieve substantive quality at entry and guide them towards realistic objectives. Staff pointed out that major contributions to project quality are made and incorporated at the pre-FEPS stage when the project timetable is still tentative and pressure to lend is usually still moderate. Only 17 percent of staff interviewed felt that analytical work done during project preparation was sufficient to ensure the achievement of project quality. Most others (believing timely delivery is the dominant institutional value) thought that better project work would be done if annual lending contracts were to put less pressure on departments, divisions, and task managers to deliver projects on schedule. Task Managers also reported overload with administrative tasks, project timetables, lending targets, and work fragmentation which, they believe, can lead to inadequate technical preparation and weak assessments of institutional implementation capacity.

Negotiations

37. The Bank's contractual documents for loans and credits include a variety of covenants designed to assure successful implementation of the project and repayment of the loan. Loan covenants are essential elements in the relationship between the Bank and its Borrowers. The last full-scale review of compliance with loan covenants was done a decade ago.

38. The Negotiations stage of the project cycle is seen by many Borrowers as a largely coercive exercise designed to "impose" the Bank's philosophy and to validate the findings of its promotional approach to Appraisal (see Annex B). They complain that there is more focus on extraneous covenants than on planning and explaining specific measures to meet project objectives. They also claim that key project implementation parameters—on which the Borrower will systematically report, and which the Bank can monitor to assess progress—are rarely discussed or covered by loan/credit documents. These assertions may not be generally accepted within the Bank, but the Task Force believes Managers and staff should be aware of them and, when appropriate, modify behavior accordingly.

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29/ There was, nonetheless, a strong consensus (93 percent) that the post-1987 quality review system is superior to the centralized pre-Reorganization system. Why? Mainly because of close associations between project teams and Departmental Management Teams, Country Teams, and peer review groups at an early stage of project processing.

29/ Many staff also feel the Sector Operations Divisions are too small (lack of critical mass) to ensure staff continuity from project identification through appraisal and to provide adequate technical backup and training opportunities to newly-recruited staff.

QUALITY OF PORTFOLIO PERFORMANCE MANAGEMENT

Implementation

39. In principle, the performance of all projects should be reevaluated throughout the period of implementation. As stated in para. 7, the current methodology for performance rating is deficient. These ratings are recorded on Form 590 and are aggregated and analyzed in the ARIS. Form 590 does not provide for an adequate explanation of the development impact rating, ratings tend to be subjective, and there is the recurring problem that many projects receive satisfactory ratings during implementation, yet are judged as unsatisfactory on completion.

40. The use of information emerging during implementation to fine-tune (or restructure) project design as necessary is uneven. More than anything, this seems to reflect the absence of a systematic attempt to reevaluate actual or expected benefits or probability of attainment of principal project objectives during implementation. Combined with the inattention to sustainability, this is a major failing because it can perpetuate the implementation of project designs that no longer make sense in the face of changed costs and/or benefits.

41. Four main factors were cited by staff to explain what they perceive to be the main problems impairing the quality of portfolio performance management: inadequate resources (time) (76%); deficient skills (71%); distorted incentives (62%); and pressure to lend (48%). The first three are discussed below. The fourth pervades this report.

Management and Staff Incentives

42. A number of current practices—with respect to career development, feedback to staff, and signals from managers—militate against a sharper focus on portfolio performance management. Existing incentives act as barriers to desirable changes in behavior. Practices tend to put a premium—in recruitment, in formulating work programs, and in promotions—on conceptual and planning abilities rather than on practical managerial and implementation experience. There is a widely held staff perception that exposure to appraisal and lending work (preferably for SALs and SECALs) enhances career development prospects whereas portfolio management experience does not. Higher visibility attaches to achievements in loan processing than in project performance management. Although practices vary, feedback from Division Chiefs about portfolio management work is not common and the emphasis on ratings vis-a-vis qualitative assessment in Form 590 does not induce constructive feedback. Indeed, some staff erroneously believe supervision reporting serves to rate them rather than to facilitate managerial decisions, and some report pressure—from managers—to minimize the number of problem projects through generous rating. The incidence of staff dissatisfaction with incentives varied among the regions from 44% to 75%.

Recently, efforts have been made, for example, through review by country teams, to make the ratings more objective.
43. There is, furthermore, a revealed preference among Bank staff and managers for conceptualization, planning and design. To the extent this preference prevails, Bank staff have a natural inclination to favor lending work. The revealed preference is not therefore *caused* but is, rather, *reinforced* by the incentive structure. Intrinsic as well as extrinsic factors thus affect incentives. This makes the task of engineering cultural change in support of portfolio performance management considerably more difficult.

Resources

44. Seventy-six percent of the staff interviewed considered the resources allocated to portfolio management inadequate. The changing geographic nature of many operations—from localized to country wide—requires spending more time in the field. Resolving generic country issues that constrain implementation of individual projects but must be dealt with on a systemic level, requires time-consuming coordination with other Task Managers and complex interactions within the borrowing country. Time is spent (but not necessarily recorded) by consultants recruited under various trust funds, thereby distorting the record. And staff feel that resource constraints oblige them to take too narrow a view of portfolio performance management. The Task Force recognizes that budgetary evidence does not support this widespread perception and that, in recent years, not all the resources budgeted for portfolio management have been spent. The perceptions nonetheless remain and some managers feel that comparisons between requested, planned, and actual time expenditures are misleading, because, after managers have lived with coefficients for many years, their budget requests are often constrained by the expectation that requests for large allocations exceeding budgetary norms will be disallowed.

45. Moreover, even though staff report severe time constraints on project and portfolio performance management, budget analysis shows that managers favor lending when allocating resources and selecting staff for assignments, particularly where there remain opportunities to lend. Unless this inherent priority is corrected and manifested in redeployment decisions, additional resources which might be provided for portfolio performance management might simply be used to support other work program categories.

46. That said, a nominal staff allocation of 12 staffweeks a year—four of which, on average, are presently devoted to supervising procurement—simply does not allow enough time to meet

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Many staff with long service in the Bank recognize a generational difference here. For more than three decades—until the 1970s—many of the Bank’s technical staff had long experience in managing business functions in developing countries. The current staff is generally much shorter on that type of experience although probably longer on academic qualifications and analytical acumen. The “preference” problem is directly related. Some staff also maintain that as long as there is an absence of checks and balances in the organizational architecture and a predominant Board interest in new lending, efforts to shift the incentives towards work to promote successful implementation will not be effective.

While the Task Force did not carry out a detailed analysis of the use of trust fund resources, there is a general perception that trust fund resources may in fact have substantially augmented total resources spent on project implementation.
all the expectations now placed, rightly or wrongly, on portfolio performance management. While determined efforts may not always be made to redeploy resources within existing overall allocations, it needs to be recognized that extra demands placed on staff beyond the tasks of "core" supervision may require additional resources for the purpose. Specific measures are recommended in Chapter V.

The Skill Mix

47. Three main issues were identified regarding the skills of Bank staff in relation to expectations in the area of portfolio performance management. First, seventy-one percent of staff interviewed felt that Task Managers are not only overworked, but are also overwhelmed by responsibilities for which they have little or no pre-Bank experience or in-Bank training. Task Managers are asked to take on administrative, managerial, liaison and negotiations responsibilities far removed from their areas of experience and technical proficiency. Second, skill constraints in the Bank's workforce are felt most often in such areas as accounting and auditing, procurement, organization, management, and environmental impact assessment. Third, staff believe existing skills are often inefficiently deployed: while, for example, they perceive that senior staff work on new lending, junior staff, new staff and Young Professionals are frequently given portfolio management responsibilities, and consultants are hired to bridge the skill gaps and write Project Completion Reports (PCR)\[^{44}\]. To test those views, the Task Force appraised the adequacy of Bank skills for portfolio management on the basis of data from the Time Recording System, the ARIS module of the MIS for FY89-92 (through December 31, 1991), and the Human Resources data base (CHRIS)\[^{45}\].

48. This review of skill mix revealed three major findings: first, contrary to popular belief, staff deployed on supervision were not inexperienced -- in terms of grade, time in grade, or time in the Bank. Forty-six percent of supervision work was done by staff in Grades 24 and above, 54% by staff in Grades 23 and below\[^{46}\]. Forty-seven percent had been more than seven years in their grades, 22% three years or less; and 60% had been in the Bank more than five years, 35% more than 10 years.

49. Second, in the last three years, portfolio management accounted, on average, for 422 staffyears (net of overhead). About 1,550 staff and 820 consultants were involved. The role of consultants grew by about 20% in this period, while the number of staff fluctuated slightly. Staff contributed about 80% of the total time spent on portfolio management, consultants contributed the remaining 20% (a ratio that does not seem unreasonable, considering the need

\[^{44}\] Contrary to current instructions that PCRs should be written by the Task Managers responsible for supervising the projects up to completion.

\[^{45}\] Skill data are, however, incomplete. They are not fully recorded for consultants, and for staff, position titles and job descriptions do not adequately reflect actual skills. The extraction of data from personal history forms is a complex task and could not be done within the timeframe allowed the Task Force.

\[^{46}\] The latter category (Grade 23 and below) includes consultants, many of whom have long experience.
for specialist expertise). Work done at Headquarters, including procurement, accounted for about 70% of time spent on portfolio management, field work for only 30%. It is generally accepted—and also partially supported by analysis\textsuperscript{44}—that more than a third of total portfolio management time was spent on procurement.

50. Third, the factual analysis confirmed that technical skills used to support implementation (accounting for about 46% of total resources) were, quantitatively, adequate, considering the low incidence of technical problems encountered in implementation. However, the availability of financial specialists (11% of the total) and management specialists (2% of the total) was disturbingly limited considering the incidence of managerial and financial problems in the portfolio. Furthermore, in light of the conclusions reached by the Task Force on Project Quality\textsuperscript{45}—which found that the impact of macroeconomic and regulatory environments on project performance was neglected in portfolio management work and poorly treated in portfolio management reports—there may also be weakness with respect to the quality and quantity of economic and public administration skills (17% of the total spent on supervision) applied to project and portfolio management work.

51. Caution is needed in interpreting these data. There are gaps (10% of all the time spent on portfolio management could not be classified) and the breakdown of skills by disciplines is limited. Also, staff skills are not necessarily reflected in position titles, and given positions may make only limited use of staff skills. While the data suggest that a generally satisfactory mix of staff seniority is being brought to bear on implementation support, that view is not unreservedly shared by Borrowers (see Annex B). Nor should this analysis be taken to suggest that technical skills problems may not exist qualitatively and in other parts of the project cycle. The issues of skills mix deserve further analytical attention.

Field Offices

52. The Task Force conducted two surveys to analyze the actual and potential roles of Resident Missions and their present and prospective mandates. One covered all Resident Missions. The other covered Headquarters staff with previous experience in Resident Missions. The Task Force also canvassed the views of staff and managers on this topic in focus group discussions, reviewed the 1990 report of the Task Force on Resident Missions, and took advantage of the conferences with Borrowers and with other development agencies to survey non-Bank opinion on the role of field offices in project implementation.

53. There was consistency of opinion among Borrowers and other development institutions at the May/June conferences that the Bank should strengthen its Field Office establishment to ensure that the Bank is in more continuous contact with Borrowers, can effectively address its

\textsuperscript{44} The time recording system does not contain sufficiently complete recording to allow a more accurate assessment of time spent on procurement.

\textsuperscript{45} Op cit.
coordination responsibilities, and is sufficiently familiar with the local society to effectively address social sector issues. The increase in permanent representation with a view to the devolution of such portfolio management functions as procurement and disbursement was considered by Borrowers to be of secondary importance and met with some reservations. The recent trend to establish more Resident Missions and to staff them with more local professional staff is encouraging. Borrowers generally appreciate the information they provide on Bank procedures and their help in coordinating other development agencies at a local level. However, the Task Force found there was no correlation between the extent to which responsibility for portfolio performance management was delegated to Resident Missions and the overall quality of portfolio performance.

54. Only six large Resident Missions (Bangladesh, India, Indonesia, Kenya, Nigeria, and Cote d’Ivoire) have full responsibility —and then only in specific sectors— for performance management. With regard to what is, for nearly all of them, a supporting role, the main deficiencies highlighted by staff (from Resident Missions and from Headquarters) included: the lack of clearly defined responsibilities for (total or partial) portfolio management; inadequate resources and training for local staff; weak feedback from Headquarters on the portfolio management tasks carried out by field staff; a tendency to delegate "paper pushing" rather than substantive tasks; and the risk that Resident Mission staff may—with the best of intentions—go too far in substituting for deficient local institutional capacities. Borrowers, in turn, were surprisingly hesitant in supporting the concept of greater Resident Mission involvement in portfolio performance management. Their main reservations centered on the risk of a decline in their interactions with specialist staff based in Washington; concomitantly greater reliance on "generalists" based in Resident Missions; less access to objective and disinterested advice on critical issues; and a concern that resident staff might get too close to the local decision-making processes and thereby lose objectivity (see Annex B).

QUALITY OF INTERACTION WITH BORROWERS

55. The desirable norm for the relationship between Bank and Borrower in the context of portfolio management is one of interactive partnership built on respective mandates and accountabilities. Deviation from that norm must obviously occur as circumstances dictate. It is obvious that a "one size fits all" approach is unrealistic. Moreover, within a country, the Bank’s level of activities will inevitably vary from sector to sector, institution to institution and from one type of project to another. This demands flexibility on the part of the Bank. Effective portfolio performance management must accommodate different institutional capabilities and an array of different management processes. The quality of the Bank’s interaction with Borrowers and their agents at all levels, needs to be managed within the definition of mandate and accountability set forth in paras. 27-29 above.

* With the demise of the traditional loan officers, for example, the intimate acquaintance with the institutional and regulatory environment has declined and now resides more frequently with the lawyers.
56. Current operational directives on portfolio performance management do not adequately address the respective roles of the Borrower and the Bank during project implementation. Resident Missions are not mentioned except in terms of the responsibility of Headquarters staff to brief them before departing. And practice—rather than policy—sets the standard for business conduct. That sentiment was echoed at the May conference with Borrowers, who, in different ways, expressed their dissatisfaction with current practices with respect to: inadequate attention to problem solving during portfolio management missions; the inexperience of Bank staff in project management; the excessive duration of Headquarters review and approval processes; and above all, the fact that the Bank gives more priority to lending than to implementation (see Annex B). They also complained that once projects had been approved by the Board, the Task Managers responsible for them often started work on other projects and had little or no time to tend to the Borrower’s needs in the start-up period. In this generally negative series of assessments, there was, however, clear agreement on one other point: Country Implementation Reviews were seen as very useful means of improving portfolio management and addressing generic implementation problems.

57. As noted in Box 1, the Bank’s reluctance to take a firm stand with Borrowers is reflected in the prolonged survival of “problem projects”. All too often, Task Managers appear to operate in a “project management” mode—with neither time nor authority to be effective—rather than in “implementation assistance” or “trouble shooting” modes. This, however, can provide convenient pretexts for Borrowers to abdicate their responsibilities and to hold the Bank accountable. And in a cumulative and circular fashion, that sometimes strengthens the impulse of Bank staff to try to salvage “their” projects, rather than focus on giving advice and support to Borrowers about what course of action the Borrower should take.

58. Noncompliance remains a serious problem, particularly in relation to financial and audit covenants. In an era of heightened concern over the importance of prudent governance, it is unacceptable that instruments of transparency and accountability are neglected. The Bank, in response to non-compliance, can suspend the right of the Borrower to make withdrawals, or can (under certain circumstances) cancel the undisbursed balance of the loan; but these remedies are rarely exercised. Usually, staff and managers respond to non-compliance by ignoring it, waiving it, or occasionally taking informal steps to deal with it—such as requesting the Borrower not to submit withdrawal applications or holding up a successor loan. Because of unsatisfactory performance or changed circumstances, sometimes projects are restructured by scaling them down or changing their scope. The high incidence of non-compliance undermines the Bank’s credibility. It also indicates inadequate concern about the instruments of governance and a lack of realism at the time of negotiation. If staff and managers are prepared to tolerate high levels of continuous non-compliance, the question arises as to whether such covenants should be included in the first place.

OD 13.05, covering what is referred to in this report as “project performance management”.

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59. More than 150 existing or planned Operational Directives (ODs) seek to condition the official interaction of staff with Borrowers. Some 80% of these deal with aspects of the project cycle, i.e. are of relevance to the subject of project performance management. In their totality they constitute the framework that defines the intended nature of interaction between the Bank and its Borrowers. In their current form, these instructions tend to focus on prescriptive instruction rather than on objectives, roles and responsibilities. As such they encourage compliance rather than initiative and the exercise of judgment. If the recommendations in this report are accepted, major revisions of ODs will become necessary. Such an event should be seen as an opportunity to simplify existing regulations so as to stimulate further the exercise of sound professional judgment.

FEEDBACK

Management and Motivation

60. Most of the staff interviewed at Headquarters (62%), as well as staff from Resident Missions with responsibilities for portfolio management, complained about the general absence of feedback on portfolio performance management. That is consistent with the lack of management attention to project implementability and risk assessment noted in Box 2. It is also consistent with the fact that most Country Strategy Papers are silent on lessons learned from portfolio performance; the fact that follow up on implementation problems is slow (see Box 1); and, until recently, with the absence of credible signals from the Board about the importance of implementation. Moreover, staff perceive a lack of attention to implementation issues on the part of senior managers. Although managerial behavior varies, signals from senior management are consistently seen by staff to focus on lending targets rather than results on the ground. A telling example is the almost exclusive preoccupation with lending programs in the performance contracts underlying the budget process.

Learning Lessons from Experience

61. Close surveillance of implementation offers two other important feedback opportunities: first, the derivation of lessons of experience with respect to (among other things) concepts, methodology, designs and implementation plans that, over time, provide a basis for future changes in policy and practice; second, the deepening of the experience of Bank professionals who are both the beneficiaries of exposure and the conveyors of lessons learned.

62. There are three distinct cycles:

- Feedback in a country context, to identify and address thematic and generic issues of project/country portfolio performance;
• Feedback of distinctive and consistent experience with types of projects, sectors, and Programs of Special Emphasis (PSEs) to improve concepts, designs, and policies in a sectoral and functional cross-country context; and

• The professional learning cycle that combines training, exposure and dissemination.

A large store of implementation experience remains insufficiently exploited to enrich the learning process.

V. CONCLUSIONS AND PRINCIPAL RECOMMENDATIONS

63. This chapter presents the Task Force’s conclusions and principal recommendations. These recommendations comprise a comprehensive program of change designed to enhance the Bank’s capability to help Borrowers bring about a sustainable flow of benefits from the operations it finances. Many procedures and directives will need to be changed. Such changes alone would accomplish little. They must be made in tandem with a concerted effort, led by top management and firmly supported by the Board, to bring about changes in the Bank’s internal values and incentives – specifically, to focus attention at all levels more fully on the central objective of achieving sustainable developmental impact and on the critical role of portfolio performance management.

64. The principal recommendations of the Task Force are:

A. Introduce the concept of country portfolio performance management linked to the Bank’s core business processes;

B. Provide for country portfolio restructuring in adjusting countries including the reallocation of undisbursed balances of loans/credits;

C. Improve the quality of projects entering the portfolio;

D. Define the Bank’s role in, and improve practices of, project performance management;

E. Enhance OED’s role as an instrument of independent accountability and refocus ex post evaluation on sustainable development impact; and

F. Create an internal environment supportive of better portfolio performance management.
Annex A describes in more detail implementing measures required for the principal recommendations to become fully effective. Plans for implementation will need to be developed once the recommendations have been accepted.

A. Introduce the Concept of Country Portfolio Performance Management Linked to the Bank’s Core Business Processes

65. The volume of new IBRD/IDA lending —about $18-20 billion for 225 operations a year— compares with a portfolio stock of about $140 billion representing more than 1800 operations. Given these magnitudes, improving the quality of the portfolio stock obviously has enormous potential development impact. It is a key aspect of Bank/Country dialogue. Country assistance management, the driving idea of the 1987 reorganization, must be broadened to fully encompass country portfolio performance management.

66. The country portfolio must become the principal unit of account. The economic, institutional and regulatory environment of a country are critical determinants of investment success. Because the project-by-project approach to portfolio performance management still prevails in the Bank, the generic obstacles to project success are often not identified or efficiently addressed. Country strategies do not systematically take into account lessons learned from project implementation. In consequence, the design, composition, and size of future lending programs insufficiently reflects the lessons of implementation experience. This recommendation envisages that:

- **The Bank should conduct Annual Country Portfolio Performance Reviews (CPPRs):** Annually, the operating departments should conduct for each country a Country Portfolio Performance Review (CPPR). Broadly, the CPPR would provide the occasion for assessing a country’s overall portfolio performance, to identify, address and resolve generic or systemic issues in the portfolio based on project-specific deficiencies, as an input to all managerial decisions vis a vis a country.

- **Portfolio performance experience should be explicitly linked to core business processes:** The CPPR assessments should be reflected in Country Strategy Papers, linked to annual Business Planning and Country Assistant Management (CAM) and budgeting processes, and be taken into account in the Lending Allocations and related reviews; they would also become a basis for formulating the Bank’s policy and research work programs. The CPPRs should be the occasion for reviewing country portfolio performance indicators of development impact, poverty reduction, environment, and institutional development. Performance indices should be based on individual project ratings, weighted by their dollar value in the country portfolio (see Annex C). Work should be initiated to make performance indices for projects and portfolios operational. Lending levels and composition should be calibrated consistent with country portfolio performance. The CPPRs should be the basis for the annual report of the President to the Board on the overall status of the Bank’s portfolio.
• **ARIS should be replaced:** The President's Annual Portfolio Performance Report should replace the current ARIS report. Built on the CPPRs, it would provide a country-focused overview of the state of the Bank's portfolio; it would also have annexes containing sectoral analyses, analyses of the areas of special emphases, and other statistical analyses. RVPs and country directors would answer questions on country portfolios at the Board.

### B. Provide for Country Portfolio Restructuring in Adjusting Countries Including the Reallocation of Undisbursed Balances of Loans/Credits

67. As indicated in Chapter III, good policies are a key determinant of project success. Nevertheless, the short and medium term impact of adjustment on the performance of the current portfolio tends to be ignored. Overall contraction can curtail the availability of counterpart resources, alter the prices of inputs and outputs and drive project entities into untenable financial positions. Changed circumstances may alter priorities within the portfolio and the feasibility of ongoing projects. Few adjustment programs are accompanied by major investment portfolio restructurings. Under conditions of adjustment, the Bank should be prepared to consider the restructuring of entire country portfolios along the following lines:

- **Restructuring in connection with adjustment:** In adjusting countries, overall public expenditure (including investment) reviews should be encouraged. At the request of a member country, the Bank should be prepared to restructure the portfolio of investment projects, preferably but not necessarily if the Bank is otherwise satisfied, in connection with Bank adjustment lending. There would be no automatic country entitlement to funds freed by such restructuring or related cancellations. Where appropriate, undisbursed balances could—subject to a procedure of accelerated Board approval—be reallocated to high priority projects remaining in the portfolio.

### C. Improve the Quality of Projects Entering the Portfolio

68. Quality of projects at entry into the portfolio has emerged as a critical issue for portfolio performance. In the "upstream" stages of the project cycle—identification and preparation—implementation experience should be brought to bear more fully on design options, in assessing risks and likely outcomes and shaping projects accordingly. At appraisal, objective, realistic, experience-based assessments of likely results should supplant optimism and the temptation to promote. Loan/Credit approval should be regarded as the initial stage of development assistance rather than a culminating event. The first measure of success for the Bank is not commitment of resources but their effective use. Therefore:

- **In the identification and preparation stages, the Bank should foster Borrower commitment and beneficiary participation:** Without Borrower and, where indicated, beneficiary commitment, successful project implementation is not likely. Because such commitment requires full Borrower understanding and "ownership," which
comes from having the preeminent role in identification and preparation work, Bank staff must restrain their tendencies to preempt Borrower responsibilities at the early stages.

- **In appraisal, the Bank should give more --and more systematic-- attention to risks/sensitivity analysis and implementability:** The risks evaluated must include risks due to macroeconomic factors and the risks of poor or substantially delayed implementation caused by limitations in country managerial, institutional, and financial capabilities or uncertainties of beneficiary response. The sensitivities of intended project impact to such risks must also be evaluated, so that critical indicators of likely success and of implementation progress can be identified for subsequent monitoring.

To increase the likelihood of successful implementation, project complexity should be kept to a minimum. While PSEs are vital priorities, there should be discretion to include only those directly pertinent to a project. Cofinancing, which increases complexity, should be used only where either additional funds for the project are needed, the risks need to be spread, or the cofinanciers prefer to leave appraisal and implementation support to the Bank. When cofinancing is done, reporting, procurement and disbursement requirements placed on Borrowers should be harmonized to the extent feasible, and a "lead manager" should be agreed; and

Implementation plans and schedules (including those for procurement) developed by --or at least with-- the Borrower should be carefully appraised for feasibility and realism, and agreed during negotiations.

- **Loan documents (contracts) should reflect priorities and implementation needs:** In negotiation, the executing agency(ies) should be represented, and their full understanding of --and commitment to adhere to-- obligations and plans must be as important an objective as eventual signature of the loan contract. In the loan documentation, critical substantive provisions should be distinguished from administrative ones, as currently prescribed. Substantive covenants should be included only if the Bank is willing to enforce them. Because breaches of policy conditions beyond the control of the executing agency are unlikely to lead the Bank to suspend otherwise satisfactory projects, such conditions should be included only if they are essential to project success.

The Legal Department should exercise quality control with respect to the effective use of covenants and should improve the operating staff's understanding of good covenanting practices. To facilitate achieving consistency of covenants across country programs (as well as the review of experience and evaluations of covenant effectiveness), the Legal Department should coordinate creation of a covenant data bank.
Loan documents should include implementation plans, schedules, measures, and progress reporting arrangements in Implementation Letters, attached to the contract. They should allow appropriate flexibility as to the means and timing of implementation steps within concise and agreed project objectives.

D. Define the Bank's Role in and Improve Its Practices of Project Performance Management

69. In all phases of project work, but particularly in portfolio performance management, the Bank needs to better define its role vis a vis the Borrower. The Bank's business needs to be conducted with sensitivity to the appropriate balances between: support and preemption, diligent, decisive monitoring and rigidity; and awareness of necessary detail and willingness to rely on others to verify and certify aspects of compliance. For implementation of this recommendation the following major measures are needed:

- **The Bank's role in portfolio performance management:** Bank staff must carefully distinguish and adhere to their roles in the various aspects of portfolio performance management. The "core" supervision responsibilities of the Bank—end-use supervision, enforcement of procurement and disbursement requirements, and monitoring of compliance with the loan agreement—are mandatory. The Bank's willingness to facilitate project implementation and extend help in obtaining needed major substantive implementation assistance are discretionary activities consistent with its mandate as a development institution. The direct provision by Bank staff of extended technical assistance, however, should normally be avoided, as the Bank may not have a comparative advantage for the extension of such assistance, as it may lead to conflict of interest, and as it may dilute Borrower accountability. The temptation to play a managerial role in implementation must be resisted, lest the project come to be seen by the country as "the Bank's." Even in countries with great need for implementation assistance, the Bank should ensure that its role is one of advising—not substituting for—project management. Approval requirements in loan agreements should be avoided where possible because they also create a hierarchical relationship between the Bank and the Borrower which can weaken Borrower accountability.

- **Progress tracking and compliance:** The tracking of project performance should be keyed to the implementation plans and critical performance indicators agreed during negotiation. The Bank's reporting requirements normally should be a subset of those needed by the Borrower for its own management and accountability, and the burden of providing such data should be the Borrower's. As necessary, the Bank should assist Borrowers in defining the information necessary for efficient project management and monitoring and in creating or obtaining and then installing the requisite reporting systems. Reporting requirements should be agreed at negotiations.

While the Bank should remain firm in enforcing compliance with requirements such as those related to procurement, audit and policy matters, it should be flexible in
agreeing to adapt project designs to changed circumstances or new insights. When a project has been in "problem" status for more than twelve months, the responsible division chief should either recommend restructuring, that the Bank exercise its contractual remedies, or provide to the country director a memorandum stating why it should not do so. If a project has no likely prospect of yielding a net economic benefit to the country, based on a failure to realize critical performance indicators set out in the Loan/Credit agreements, and if, after consultation with the Borrower, agreement about mutually acceptable restructuring cannot be reached, the Bank should be able to suspend the loan.

• **Procurement**: For ICB, the use of standard bid documents, with pre-approved adaptations to country situations, should become mandatory. The Guidelines should be reviewed with the needs of social sector procurement in mind, as well as those related to privatization and adjustment operations. The Guidelines and revised standard bid documents should require descriptions of quality assurance procedures, incentives/penalties related to timely/tardy completion, the use of independent engineers for major civil works, and procedures for expeditious dispute resolution. To increase consistency in the Bank's interpretations of the Guidelines, a central Procurement Review Committee should be created for mandatory review of contracts above $25 million for goods and works and above $10 million for consultants which together account for about 50% of annual awards, and for advice on such other procurement matters as the Regions might refer to it.

• **Verification and Certification**: In the interests of efficiency and comparative advantage, and to enhance prudent governance (which also should be strengthened through longer-term programs of institutional assistance), the Bank should accept greater use of verification and certification by independent third parties. Independent certification should be submitted of the acceptability of local procurement procedures. For all procurement not subject to prior review by Bank staff (including local Bank-financed procurement), _ex post_ certification on a sample basis should be made by an independent agency acceptable to the Bank. For SALs and SECALs, the review of customs documents by the Bank should be replaced by certification that the value of goods for which Bank reimbursement is sought is lower than the value of eligible imports during the period, excluding imports funded from other medium and long term sources. Reviews of SOE claims and related disbursement documentation should also be made by independent third parties.

**E. Enhance OED's Role as an Instrument of Independent Accountability and Refocus Ex Post Evaluation on Sustainable Development Impact**

70. "The credibility of the operations evaluation function depends on its independence. OED's role should remain one of independent accountability and objective evaluation of policy and practices. Increasingly, it ought to turn its attentions to impact evaluation and sustainability. For most projects, the end of disbursement is just the beginning of operations; i.e. today's
"Project Completion Reports" are misnamed and need to be focussed on the transition to the operational phase and the sustainability of the project. While OED may wish to rely on Implementation Completion Reports (see below) for its audits, it needs to become more concerned with impact evaluation and sustainability. Therefore:

- **OED should advise or comment only on activities that will not be subject to future OED evaluation.** Because OED's credibility as a source of institutional accountability depends on its independence from Bank management, any evolution of OED's mandate or changes in its Terms of Reference should be tested against the possible dilution of that independence.

- **Operational Departments should replace the PCR with an "Implementation Completion Report (ICR)"**: In addition to providing a retrospective summary of implementation experience, the ICR should assess the Borrower's plan for the transition to operations and define the indicators to be used to monitor operations and development impact. Its timing in relation to project progress should be agreed at negotiation. It should be provided to OED and furnished to Board members on request. OED audits would be based on ICRs.

- **OED's independent reviews should increasingly emphasize sustainable development impact**: To preserve its independence OED should avoid involvement in managerial problem resolution for individual projects or portfolios. Its evaluative work should continue to meet broad accountability needs and derive generic lessons. Because the Bank is accountable for helping bring about long-term sustainable development, it needs to know actual project impact. OED should therefore substantially increase the emphasis it gives to Impact Evaluations. It should also review and evaluate the Annual Report of Portfolio Performance.

71. OED should help to ensure that the prevailing focus on capital flows is matched by an equally intense interest in the benefits that flow from them.

**F. Create an Internal Environment Supportive of Better Portfolio Performance Management**

72. Many of the changes recommended above depend in part on changes in the Bank's internal environment. They will not work properly unless the Bank, including the Board, is pervaded with the necessary values and incentives. Nor will they work without the necessary skills and resources, both in the field and at headquarters. The Bank's culture needs to become more attuned to the essentiality of on-the-ground net benefits as the measure of success rather than loan approvals, good reports or disbursements. Bringing about this change will require sustained leadership from all levels of management and strong support from the Board in attaching as much importance to lending results as to lending volumes. Specifically:
• **Recognition and rewards:** Portfolio performance management work should receive the same feedback from managers and the same recognition and rewards as other operational work. In career development, excellence in project and/or portfolio performance management should rank equally with excellence in lending work as a criterion for selection to positions at Grade 25 and above.

• **Accountability of country directors:** Country directors must feel as accountable for managing existing country portfolios as for new lending. They must play an active role in Country Portfolio Performance Reviews and in building portfolio performance considerations into the various business processes. Feedback should be regularly provided to Task Managers and staff responsible for project performance management.

• **Skills enhancement:** The Bank should urgently recruit more staff experienced in financial and general management, in public administration, and in institutional development. It should provide orientation to new staff—and more advanced training to existing staff—in operations policies, procedures and practices, including those pertinent to portfolio management. Proficiency testing should be introduced for Task Managers. A career stream should be created for procurement, and a review should be conducted to assess the adequacy of current staffing in that area and to deepen the skills review initiated by the Task Force.

• **Field offices:** The Bank should aim to have a resident field presence in every country with an active and significant portfolio. Where suitably staffed resident missions are in place, headquarters-based portfolio performance management should rely more on them, and as necessary provide complementary field visits and approvals of nonroutine procurement and disbursement actions. With regard to implementation support, resident missions could generally be made responsible for: (a) facilitating implementation where appropriate, (b) accelerating approvals for routine procurement actions and end use of loan/credit proceeds and (c) advising with respect to proposed modifications of implementation plans and schedules. In addition, they would help deepen assessments of executing agency capabilities—assessments that cannot as readily be made from Washington, especially with respect to the social sectors.

• **Information management:** Information technology should be brought to bear more fully to (i) facilitate Bank/Borrower and headquarters/field interaction, (ii) enhance the reliability and timeliness of progress reporting, and (iii) increase the efficiency of project performance management.

• **Budget:** Savings realized from such efficiency measures as third party verification, standardized procurement documentation, and effective use of advanced information technology should remain available for portfolio performance management. Departmental managers should be explicitly empowered to make resource
redeployment decisions to sustain priority attention to implementation. Budget reviews at all levels should emphasize portfolio performance management needs as much as they do new lending.

INSTITUTIONAL IMPLICATIONS

73. **Quality improvement:** The recommended changes will increase the development impact of Bank lending by making successful implementation more likely. They will accelerate the Bank’s learning process by improving the application of portfolio performance experience to new lending and increasing awareness of actual development impact. And, through the portfolio performance indices, they will strengthen internal accountability for supporting successful implementation and ultimately enable the Bank to increase awareness of its own areas in need of improvement. The greater responsiveness of lending programs and lending to portfolio performance and the more rigorous application of risk/sensitivity analysis will, however, make the annual volume of lending more volatile. In the short run, they may have a negative impact on the growth of commitments, though they should affect positively the rate of disbursements in the short to medium term as a consequence of accelerated project implementation.

74. **Long-term Budget Impact:** Many of the foregoing recommendations—especially those related to the use of standard bidding documents, independent third-party verification and certification, Borrower reporting and information technology—should ultimately produce savings. Economies should also result from shorter project implementation times as portfolio management improves and problem projects are more promptly dealt with. The improvement in appraisal methodology—especially the application of realistic risk analysis—may, however, increase the cost of lending as a larger number of projects may be dropped prior to entering the portfolio. And there may remain resource redeployment options between lending and portfolio performance needs. It is not clear—for the long term—that there is an overall shortage of resources for portfolio performance management, provided fungibility between lending and portfolio performance management is preserved and restrictions by line managers related to lending program performance and supervision budget maxima are eliminated.

75. **Short-term Budget Impact:** There may, however, be start-up costs before offsetting economies can be realized. In the next two years, restructuring perhaps 100 projects per year which have been problem projects for several years will be expensive, as will establishing new resident missions. Public investment reviews and the related restructuring of Bank portfolios in the context of adjustment may also bring additional short-term costs. Recommended training may be funded, in the short term, through reallocation though training, in general, is already under-funded. Reallocation, however, will not be adequate to fund OED’s recommended emphasis on impact evaluation work. To inaugurate the portfolio improvement effort, therefore, may require a special initial infusion of additional funds.

76. **Long-term Benefit:** The renewed focus on project results and the introduction of the country portfolio performance management concept, linked to core business processes as well as to the research agenda, should keep the Bank closely attuned to the practical challenges of
development faced by its members. It will help sustain and enhance the Bank’s role as a leader in development policy and development assistance practices that are firmly grounded in the lessons of experience.
EFFECTIVE IMPLEMENTATION:

KEY TO

DEVELOPMENT IMPACT

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Annex A
SUPPORTING MEASURES RELATED TO THE PRINCIPAL RECOMMENDATIONS

This annex enlarges, where appropriate, on the recommendations of Chapter V of the report of the Task Force on Portfolio Performance Management.

A. Introduce the Concept of Country Portfolio Performance Management Linked to the Bank’s Core Business Processes

1. Introduce Annual Country Portfolio Performance Reviews Linked to Country Implementation Reviews

Annually, the operating departments should conduct for each country a Country Portfolio Performance Review (CPPR). Broadly, the CPPR would provide the country team and the departmental management team the opportunity to assess a country’s overall portfolio performance in order to identify, address and resolve generic or systemic issues in the portfolio based on project-specific deficiencies, as an input to all managerial decision-making on the Bank’s posture vis-a-vis the country concerned. The CPPR would replace the ARIS process. To complement the internal review, each department would conduct an annual portfolio review with the Borrower.

2. Reflect CPPR in Country Strategy Papers

Bank assistance strategies, including lending, should be conditioned by the lessons learned from portfolio performance. Specifically, the CPPR results should be explicitly reflected in the formulation of country assistance strategies and the design, sizing and composition of economic and sector work and lending programs. Together with the lessons from the completed portfolio, they should become a regular input to the preparation of Country Strategy Papers (CSPs). Since Borrower commitment is a sine qua non of successful implementation, and a good “fit” between the objectives of Bank and Borrower is essential, CSPs should be explicit as to whether the Bank’s plans and objectives match the Borrower’s priorities. They should also take account of links between the country and the rest of the world in assessing exogenous risks to portfolio performance and in assessing macro and sectoral linkages within the country.

Adjustment programs and policy lending should be conducted within a long term framework, and planned as multi-year, multi-tranche processes, with monitorable indicators agreed at the design stage. Particular care should be given to assessing the will and capacity of the Borrower to implement agreed plans. In integrating the Bank’s global institutional priorities and the country’s own priorities, the Bank must take full account of implementation capabilities and their variations among sectors.
3. Link CPPR to Business Plan and CAM

The CPPR should be explicitly linked to the Business Plan and the budgetary processes. (See Figure 1) Based on the RVP's review of the CPPR, Country Departments should provide --in their Business Plans-- strategies and actions to resolve portfolio problems. There should be quantified targets for improving key indicators other than ratings, (e.g., restructurings, disbursements, covenant and audit compliance). Progress in implementation should be assessed in the next year's Business Plan and should be monitored by the RVP. Resource requirements should be reflected in the Business Plan/CAM proposal emphasizing fungibility among budget categories, especially between lending and country portfolio performance management. Rigid budgetary ceilings for portfolio performance management work should not be imposed by line managers. Deviations from budgetary norms should take account of country difficulties, program complexities and country portfolio performance.

4. Link CPPR to Lending Allocations and Related Reviews

The results of the CPPR should also be taken into account in the Lending Allocations and related reviews. Accordingly, country portfolio performance indicators should be developed and used as an input to country risk analysis by the Risk Management and Financial Policy Department (FRS) and the International Economics Department (IEC). Lending allocations should be influenced by portfolio performance.

5. Introduce Annual Report on Portfolio Performance Review

The CPPR should underpin an Annual Report on Portfolio Performance (ARPP) by the President to the Board. The CPPRs would constitute the base for the country-focused regional chapters of the report which would be prepared by the regions. They would be preceded by an executive chapter containing the President's overview of the state of the portfolio. This chapter would identify country performance trends and issues and would contain a management plan to address them. The ARPP would have three main annexes: a statistical report, akin to a shorter version of the current ARIS statistics; a sector annex, akin to the trend analysis now contained in Annual Sector Reviews; and a report on the Programs of Special Emphasis (PSEs) that would highlight trends in the implementation of programs related to global development objectives. Details on the implementation of sector policies and PSEs would be provided, as relevant, in the regional chapters. Production of the President's Annual Report on Portfolio Performance would be coordinated by OSP. The President would present it to the Board and the RVPs and Country Directors would answer questions about countries in their regions.
6. Discontinue Some Existing Reports

At least three current reports should be discontinued: (1) the OSP Annual Sector Reviews that are now prepared for Management; (2) the Semi-Annual Report on Projects under Execution that is now circulated to the Board for information; and (3) the ARIS report which would be replaced by the ARPP. An annual Review of Adjustment Lending would be covered along with investment lending in the ARPP. However, in-depth reviews of the effectiveness of adjustment lending would continue to be the subject of occasional special studies.

7. Link ARPP to OSP Work Programs

The Annual Report on Portfolio Performance should provide a basis for an annual review of OSP-managed work on special topics, implementation issues, and sectoral reviews. The ARIS reporting on the Special Topics would be discontinued. Studies identified in the CPPRs/ARPP would be produced as free-standing reports prepared by OSP units and circulated to the Board for information but would be discussed by the Board only at its request. Detailed studies on sector policy issues and/or sector portfolio implementation would be commissioned in response to generic and/or systemic issues identified in the ARPP.
8. Develop Country Portfolio Performance Indices

A country portfolio performance index—for growth/efficiency/development impact and, in due course, a set of indices, covering poverty reduction, environment, and institutional development—should be introduced for all countries as a basis for discussing the status of the country portfolio. The indices would be based on individual project ratings, weighted by their dollar value in the country portfolio. Details of these indices—and their linkages to other phases of the project cycle—are illustrated in Annex C of the Task Force report. However evolved, such indices should remain simple, transparent and focused on the central objective of measuring the performance of the portfolio in terms of likely achievement of intended objectives. Further work is needed with respect to definitions and processes entailed in applying such indices. The indices would also provide the basis for a dialogue on the country portfolio, focused on year-to-year changes and the reasons for them. That dialogue could, for example, focus on whether the indices reflected changes in countrywide factors and whether they were performance-related or externally caused or whether they reflected changed conclusions based on unchanged evidence. It would also be useful to discuss country indices in comparison with OED evaluations completed in the year. (See Section E, below).

B. Provide for Country Portfolio Restructuring in Adjusting Countries Including the Reallocation of Undisbursed Balances of Loans/Credits

Changing environments often force countries into adjustment processes that require external support. Since adjustment may make existing investment projects obsolete, or significantly retard their implementation, committed but undisbursed balances of external loans may accumulate. The Bank’s portfolio is not immune to these developments. The Bank’s investment project portfolio in countries in adjustment should, as necessary, be restructured to reflect and support changed objectives. To this end, whenever an adjustment program is designed, and the Bank agrees with the Borrower on the design of implementation instruments (i.e. policy loans), it should reach agreement with the Borrower on how existing investment projects that would become marginal because of the need for adjustment (or are already paralyzed for lack of counterpart funding) would be restructured. Even when the Bank does not lend for adjustment, a country’s own adjustment program may make such an agreement advisable. In principle, resources freed by the cancellation of balances of loans and credits from sub-marginal projects in the course of restructuring exercises, should be available for reallocation to increase the share of Bank financing among Bank-supported projects remaining in the portfolio. Such restructuring would, of course, need Board approval. A process for accelerated approval of such reallocations (e.g. in the context of a SAL or SECAL) should be developed. Wherever the Bank has a pre-eminent role in coordinating external assistance, it should ensure that the consolidation process is extended to include support from other external sources.
C. Improve the Quality of Projects Entering the Portfolio

1. Ensure country commitment

The Bank’s role in support of project preparation should be agreed with the Borrower at an early stage. It should be tailored to the capacity of the country, the relevant institution(s) and the type of project. The role of project beneficiaries should also be agreed at this stage and a realistic preparation and implementation plan should be developed by the Borrower. Progress in preparation should be reported in successive Executive Project Summary (EPS) updates. The Bank’s role as adviser and counsellor in the process of preparation should not be allowed to prejudice its appraisal responsibilities.

The Initial Executive Project Summary (IEPS) should assess country commitment to -- and local support for -- the proposed operation and the best means of helping strengthen or maintain it. The IEPS should explain the roles and responsibilities of various stakeholders during project preparation, implementation and operation, describe the sequence, timing and expected output of preparation activities, and confirm the relationship between the proposed project and the country assistance strategy. (For later quality enhancement, Peer Reviewers identified by the Task Manager should be approved by the Division Chief prior to the IEPS review meeting. The amount of time dedicated to, and the scope of, each Peer Review should be agreed during the IEPS meeting. Written comments by Peer Reviewers at the Final Executive Project Summary and the SAR stages should be mandatory).

2. Foster Broad-Based Participation in Project Preparation

The Bank should foster adequate participation -- both by Borrowers and intended beneficiaries -- in the identification, preparation and implementation of projects, all of which

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1/ At present there is not clear agreement on the most effective methodology for appraising Borrower commitment. The Task Force recognizes, however, that this topic is fermenting in the Bank and that several experimental applications are now being used. Among them, is one described by James Kearns in a paper prepared for the Task Force, "Generating and Sustaining Commitment to Bank Projects" - May, 1992 and the logical framework technique which is not new but has been recently refined by EDI. A recent paper by Robert Picciotto "Participatory Development: Myths and Dilemmas" - WPS 930, July, 1992 is also relevant.
are Borrower responsibilities. Where participation is inadequate to generate the requisite Borrower commitment (and, as relevant, the requisite beneficiary response), successful implementation will be unlikely.2 The Bank should help the Borrower obtain whatever preparation or implementation assistance is needed, but should not normally provide it directly. And when the Bank does provide it, it must be careful to play a supportive and advisory, rather than dominant and decision-making, role. At the pre-appraisal stage, the country's commitment to the project should be reassessed and the main appraisal parameters should be identified on the basis of: the draft Final EPS, written comments from Peer Reviewers, and the White Cover Staff Appraisal Report (SARs). Thereafter, document processing should be based on changes in a number of parameters including project complexity, institutional capacity and implementation planning.

3. Introduce more rigorous analysis of project risks/sensitivities

Drawing on the analysis of the ECON Report3, the Task Force found that the Bank is not using evaluation and economic analysis as effectively as it might in project identification, appraisal, and during implementation. Macroeconomic and institutional risks to program/project success are not systematically considered. As a result, designs for which these risks make the likely economic returns or cost effectiveness too low are not systematically rejected. Nor are key performance variables for inclusion in legal documents and for monitoring during implementation identified. And during implementation, many projects are rated "satisfactory" only to be downgraded to "unsatisfactory" on completion.

Project/program quality can be enhanced by adopting more realistic and risk-conscious appraisal techniques. Sensitivity to macroeconomic, financial, institutional, and environmental risks can be considered as early as project identification, thereby influencing project selection early on. Similarly, design choices can be better informed in the process of preparation. During implementation, the use of critical indicators can facilitate the early diagnosis of problems and trigger prompt remedial actions to solve them or, in the extreme, signal the appropriateness of abandonment/cancellation.

Existing practices in the economic evaluation of investment operations should be modified to focus on realistic evaluations of project impact, based inter alia, on lessons of experience, including success rates in completed projects at the sectoral, country, and Regional levels. For operations without ERRs (as for those with them), a clear

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2/ A start has been made regarding informing the public and consulting with NGOs and indigenous affected groups (see for instance ODs 4.00, 4.20, 4.30 and 14.70). These instructions, however, deal mainly with environmental issues, resettlement concerns, and the relationship with NGOs. They are less focussed on questions of supportive local commitment and the responsibility of ownership.

identification of project goals and cost effectiveness analysis should be required, and the macroeconomic, financial, and behavioral assumptions underlying the analysis should be clearly spelled out. Sensitivity analysis should be used to test the impact of variations on key performance variables, including macroeconomic factors, and to establish appropriate indicators for monitoring (and re-evaluation) during implementation. Agreements reached during negotiations should specify actions that must be taken by the Borrower to achieve success. An indicator tracking system (the indicators being identified at appraisal and selected on the basis of sensitivity analysis) should be used as a basis for monitoring project performance and for producing country portfolio performance ratings.

4. Emphasize Implementability in Design and Appraisal

Design projects in light of agency capabilities: Because projects too complex for Borrowers to implement are not likely to succeed, the capabilities of implementing agencies and individual departments should be taken into account in preparation and appraisal, as should limitations caused by interdepartmental relationships, internal procedures and interactions with other government agencies. The advantages of project designs with manageable numbers of components, implementing parties and objectives (including programs of special emphasis) should be borne in mind, especially during the review process when there are many temptations to introduce embellishments. Careful review of implementation plans during appraisal should reveal problems of complexity, while making the estimates of cost/benefit relationships --taking account of time-- more realistic.

Plan for Implementation: A detailed implementation plan (including a procurement plan) with specific actions, responsibilities and timing should be proposed by the Borrower and appraised by Bank staff. Critical factors or benchmarks of success and the sensitivity of the project to them should be identified. Key quantitative performance indicators, progress towards which can be measured during implementation and operation, should be agreed. The timing of the ICR should be defined by the Bank in relation to major implementation objectives rather than in relation to the completion of Bank disbursements (see Section E, below).

Cofinancing: Over the past ten years (FY83-92), there have been 1100 projects in which other external financing sources have agreed to finance a portion of project costs; 93% of them have involved official sources, i.e. bilateral and multilateral agencies. Those agencies have augmented the resources available for Bank-supported projects although the additional resources mobilized for the country as a whole have probably been minimal. Each agency has its own rules for participating in cofinancing, some of which are inconsistent with those of the Bank. Many agencies tie their funds to their own national sources; others have political restrictions on the use of their funds. Reporting requirements of donors differ. Parallel cofinancing increases project complexity, and projects with more than one cofinancier have a significantly reduced likelihood of satisfactory implementation. Consultations with the cofinancing agencies suggest there is a preference for avoiding such
complexities. Indeed, there is general agreement that cofinancing should not be seen as an objective by itself and should be used only where: (1) the financing requirements of a project exceed the capacity or willingness of any one funding source; or (2) there is a strong desire to share the risk; or (3) the co-financier does not have the institutional capacity to assess and supervise the project, and prefers to leave those responsibilities to the Bank.

The balance between mobilizing additional resources for Bank-supported projects and trying to avoid the resulting time consuming complexities, raises sometimes sensitive questions, and among staff confusion results from not having clear guidelines on cofinancing policies and practices or an Operational Directive on the subject. The institutional basis for cofinancing initiatives is not readily apparent, and current practices in managing cofinancing are often cumbersome. *Appropriate guidelines on cofinancing should be promulgated covering (1) the basis and rationale for cofinancing, including the problems to be dealt with; (2) practices to be followed in working out cofinancing arrangements; and (3) standardized reporting and cost sharing procedures.* The benefits of having a "lead manager" when cofinancing is done should be emphasized.

Staff Appraisal Reports: The format of supporting documentation (i.e. SARs) is not, strictly, a subject for this Task Force. However, bearing in mind the fact that quality at entry to the portfolio clearly is a decisive factor in portfolio performance and that the preparation of SARs involves significant costs, the Task Force believes there is scope for simplifying the SAR and making it a more practical document. These opportunities should be explored as soon as possible. In principle, the SAR in addition to evaluating the project, should guide implementation and, through the identification of critical performance indicators, also guide the monitoring of progress by Borrowers and the Bank. As quality resides in results, not reports, care should be exercised in not confusing the quality of analyses with the quality of writing. Yet there is the perception that the literary quality of the SAR is in itself a criterion of performance. It is not, and that point would be driven home if managers and Board were to agree that the SAR, as a working — i.e., "staff" — document is intended to (i) assess the intrinsic quality of the project, (ii) evaluate the critical risks to which it is exposed, and (iii) demonstrate its implementability. At the same time, to reinforce the Board's concern with results (i.e. development impact), consideration should be given to revising Schedule C of the President's Memorandum to have it document critical performance indicators and major milestones for implementation.

5. Ensure Borrower Understanding of Objectives, Implementation Plans, Procedures, and Responsibilities

To the extent not accomplished during appraisal, at negotiations --"gateway to the portfolio"— care must be taken to ensure full Borrower understanding of project objectives; the implementation plan; critical performance indicators; Bank procedures for procurement, reporting and disbursement; and the division of responsibilities among the Borrower, the
Bank and other financing agencies. To this end, the Bank must insist that the executing agency be represented.

To formally require Bank approval of Borrowers' actions under a Loan Agreement puts the Bank in a supervisory relationship which dilutes the Borrower's accountability and "ownership." Such requirements are sometimes included in loan agreements without due consideration of their consequences, often because the project was not sufficiently "mature" when negotiated. Before ex ante Bank approvals are required, their impact on accountability should be taken into consideration.

6. Reflect Priorities in Loan Documents

Conditioning practices in general: The loan documents ("contracts") should, as currently prescribed, differentiate critical substantive covenants from administrative ones. Substantive covenants should be included only if the Bank is willing to enforce them. Because breaches of policy conditions beyond the control of the executing agency (and not directly related to project success) are unlikely to lead the Bank to suspend disbursements on an otherwise satisfactory project, such conditions should be included only if they are essential to project success.

Financial Covenants: Financial covenants are often complex, frequently unrealistic, and usually ignored. Witness a recent OED survey that found only 25% of water supply projects were in compliance with their financial covenants. Or a sample of projects surveyed by COD which showed only 22% of the sample was in compliance. The Bank is not staffed to properly review the approximately 5500 auditor's opinions and reports it receives each year from Borrowers. The Bank's use of financial covenants should be evaluated by OSP and the conclusions reflected in revised instructions, guidelines and training. In individual contracts, such covenants should be used more carefully and with greater attention to project needs and compliance capabilities. Then, compliance should be monitored and enforced as a matter of prudent governance.

Implementation and operations plans: Loan documents should include Implementation Plans and schedules in meaningful detail but as side letters, attachments or the like. Such practices are already prescribed but not followed rigorously enough. The plans should allow appropriate flexibility as to the means and timing of implementation steps within overall objectives. At negotiations, agreement should also be reached on the obligation of the Borrower to prepare an Operating Plan for the project beyond the implementation period. The quality of the start-up arrangements for operations should be

4/ Reference in legal documents to Bank approval of future plans of action covering major project components is a more frequent example of such ill-advised practice.
reviewed at the time of the ICR. The circumstances or event that will mark the end of the implementation period and trigger the preparation of the ICR should also be clearly defined.

7. Strengthen Role of Legal Department; Create Covenant Database

The Legal Department should educate Bank staff about the use and misuse of covenants and exercise quality control with respect to them. To facilitate achieving consistency of covenants across a country program, (as well as the review of experience, and the evaluation of covenant effectiveness) and to permit recording and retrieval of covenants relevant to sectors and areas of special emphasis, the Legal Department should coordinate the creation and maintenance of a covenant database (in the form of an electronic reference library) complete with evaluative and outcome information. The evaluative and outcome information should be derived from project performance management activities, including CPPRs and ICRs.

D. Define the Bank’s Role in and Improve Its Practice of Project Performance Management

In all phases of project work, but particularly in portfolio performance management, the Bank needs to better define its role vis a vis the Borrower. Staff need to be sensitive to the appropriate balances between: support and preemption, diligent, decisive monitoring and rigidity; and awareness of necessary detail and reliance on others to verify and certify aspects of compliance.

1. Clarify and Adhere to the Bank’s Proper Role

Bank staff must carefully distinguish and adhere to their roles in the various aspects of project performance management. In performing the "core" supervision responsibilities of the Bank—including end use supervision, enforcement of procurement and disbursement requirements, and monitoring of compliance with the loan agreement—the Bank’s role is mandatory. Beyond that, short advisory trouble shooting and facilitation work are appropriate supporting activities of the Bank, as is the Bank’s help in obtaining needed major substantive implementation assistance. The direct provision by the Bank of extended substantive assistance, however, should normally be avoided, as the Bank may not have a comparative advantage for such work and as it may dilute Borrower accountability. The temptation to play a supervisory role in implementation must be resisted, lest the project come to be seen by the country as "the Bank’s." In special cases where such assistance must be provided, the Bank should ensure that its role is one of advising—not substituting for—project management. As noted, approval requirements in loan agreements should be avoided where possible because they create a hierarchical relationship between the Bank and the Borrower which can weaken Borrower accountability.
2. Pay Special Attention to Start-up

Delays in the start-up of implementation often signal future problems. Accordingly, after negotiations but prior to effectiveness, the Bank should help ensure that there is optimal dissemination and understanding of the agreements reached, commitments given and guidelines to be followed. Sometimes (particularly in projects involving numerous agencies) a "project launch" workshop will be effective. Managers should ensure staff continuity between appraisal and supervision and give priority attention to the start-up phase, to help ensure quick effectiveness. An expansion of EDI training in project implementation management (including training in Bank procurement and disbursement requirements) should be considered by EDI management.

3. Develop Performance Monitoring Systems Based on Implementation Plan and Critical Indicators

The best-case scenario rarely occurs. Flexibility and timely responses to changes in circumstances during implementation are therefore critical. Measuring deviations in key indicators and interpreting them is one means of monitoring progress and signalling the need to design remedial programs that clearly spell out actions, timing, and responsibilities. Performance monitoring systems should be based on agreed implementation plans and reports of progress keyed to critical indicators as agreed during negotiations. The Bank’s progress reporting requirements normally should be a subset of those needed by the Borrower for its own management and accountability, and the burden of providing such data should be the Borrower’s. As necessary, the Bank should assist Borrowers in defining the information needed for efficient project management and monitoring and in creating or obtaining and then installing the requisite reporting systems.

4. Improve Progress Tracking, the Form 590 and Filing Practices

The monitoring indicators identified at appraisal should be used to inform the project performance ratings in Form 590, and the Form 590 should be revised to accommodate textual information explaining the ratings. The revised Form 590 would be the input for country portfolio performance ratings. Supervision Reports should be management instruments that support effective implementation (by the Borrower) and portfolio performance management (by the Bank). The Implementation Plan, as and if revised, should provide a foundation for the supervision aide memoire and report and for monitoring progress and developing ActionPlans. Revision of the Form 590 system should enable its narrative part to be electronically accessible, and a word search capacity to support portfolio analyses should be added. Filing practices should incorporate electronic files of project analyses. Task Managers should be accountable for sending project documents systematically to files, because the project database represents the Bank’s institutional memory not only for the purpose of portfolio management, but also for audit and Bankwide portfolio analysis.
5. **Use "Mid-Term" Reviews Only When Necessary**

In some regions, "mid-term reviews" of all projects are routinely undertaken. Other regions use this tool on an *ad hoc* basis (if and when indicated on grounds of implementation performance). Interim reviews offer an opportunity to take stock of problems that have not been addressed in "normal" or Country Implementation Review (CIR) missions and to agree on major corrective actions. Some Borrowers, however, have expressed the concern that implementing agencies and the Bank may be tempted to postpone decisions in anticipation of a forthcoming "mid term review" (see Annex B). *This type of review should be used with discretion. It should not be made mandatory within the Bank.*

6. **Monitor Changes In Borrower Commitment**

If the commitment of various agencies and beneficiaries to project designs and objectives is ensured during project identification, preparation, and negotiations, during the implementation period stakeholders will learn continuously from the processes they helped create, or the stakeholders themselves may change if there are changes in government. As a result, their posture towards objectives and implementation activities may change. *These changes should be monitored, and their impact on previously agreed objectives, actions and expected project benefits should be assessed from time to time and systematically reported throughout the implementation period.*

7. **Increase Bank’s Decisiveness in Portfolio Performance Management**

While the Bank should remain firm in enforcing compliance with requirements such as those related to procurement, audit and policy matters, it should be flexible in agreeing to adapt project designs to changed circumstances or new insights. *When a project has been in "problem" status for more than twelve months, the responsible division chief should either recommend restructuring, that the Bank exercise its contractual remedies, or provide to the country director a memorandum stating why it should not do so.* If a project has no likely prospect of yielding a net economic benefit to the country and if, after consultation with the Borrower, agreement about mutually acceptable restructuring cannot be reached, the Bank should be able to suspend the loan.

8. **Make Standard Bidding Documents Mandatory and Work To Improve Borrower Procurement Practices**

Procurement problems are typically countrywide and require long-term attention through institutional development assistance. More, however, can be done to address them effectively in the context of Bank-sponsored projects. Procurement arrangements often do not receive adequate attention during Appraisal and realistic procurement scheduling is not routine. Often, Bank procurement reviews are done and advice is given by staff who do
not have adequate knowledge of relevant guidelines and practices. While the Bank has developed numerous "standard" contracts/bid documents, they are not often used. For international competitive bidding (ICB), the use of standard bidding documents, with pre-approved adaptations to country situations, should be made mandatory. Borrowers would save substantial time in preparation. The Bank would save substantial time (elapsed and applied) in reviewing documents. And more contractors would be likely to bid. Procurement plans and schedules should be prepared during appraisal and agreed at negotiation.

9. For ICB, Revise the Guidelines and Standard Contracts

The Procurement Guidelines which Borrowers are required to follow have been developed mainly with the traditional sectors in mind and do not suit well the needs of social sector procurement. Moreover, within the Guidelines, there are important matters not covered by the standard bid documents. Procurement disputes between contractors and owners often drag on inconclusively and result in delays and friction. Independent supervising engineers are not always used and, when used, are not always independent. Many contracts do not contain incentives for early completion and penalties for delay. The Guidelines should be reviewed with, inter alia, the needs of social sector procurement in mind, as well as those related to privatization and adjustment operations. The Guidelines and revised standard bid documents should require bidder and owner descriptions of their quality assurance procedures, incentives/penalties related to timely/tardy completion, the use of independent engineers for major civil works, and procedures for expeditious dispute resolution.

10. Create an Advisory Bank Operations Procurement Review Committee

Despite the heavy expenditure—over a third of portfolio management time, about 150 staffyears per year—on procurement monitoring by the Bank, the quality of such monitoring is inadequate. Regional interpretations of the Guidelines in approving procurement actions are often inconsistent. Cross-regional coordination among procurement specialists is inadequate. Two approaches are possible. One would be based on the existing decentralized arrangements whereby the regions would continue to make all decisions but would be required to obtain advice from a COD representative when contracts of more than $25 million for goods and works and more than $10 million for consultants were being considered. The alternative would be to create a Central Advisory Procurement Review Committee (APRC) to facilitate the consistent application of standards and the resolution of issues. Chaired by COD, it would advise Regional managements on all procurements above $25 million for goods and works and above $10 million for services including consultants. (Field staff given approval authority related to standard contracts could also

These views were reflected in the conference the Task Force held with international contractors and also in the conference with Borrowers (see Annex B) both held in May.
refer issues to APRC at their discretion). Either arrangement would entail the prior review of less than 50 contracts a year, but would cover more than 50% of the annual value of contract awards. On balance, and in the light of representations made on behalf of the international contracting community, the second alternative would at this time serve institutional interests best. It does not dilute Regional accountability, as the APRC role is advisory, but it more effectively enables the Bank to avoid situations where an international contractor is subjected to different interpretations by different Regions or where exceptions are authoritatively represented.

11. Introduce Third Party Verification and Certification

Under current instructions, Bank staff do not perform audits of SOEs. All claims supported by SOEs must, however, be reviewed by independent auditors in accordance with the legal agreements. Bank staff are expected to make sample checks of documentation during field missions. The Bank is not adequately staffed to perform this function which tends, therefore, to be neglected and to be seen as a distraction from more substantive tasks. When it is performed, it often covers only a minute sample, especially when documents are in languages not understood by the person checking them. The Bank is also poorly positioned to assess and verify adherence to local procurement procedures. In the interests of efficiency and comparative advantage, and to enhance prudent governance (which also should be strengthened through longer-term programs of institutional assistance), the Bank should make greater use of verification and certification by independent third parties acceptable to the Bank. Independent certification should be submitted of the acceptability of local procurement procedures. For all procurement not subject to prior review by Bank staff (including local Bank-financed procurement), ex post certification on a sample basis should be made by an independent agency acceptable to the Bank.

For SALs and SECALS, present documentary requirements (customs documentation in lieu of invoices) --although less anomalous than they used to be-- are nevertheless irrational, given the fungibility of foreign exchange and given that SALs and SECALS are normally subject only to negative lists and are not intended for specific uses. As long as the volume of eligible imports exceeds the amount of disbursement requested (which it almost always does), the effort to collect customs documentation for eligible imports in amounts at least equal to the disbursement requested is a waste of time. It also engenders staff cynicism and makes the Bank appear inefficient and naive. The review of customs documents by the Bank should be replaced by bona fide certification that the value of goods for which Bank reimbursement is sought is lower than the value of eligible imports during the period, excluding imports funded from other medium and long term sources.

For project loans, by the time of Negotiations, an auditor acceptable to the Bank should certify the Borrower has in place a satisfactory system (with appropriate accounting and internal controls) to prepare and deliver bona fide Statements of Expenditures (SOEs) as documentation for withdrawal of loan proceeds. Shortly after the close of the
Borrower's fiscal year, the auditor, under Terms of Reference prepared by the Borrower and approved by the Bank, should be required to furnish its \textit{ex post} audit of SOEs to the Borrower. A copy should be sent by the Borrower to the Bank.

\section*{E. Enhance OED's Role as an Instrument of Independent Accountability and Refocus \textit{Ex Post} Evaluation on Sustainable Development Impact}

For most projects, the end of disbursement --which trigger PCRs-- is just the beginning of operations. Today's "Project Completion Reports" are therefore misnamed. They should be refocused on the transition to the operational phase and the sustainability of the project. While OED may wish to rely on the refocused PCRs for its audits, it should also become more concerned with impact evaluation and sustainability.

\subsection*{1. Increasingly Emphasize Development Impact in OED's Independent Reviews}

In a recent report to the Joint Audit Committee, the Director General of Operations Evaluation stated that: "The value of (OED's) contribution lies in: the independence of the evaluation function, which ensures free selection of topics for analysis, access to all relevant information, candor in reporting, and uncensored judgement; the focus on quality, efficiency, and effectiveness of operational policies and programs; the empirical nature of evaluation work, which requires rigorous analysis of well-documented evidence; the systematic collection and reflection of the views of all participants --Borrowers and beneficiaries and cofinanciers-- as well as Bank staff and managers; and in the transparency of the entire process [which] offers the opportunity to... relate evaluation in the Bank to the growing demand for accountability and dissemination of the lessons of experience."

The Task Force is in full agreement with this articulation of OED's contribution and of the opportunities for broad and credible accountability it offers. OED's analyses and findings have been extensively consulted by the Task Force which has duly noted the thorough and prompt absorption by regional staff and managers of the conclusions and recommendations of the recent OED report, "Bank Experience in Project Supervision." The Task Force has confirmed many of the findings of that report, endorses many of its recommendations, and acknowledges its positive impact on its own report.

The Task Force strongly agrees with the Director General (DGO) that OED's credibility as the source of institutional accountability, rests in its independence from the Bank's management. It therefore believes any evolution of OED's mandate or changes in its Terms of Reference must be tested against the possible dilution of that independence.

\textit{SecM92-576, May 4, 1992.}
This suggests abstention from any advisory or decision making activity that may be subject to future OED evaluation.

As a consequence, the Task Force believes that OED participation in "Mid-Term Reviews" or similar exercises involving advice about on-going operations, would be counterproductive. Conversely, evaluation by OED, based on generic and/or systemic evidence, the credibility of which does not depend on the point in the project cycle to which it refers but on the generality of its occurrence, should claim the attention of both Board and Management. OED’s role should not be one of problem-solving with respect to individual projects --that is the job of the Regions-- but one of pointing to the need to reconsider policies and practices. It may also encompass retrospective evaluation of any part of the project cycle. Within this definition, there is scope for such diversification as would make OED’s work increasingly relevant to continuous efforts to improve Bank policies and procedures.

To increase awareness of, and accountability for, sustainable development impact within the Bank, OED should particularly emphasize four areas:

- **First**, OED should produce an Annual Assessment of the President’s ARPP. It would evaluate the methodology used to measure progress and performance, assess and compare the persistence and significance of generic and systemic issues identified in the ARPP, and (in parallel with OSP) identify the need for methodological work on instruments for monitoring and managing country portfolios;

- **Second**, in line with the recommended transformation of the scope and purpose of the PCR, OED should supplement its reliance on PCRs (ICRs) and revised benefit estimates in PPAR audits with a stronger focus on impact evaluations done at a time when project operations have reached a steady state and results can be objectively assessed. The Impact Evaluation Reports should, in future, play a much larger role in OED’s work program. OED should reconsider the ratio of ICRs to be audited. OED should, as an extension of its work on impact evaluation, pursue methodological and empirical enquiries into institutional and developmental sustainability;

- **Third**, OED should continue to produce special studies of a cross-cutting or otherwise distinctive character. These occupy a unique place in the Bank’s work; and

- **Fourth**, OED should continue its efforts to assist member countries in enhancing their capacities in ex post evaluation, but should do so in the context of broad-based public sector management projects and programs, managed by the regions. The overall objective is to strengthen Borrowing country capacities in all aspects
of project management, including design, appraisal, implementation, and operation — as well as evaluation.

2. Replace the PCR with an "Implementation Completion Report"

Timed to follow the completion of implementation, today’s PCRs often say little about operations or the sustainable flow of net benefits. Although some Borrowers attach only cursory importance to PCRs, there is consensus among Bank staff and managers that this document — which remains the foundation of the Bank’s accountability to its shareholders and is the primary source of transparent self assessment of Bank performance — must be retained. However, current practices governing the production, dissemination and timing of completion reports should be modified.

The Project Completion Report should be renamed "Implementation Completion Report (ICR)". The ICR should contain a retrospective summary of implementation issues and achievements, mainly in a tabular form, with brief explanations of major deviations from agreed objectives. And, looking ahead, it should also: reassess Borrower commitment to operational objectives; reappraise the plan for transition to operations that was agreed at negotiations (updated by the Borrower in accordance with the loan/credit agreement); define monitoring indicators for the operational period; analyze the risks to successful operation; re-evaluate expected project benefits; recalculate (where relevant) the ERR that would form the benchmark for an eventual impact evaluation; and assess the optimal timing of that evaluation.

Upon its production, but not more than six months after the loan/credit closing date, the ICR should be sent to OED by regional management. The Board would be informed of its release and it would be made available, on request, to the Executive Directors and their staff. The ICR would provide the basis for OED decisions on: (1) whether a given project should be evaluated by OED and, if so; (2) whether evaluation should be immediate (through an OED project performance audit report [PPAR]) or later (through an OED impact assessment) or both immediately and later; and (3) whether the evaluation should be "clustered" with those for other projects (in line with a common OED procedure) or done separately. Operational performance reports prepared by the Borrower and sent to the Bank annually after the ICR would be copied to OED by the Country Department and would serve, with the ICR, as the basis of an eventual impact evaluation if one were done. The ICR’s timing in relation to project progress should be agreed at negotiations. Reporting on operations would be discontinued at the time when full benefits are obtained (or have reached "steady state") or at such other time as is agreed between the Borrower and the Bank.
F. Create an Internal Environment Supportive of Better Portfolio Performance Management

Many of the process changes recommended above depend in part on changes in the Bank's internal environment. They will not work properly unless the Bank is pervaded with the necessary values and incentives. Nor will they work without the necessary skills and resources, both in the field and Washington, the necessary communications capabilities, and the required budgetary flexibility.

1. Emphasize On-the-Ground Net Benefits as the Prime Value, the Measure of Success

While organizational "values" may sound amorphous, one of the world's leading corporate executives has recently referred to the need for "soft values for a hard decade." Provided they are shared, management by values, which are internal to the staff, is likely to be more compelling than management by objectives, which are often seen as external. The Bank's culture, in short, needs to become more attuned to the essentiality of on-the-ground net benefits as the measure of success rather than loan approvals, good reports or disbursements. Bringing about this change will require, in addition to the measures recommended, sustained leadership from all levels of management. Management must consistently emphasize that the intrinsic value of portfolio performance management is at least equivalent to that of lending, and that the Bank is accountable for sustainable development impact.

2. Hold Line Managers Accountable for Results in Portfolio Performance Management

Country directors and division chiefs must be as accountable for managing each country's portfolio performance as for new lending. They must play an active role in Country Portfolio Performance Reviews and in building portfolio performance considerations into the various business processes. They must ensure that adequate resources are deployed (or redeployed) to portfolio performance management and must take prompt action as necessary to resolve portfolio performance issues.

3. Recognize and Reward Portfolio Performance Management Work

Portfolio performance management work should receive the same feedback from managers and the same recognition and rewards as other operational work. Incentives for Technical Department staff may merit special attention. In career development, excellence

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in project and/or portfolio performance management should rank equally with excellence in lending work as a criterion for selection to positions at Grade 25 and above.

4. Enhance the Skills Required for Portfolio Performance Management

**Recruitment:** A serious gap in the portfolio management skill-mix is expertise in financial and institutional management issues. The number of financial management professionals engaged in operational work has fallen from 270 in 1980 to about 190 today and the number of those trained to appraise and advise on accounting, financial reporting and auditing has fallen from 84 in 1980 to 42 today. About a third of all suspensions are due to non-compliance with financial and audit covenants, and more than a third of the operating divisions have no financial professionals. Another deficiency is that few Bank staff are skilled in organization, management, and public administration. Other fields of expertise in which staff and managers cited weaknesses include environmental economics and engineering, sociology, and cultural anthropology. The Task Force is not in a position to make recommendations on these latter gaps, but nonetheless wishes to bring them to Management attention. The Bank should urgently recruit more staff experienced in financial and general management, in public administration, and in institutional development. Regional managements should ensure there is a critical mass in each country department of senior staff with financial management experience to frame financial covenants, advise on and oversee financial analysis, and monitor the selection of external auditors and review of auditor reports.

**Training:** A review of training opportunities for new staff in portfolio performance management, showed that, besides a general "orientation" seminar of two days, training in portfolio performance management does not exist. Since FY91, regional initiatives have been developed in LAC and Africa to meet this need and a new, two-day, "lending operations" seminar on the entire project cycle is being developed by the Training Division. The Task Force believes substantive training in the Bank’s responsibilities, policies and procedures deserves a more concerted effort than it now gets — through well planned introductory courses, advanced courses, formal seminars and on-the-job experience. Current policy that obliges staff to rotate at regular intervals should be revisited with a view to allowing greater staff continuity8. Practical and case-based training curricula and training material on project performance management should be developed and offered to operational staff, and future as well as current Task Managers should be required to demonstrate proficiency in matters such as contract administration, procurement guidelines,

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8/ The traditional arguments in favor of rotation - that rotation facilitates sharing of experience and prevents staleness - are both important objectives. There would, however, appear to be other ways of reaching them: knowledge networks, seminars, cross-support on missions with respect to the first; and the impact of fresh ideas (from consultants) with respect to the second. A Task Force analysis revealed that no more than 40% of projects’ portfolio performance missions had the same staff for four missions (i.e. for a period of up to two years).
disbursement documentation and implementation planning. In light of evidence indicating skill gaps among some managers, a special effort should be made to provide special training opportunities to Division Chiefs who need them. In addition, a career stream should be introduced for procurement, and a review should be conducted of the adequacy of staffing in that area.

5. Establish Resident Missions In/for All Countries with Significant Programs and Give Them Larger (but Circumscribed) Roles in Portfolio Performance Management

Although the Task Force did not conduct a comprehensive review of the potential and actual role of Resident Missions or of their present and prospective mandates, it did survey staff with Resident Mission experience concerning the role of field offices in supporting project implementation. Also—at the May conference—it explored Borrowers’ and development agencies’ views on this topic. The Task Force found nothing to suggest there should be a major decentralization of the Bank’s portfolio management activities to field offices. Borrowers generally value the complementary roles of Headquarters and field office staff in providing support for implementation, but they are concerned that the disinterested expert perspectives of Headquarters staff should not be lost to them and that the Bank’s decisions should remain—and be perceived to remain—impartial. Some development institutions and agencies—not the majority—made a case for the Bank to enlarge its field presence, particularly with respect to social sector projects that require more contact with decentralized institutions and beneficiaries. The continuing shift in the portfolio towards “evolutionary” projects with special needs for institutional support (as in the social sectors, extension, environmental management, and privatization) and the implications of the changes recommended above for the delegation of procurement and disbursement responsibilities to the field, strengthen the argument for selective devolution.

The presumption should shift in favor of having a resident field presence for every country. Where suitably staffed resident missions are in place, headquarters-based portfolio performance management should rely more on them, and as necessary provide complementary field visits and approvals of nonroutine procurement and disbursement actions. With regard to implementation support, resident missions could generally be made responsible for: (a) facilitating implementation where appropriate, (b) accelerating approvals for routine procurement actions and end use of loan/credit proceeds and (c) advising with respect to proposed modifications of implementation plans and schedules. In addition, they could help deepen assessments of executing agency capabilities—assessments that cannot as readily be made from Washington, especially with respect to the social sectors.

2/ Comparable and much more elaborate training is offered in large private corporations.
6. Use Information Management and Technology to Better Advantage

Bank Information Needs: Information flows should be tailored to business decision needs. For Task Managers, the needs are massive. The systems that support them must, therefore, be designed to help them access information they need rather than wallow in unusable data. This is particularly important with respect to documentation on policies, procedures, directives and innovative practices. An information flow analysis of portfolio performance management functions and an analysis of the use of information technology in project implementation and monitoring were conducted by the Task Force with the help of experienced Task Managers and line managers. Both exercises suggest efficiency gains in information management are desirable and achievable. The information flow analysis confirms that a massive flow of documentation is associated with portfolio performance management, most of which feeds the Bank's internal processes and is only loosely related to Bank-Borrower interaction and on-the-ground action. These findings are consistent with those of a recent Organizational Planning/LAC study of the efficiency and effectiveness of business processes in the LAC region.

The quality of information available for portfolio performance management was severely criticized by Bank users at every level, as were the costs to the Bank of collecting data from Borrowers, the lack of computerized access to portfolio information within the Bank, and deficiencies in the Bank's information filing and retrieval systems. As part of the appraisal process, the Bank should systematically review the Borrowers' information needs during implementation and define its own reporting requirements, so that, wherever possible, the same information flows can serve both Bank and Borrower. In principle, the Bank's information requirements should be a subset of those required by the Borrower for project management and should not go beyond those which the Borrower --as a matter of sound management-- will require for its own purposes. Every effort should be made by Bank staff to limit requests for information from Borrowers to that essential to the Bank's decision making, business processes, and evaluation needs.

Borrower Information: At the time of appraisal, the Bank should consider how the Borrower could use information technology to support project implementation and, as necessary, should provide project management software, hardware, and training, under the project. A wide variety of effective project management software systems already exists to meet the needs of Borrowers. For example, the LAC-Computerized Project Management System is being used in Mexico, Argentina and Brazil, and ASIA's Microsoft Project Management and Primavera software is assisting various agencies to manage and track project implementation. The constraints to achieving an effective flow of information from the project to the Bank are not technological. Information technology applications offer powerful ways of improving efficiency in all aspects of information management,

10/ "Study of Efficiency/Effectiveness in LAC". ORG, February, 1992. The conclusions of this study are likely to be relevant —to some degree at least— in other regions too.
particularly with respect to collecting data from Borrowers, processing it, and retrieving and
manipulating it. Numerous examples of innovative practice were identified by the Task
Force on Information Management in Operations, many task managers and line managers
having developed their own ways of overcoming perceived deficiencies of Bankwide
systems. Examples include the Lending Operations Data Base in the LAC and Africa
Regions, the OED Data Base, and the imaginative use of All-in-One in (among other
places) the East Asia & Pacific Region. These examples reflect major progress since the
1987 Reorganization. The progress should be extended to encompass portfolio performance
management throughout the Bank.

Communications Network: Since the full benefits of computerized databases depend,
in part, on the availability of a reliable, inexpensive and versatile long-haul communications
network, the Information Technology and Facilities Department's current plans to complete
the establishment of a global telecommunications network should continue to receive
priority.
LIST OF PRINCIPAL RECOMMENDATIONS
AND
SUPPORTING MEASURES

A. Introduce the Concept of Country Portfolio Performance Management Linked to the Bank’s Core Key Business Processes

1. Introduce Annual Country Portfolio Performance Reviews Linked to Country Implementation Reviews
2. Reflect CPPR in Country Strategy Papers
3. Link CPPR to Business Plan and CAM
4. Link CPPR to Lending Allocations and Related Reviews
5. Introduce Annual Report on Portfolio Performance Review
6. Discontinue Some Existing Reports
7. Link ARPP to OSP Work Programs
8. Develop Country Portfolio Performance Indices

B. Provide for Country Portfolio Restructuring in Adjusting Countries Including the Reallocation of Undisbursed Balances of Loans/Credits

C. Improve the Quality of Projects Entering the Portfolio

1. Ensure Country Commitment
2. Foster Broad-Based Participation in Project Preparation
3. Introduce More Rigorous Analysis of Project risks/sensitivities
4. Emphasize Implementability in Design and Appraisal
5. Ensure Borrower Understanding of Objectives, Implementation Plans, Procedures, and Responsibilities
6. Reflect Priorities in Loan Documents
7. Strengthen Role of Legal Department; Create Covenant Database

D. Define the Bank’s Role In and Improve its Practices of Project Performance Management

1. Define and Adhere to the Bank’s Proper Role
2. Pay Special Attention to Start-up
3. Develop Performance Monitoring Systems Based on Implementation Plan and Critical Indicators
4. Improve Progress Tracking, the Form 590 and Filing Practices
5. Use "Mid-Term" Reviews Only When Necessary
6. Monitor Changes in Borrower Commitment
7. Increase Bank’s Decisiveness in Portfolio Performance Management
8. Make Standard Bidding Documents Mandatory and Work To Improve Borrower Procurement Practices
9. For ICB, Revise the Guidelines and Standard Contracts
10. Create an Advisory Bank Operations Procurement Review Committee
11. Introduce Third Party Verification and Certification

E. Enhance OED’s Role as an Instrument of Independent Accountability and Refocus Ex Post Evaluation on Sustainable Development Impact

1. Replace the PCR with an “Implementation Completion Report"
2. Increasingly Emphasize Development Impact in OED’s Independent Reviews

F. Create an Internal Environment Supportive of Better Portfolio Performance Management

1. Emphasize On-the-Ground Net Benefits as the Prime Value, the Measure of Success
2. Hold Line Managers Accountable for Results in Portfolio Performance Management
3. Recognize and Reward Portfolio Performance Management Work
4. Enhance the Skills Required for Portfolio Performance Management
5. Establish Resident Missions in/for All Countries with Significant Programs and Give Them Larger (but Circumscribed) Roles in Portfolio Performance Management
6. Use Information Management and Technology to Better Advantage
Portfolio Management Task Force

Conference with Borrowers

Summary of Proceedings of

Annex B
[On May 28 and 29, 1992, the Portfolio Management Task Force held a "workshop" with fifteen people from a representative sample of borrowing countries (accounting for more than half of the portfolio) who had had extensive experience dealing with the Bank. The participants were selected for their knowledge of the Bank by the Bank's country departments, and their selection was approved by the appropriate Executive Directors. They came from countries in all Regions except Europe and Central Asia. Brazil and China were not represented; nor were island economies, as the task force wished to have a relatively representative sample of countries. The participants were assured anonymity and were asked to speak for themselves and unofficially, not as government representatives. Participants came both from central ministries and executing agencies. Most had conferred with colleagues before coming and some provided written material in response to the "Possible Questions for Discussion," developed with the help of the Portfolio Management Steering Committee and circulated in advance (see attachment). The highlights of the four hundred page transcript, below, were prepared by a contract writer, independent of the Bank and the task force. In the task force's opinion, they faithfully reflect the substance of the workshop.]
THE WORLD BANK BORROWERS' WORKSHOP
ON
PORTFOLIO MANAGEMENT

Highlights

1 "As we see it, the Bank’s entire attitude is attuned towards loan and commitment. [The Bank has] a built-in bias against project implementation and supervision," said an official from one of the World Bank’s borrower countries, at a unique two-day workshop on portfolio management.

2 In May, decision-makers from countries representing more than half of the Bank’s active portfolio convened in Washington to discuss why project performance is declining — why 20 percent of the projects in the Bank’s lending portfolio are problem projects. Promised confidentiality, they spoke frankly about every stage of the project cycle from conception to evaluation.

3 Many of the problem projects, the speaker contended, "were not conceived properly" and were overloaded with conditionality. "Today the trend is making the project a marketing package for Board satisfaction. If the main purpose of project conditionality is to facilitate project progress, it’s welcome. But if the main motive behind it is to sell the package before Bank approval, it is self-defeating."

4 Ironically, said one borrower, the staff rigidly insists on as many conditions as possible — some of which reflect insensitivity about the political realities in the borrower country — to convince the Board that the project will be successful. Yet those very conditions make it impossible for the project to attain its objectives. Project disbursements are often held up because of failure to satisfy nonproject conditions over which the project team has no control. Indeed, strict adherence to sectoral conditions sometimes conflicts with fiscal policy required under structural adjustment loans.

5 As one borrower put it, Bank staff "take a negotiating position, not a consulting position" — they know what they want from the outset and aren’t open to hearing what the country has to say. Borrowers especially criticized the Bank’s rigidity about timetables. They often agree that certain reforms should be made, but find the Bank’s timetable for reform unrealistic. The Bank insists on the timetable anyway, and often the project cannot stick to it. The Bank seems more concerned with getting Board approval, say the borrowers, than in arriving at a realistic agreement the borrower can live up to.

6 For their part, borrowers often send the wrong people to negotiate — policymakers, rather than the "soldiers" who could make a project work. The people responsible for implementation — who could say "this won’t work" — aren’t always present to debate a timetable or to say which conditions cannot be met. The Bank should firmly insist, borrowers say, that those responsible for implementation be represented in negotiations, because some countries "have the idea that the officers are just going for holidays, so they try to curtail the number."
Bank representatives assured workshop attendees that negotiations are not a holiday.

During negotiations, the Bank overpowers borrowers — and the country negotiating team often doesn’t have the strength to resist. "We sit there and say, "Look, really, if that was the wish of the Bank, so be it." They cave in just to keep negotiations moving. The Bank has far better lawyers and financiers, said one borrower, and the borrowers’ lawyers and financiers may not be "anywhere near as competent as your team. If we were able to get as good lawyers and financiers, I think a lot of these issues could be solved before implementation."

Borrowers are also overpowered by "the voluminous documents that the Bank produces." They agree to conditions and implementation plans they don’t understand fully, because there is no way a permanent secretary — "or even his deputy" — can review all the documentation the Bank produces. They delegate the review process to someone in the lower ranks, who may be incapable of assessing "the implications of what is being proposed by the Bank" and cannot systematically ensure that all conditions are met. Reducing the number of problem projects means making sure that those making decisions about implementation fully understand the intent and implications of the agreements reached.

Ultimately, they feel psychologically pressured to give in. "The negotiation itself is the end of a very long road. By the time it comes for signing, there is so much pressure put on the responsible ministry by the Bank that, you know, you just have to get it done." The Bank tends to adopt a take-it-or-leave-it stance, the borrower agrees to conditions it has no way of honoring, and they end up with a contract that cannot be implemented.

Balance should be reestablished, say the borrowers, to ensure that negotiations are on a more equal footing, that agreements are more realistic, and that the Bank assigns more value to borrower ownership of and commitment to the project.

The Bank’s tendency to focus more on lending than on implementation was only one reason borrowers gave for problems in delayed or aborted disbursements and implementation. Borrowers also suggested that

- Borrowers "own" and be more involved in project conception and preparation, especially.
- The Bank be more flexible about changes in implementation plans.
- The rigor of staff appraisal reports be restored.
- The borrowers’ institutional capability be assessed thoroughly and encouraged to develop.
- Procurement and reporting documentation be standardized.
- The Bank and borrowers jointly assign priorities to a country’s projects in the context of country priorities.
- The role of resident missions be reconsidered.
- Supervision be strengthened.
- Post-project evaluation be more closely linked to new-project design.

The discussions of these suggestions are summarized briefly below.
Borrower "Ownership" of Projects

13 Borrowers agreed that to reduce the number of failed projects, borrowers should "own" projects from the outset, be committed to them, and recognize that they will have to pay for the consequences of wrong decisions — theirs or the Bank's. To that end, most borrowers feel that the Bank should be less involved in preparation than it is.

14 "Over the years, the Bank has assumed a more and more active role in conceptualizing projects," said one borrower. "If that trend continues, the involvement of the borrower decreases. I would much rather have the Bank's intervention at a later stage of a project cycle, so that the implementing or executing agency feel the project is their own. It should be left to the borrower to decide if they want Bank intervention [earlier]."

15 Instead, preparation and design are all too often, as another borrower put it, a "unilateral" Bank activity — an inappropriate attempt to "spoonfeed" the borrowers with foreign consultants' expertise. The Bank "employs or hires consultants to prepare the project papers, detail design, and we are just left with the report — to give our views or to review the consultant's report."

16 Consultants who aren't familiar with a country often impose technical solutions that may be inappropriate for it, reflecting the Bank's views and vision, not the country's. When Bank staff get involved early in the project, they bring in their own "preconceived ideas" (for example, wanting to privatize road maintenance) that don't always match local priorities. One borrower described what happens as a result: To base somewhat complicated projects on a theory, "let's say; let's support the private sector...you create a little Frankenstein and then other people come and check their Frankenstein...so sometimes it takes five or six years to implement."

17 Moreover, as one official put it, "the Bank changes its wisdom in the passage of time. Five years ago you were lending for small agricultural projects, farmers that were sowing foodstuffs; today you don't do that." Borrowers do not always take the Bank's policy du jour seriously, knowing that a few years later it may change: "We saw the World Bank talking about import substitution in the sixties, then export promotion, then social problems, and then the environment." Not to mention "support the private sector."

18 Borrowers value the Bank's expertise, "large capital of information" and breadth and depth of "long experience," but as one borrower pointed out, these Bank policies "are established by the Board without full knowledge of the constraints of the recipient country."

19 And, "after all the documents have been signed," says one official, "the Bank can change philosophy again, and what was a normal, standard project loses its strength and momentum." Moreover, "soldiers" working on the project at the operational level don't always get word of the latest directives or decisions or changes in Bank thinking; this can delay both the design and implementation of projects.

20 The Bank often simply takes the project away from the local project officer. One borrower cited a project on poverty and rural employment that "broke down because the implementing agency wanted to be greatly involved in the preparation and design of the project." Yet the local project officer is likely to become much more committed "when he has seen the project through the first two or three cycles of the development process." Local commitment gives a project the continuity lacking with Bank staff, who change frequently. When new Bank people come on board who have not been involved in the project's evolution, they are unable to appreciate the nuances of the project and to help direct mid-course change, if it is needed — or allowed.
21 The initiative for conceptualizing projects too often comes from the Bank, said one borrower, "and I think it should be the other way around." Said another: "The borrowers should have a felt need for a project, should take the lead on it, should work in project identification," and should seek technical assistance only if they feel the need for a consultant. There should be more balance between the roles of the Bank and the borrower.

22 For one thing, when the Bank consistently takes over preparation, the borrower "no longer feels the need for project preparatory capabilities." Countries may initially want technical assistance because they want to upgrade their standards and put projects on a "much higher footing" — but what has happened is "a process of substitution rather than supplementation," which many borrowers feel needs to be corrected. Only by being allowed to "make their own mistakes," will the borrowers learn. They appreciate having access to the Bank's vast resources but want to develop their own competence — and to be treated as competent. One way to improve the technical capacity of borrower agencies, one borrower emphasized, is to "preserve the strictness" with which the Bank examines the country's analyses, without doing the analyses for them.

23 Citing Bank figures, one borrower said that project performance for the World Bank Group was satisfactory up to '73, somewhat irregular up to '82, then declining, particularly after '88. "Is there a correlation between the decline in project performance and the increased role of the Bank?" he asked. "What today is the borrower's commitment to the project? Most of the portfolio is described — at least in my experience — as 'a World Bank project.' If it is a World Bank project, what have I got to do with it? There is a consultant who has prepared it, a mission which has appraised it, the Board which has sanctioned it, and there are supervision missions which are watching its progress. [But] unless the borrower is committed, the project will not be implemented — as it is not being implemented."

24 Such ownership may be all the more important when there are no literal owners — when the product is education, health, family planning, or environmental planning, for example.

The Increased Need for Flexibility

25 "That 50 percent of the loans have not been disbursed, even though they have been approved, clearly shows that we have a problem in design, not in implementation, of projects." With fewer hardware projects and more social-sector projects, borrowers see the need for a shift away from "blueprint" project design toward a flexible, more "evolutionary" approach. "The Bank's most important role should be to provide technical assistance so that projects are properly developed and implemented," one official explained. "But the Bank should be flexible enough that when problems are encountered in implementation, solutions can be sought that are flexible and that enable us, without changing the project's objectives, to find solutions to problems as they come up."

26 More flexible design requires being specific about what the project's objectives are, as these would remain fixed — only the means of implementing them might change. But flexibility requires an ongoing dialogue. If projects are going to be more flexible, there may need to be a stronger local Bank presence, more decentralization, even at the risk of more political interference. The resident mission may need to play a different role. And there will be a need for earlier, more regular supervision to identify problems as they come up and to search for their immediate solution.

27 The Bank is not set up to easily cancel a project that, after initial discussions, shows that it is not going to be self-sustaining. "A supervision mission that comes one year later, or the completion mission that comes two years later, cannot provide for cancellation of the project. What we need is a tri-monthly report" that takes a strong position when a project is not going to work, because "the interest
of the borrower is not to borrow at all costs, and the interest of the lender is not to lend at all costs." Borrowers seem to want the Bank staff to be more decisive in identifying problem projects. They proposed that the Bank identify key variables and develop a set of indicators with which to monitor progress on the original objectives -- so that it is easy to see early on if a project is in trouble and needs to be cancelled or restructured.

28 Sometimes the project needs canceling, and the countries need a strong indication to this effect from the Bank -- because projects create vested interests, and it is unrealistic to expect those with vested interests to ask to cancel themselves. "It's very hard for a ministry that is doing something to tell the government, 'I want to cancel my project,' said one official. "It's not an easy decision for anybody to take."

29 But sometimes the project simply needs modifying. After two years of study, for example, Country X decided that a certain agricultural project would greatly enrich the country. But two years into the five-year project, international prices on that product dropped and it was clear the project would no longer be self-sustaining. Should they continue the project or stop, and reimburse only the amount that had been disbursed? Or could the resources be reallocated to a more profitable project, so the country wouldn't lose that financing mobilization capacity? Most countries feel the Bank isn't flexible about projects adapting to changes beyond their capacity to control.

30 The borrowers all seemed to agree that the Bank should be more flexible on conditionality. Said one: "We need to be clear what it is we agree on at the time of negotiations. And if a particular project design calls for flexibility, then I think we ought to agree on flexibility. There should be a framework within which the flexibility is exercised for a good purpose." Perhaps the solution, said one borrower, is to spell out the project's objectives clearly, but to allow for alternative approaches to implementation -- perhaps even provide a menu of alternatives.

Restoring the Rigor of Appraisal

31 Borrowers asked for more of a hand in project conception, preparation, and execution, but far from wanting the Bank to relax its standards, borrowers want the Bank's standards held high -- during appraisal. They want the Bank to continue doing what it traditionally does best -- and in the case of appraisal, to go back to doing it as well as the Bank used to. The less involved in a project's preparation the Bank is, the less likely it will be to want to promote it -- and the more objective it can be in appraisal.

32 Many borrowers feel the quality of appraisal is declining. "There's only an in-house check on the staff appraisal report [SAR]. Everything hinges on the perception of the task manager." The SAR used to be an important communication device, like a bible, outlining step by step what was expected on a project. It provided for continuity even if there were staff changes. SARs are weaker now, say borrowers, one of whom suggested that the Bank "switch back to the pre-1987 arrangement" (under the Office of Project Services) "where the SAR [was] actually going into detail ... because the quality of the SAR and the quality of project preparation has a lot to do with the next 5-year cycle of implementation."

33 Implementation plans (including procurement planning) are usually not well developed at the time of negotiations and pay too little attention to institutional strength and other important implementation issues, say the borrowers, who feel that Bank appraisal is no longer a "Good Housekeeping seal of approval."
In particular, borrowers want more thorough institutional evaluation upfront. They feel that it is important to identify institutional weaknesses and to provide technical assistance to strengthen the institutions needed for effective implementation.

It is especially important to evaluate institutions that work with the Bank for the first time. Working with the Bank is difficult because government agencies must comply with both domestic regulations and Bank regulations, which "many times are inconsistent with the procedures in place." They also have to receive three or four missions a year, and Bank staff come asking all sorts of questions, "about the way they dress," the "way they write things," the way they classify and organize things. "It's not very attractive for any such agency to work under these conditions, having to meet the needs of both the Bank and the government."

**Developing Borrowers' Institutional Capability**

After negotiations, nothing happens for a long time. The Bank turns to other appraisals. The borrower officials go home and don't disseminate and explain what happened in negotiations and what the implications are. During this lag period, say borrowers, the Bank should train project officials in project management and in how the Bank operates, what it requires, and why.

"Once the project is approved, we feel that the Bank's role is to support the unit so that it can meet the established conditions. That is where the Bank has been lacking and why project implementation suffers delays." The objectives of the project and the way it should be executed should be very clearly defined from the onset to avoid confusion, said the borrowers. And it should be explained clearly and understandably to the people in the executing agencies. "If you give a loan document of the Bank to a lawyer, a very good lawyer, he would take some time to understand what it's all about. So you bring this to an engineer, [who] probably doesn't speak English, and you tell him, look, this is what you will have to fulfill -- it takes a long time before they really get to understand it. They probably lose a lot of time in trying to understand many things that are irrelevant."

Disbursement and procurement procedures and issues should be clearly explained before project effectiveness. Borrowers should also be fully briefed on all the ways reports have to be prepared to meet the expectations of both the Bank and the executing agency, and why.

"Our agencies are not well-equipped, do not have the necessary training" to implement projects, said one borrower. "Many of these people do not have university degrees. We should do whatever is necessary to train these people," beginning with one- or two-week seminars or courses. Borrowers feel that the Bank should provide continuous training in disbursement and procurement procedures, especially in countries with no resident mission.

A country with no resident mission also made a plea for better communications about Bank requirements. "There is a high level of turnover in our countries, many times for political reasons," he said — so whenever there is a change in administration, someone from the Bank should meet with the new person and inform him of the financial package and timetable.

Borrowers emphasized that developing more institutional capability is essential to project success — and this includes making more use of (and improving the capabilities of) local consultants. Despite the Bank's theoretical support of using local consultants, sometimes the borrowing country insists that they want local consultants A, B, and C, and the World Bank says, "No, unless you have C and D" (expensive consultants from London and New York).
42 As a result, "the people don’t feel that it is their project any more. They say, Look, we are the ones borrowing the money, and we should have a say. We have A, B, C, and D, who are competent, local people who are used to the location and they can do it better. The only people who have not been able to really execute the job are these foreign-based [consultants], because when they look at the money converted to dollars, it becomes a very small amount." The foreign consultants also don’t stick around for the next stage of the project, and when an outside consultant does the initial work, the borrower doesn’t develop the same commitment to the project.

43 The Bank will often say, of a local consultant, "We do not know his work; he has done only one or two jobs." But "how does somebody get experience?" asked one borrower. "Nobody gets experience from one day. You have to try them, and if the borrowing country says it thinks a particular chap is okay, they should be given the opportunity." Resident missions are in a good position to assess the work and experience of local consultants, even when that experience is limited.

Standardizing Documentation

44 Borrowers felt they could spend more time on implementation if they spent less time and money on documentation. "Printing all these documents," complained one borrower, "is debilitating the capital." Among the efficiency measures strongly supported by the borrowers:

- Agree on an implementation plan at the time of negotiations.
- Use more third-party accounting, auditing, and certification services.
- Standardize contracts and bidding documents (adapted to country conditions) to speed up procurement. This would also make it easier for contractors from other developing countries to bid. Only the discretionary part of the contract would need review and approval and much of this could be handled by the resident mission instead of having to go back and forth to Washington. (Borrowers stressed the need, however, to keep the resident mission free of pressure from local interest groups). Whatever the solution, most borrowers agreed that the Bank’s procurement process is too cumbersome and rigid.
- Relax the rigid Bank policy on using international competitive bidding (ICB), which in supporting equal opportunity to suppliers tends to "overprotect suppliers at the expense of the borrower." ICB was ideal for large hardware projects but is expensive, time-consuming, inefficient, and ill-suited to local needs and social-sector projects.

45 Why use ICB, for example, for educational materials that are sure to be produced locally in the end, anyway? Costs for a science kit are reckoned for centralized delivery and do not take account of high transport, storage, and delivery costs to get it out to local teachers. And a foreign supplier may come in with the lowest bid on equipment or vehicles, but "How do we get spare parts? Can we service this equipment? Are there local mechanics who can take care of it?" Also, packaging equipment and goods to reach an ICB ceiling does not work when a project has to be implemented in widely scattered areas or uses consultants who work at different rates.

46 “From the moment we open (publish) bids,” said one borrower, ICB "will take as much as 240 days. We will have 11,000 bids this year. If we add to this the problem of the Bank’s rigid timetable, we have a serious problem here. We have asked the Bank for six months to have an adviser at the resident mission to speed up the bidding process." Most borrowers felt that delegating much of the review process on procurement to the resident mission would reduce procurement delays. The resident
mission could also decide when to raise the preference margin (15 percent) for domestic bidders, to develop more local capabilities.

- Coordinate communications and harmonize reporting procedures. Co-financing, said one official, is "desirable for big projects, but very difficult: It is basically like living with two wives." Could borrower countries produce common reports to all agencies, he asked, so they could spend less time churning out reports and more time on implementation? Could approval by the lead lending agency be sufficient for cofinanciers? Most borrowers echoed the plea for standardized or at least harmonized formats for progress reports so that they don't need to re-cast the same information into different reports for different co-lenders and their own government agencies. (Mr. Wapenhans suggested that greater use of advanced information technology would facilitate the exchange of data on how a project was progressing, among the owner-government and co-lenders.)

47 "Most problem loans are those which call upon several agencies at the same time," said one official. "We do not have true centralization of operations with the World Bank...[we do not feel the Bank gives us] incentive for such coordination...it negotiates separately with each actor. We are not always sure of the program that the Bank is imagining or is planning for the country....partners in the projects are not always informed of what they are going to do, because there is a complex documentation. Some are informed and some are not.... The Bank is not always sure that everybody was informed."

48 Indeed, the Bank could coordinate its own policies better. One borrower reported that the appraisal team and the procurement division had different views and "we do hope that the communication between one division and the other in the Bank could be much better."

Jointly Sorting Priorities

49 Many borrowers value the Bank's ability to help them get things in perspective. We need more technical assistance in that area, said one official, because we have difficulty prioritizing: "instead of having an ex-post process, it should be before the fact."

50 Some borrowers value the country investment portfolio review, sometimes done at the time of structural adjustment. It is important, said one official, that the Bank and the country jointly sort priorities, and design a financial package that is consistent with macroeconomic stability. Their ministry of finance is approached with five or six 200-to-300-million-dollar projects, each of which requires local counterpart funds in similar amounts; and fiscal and macroeconomic restrictions make it impossible to come up with those counterpart funds. So they have to limit their portfolio, but they do so in "an ex post fashion, after all the negotiations, after the pipeline has been discussed -- and that is why we end up postponing projects."

51 Such a review makes it clear that some projects are too ambitious. "I would prefer during a given term of office having three $5-million projects that can be carried out in four years, and not to start with a pipeline that we then have to cancel down the road, with all the costs that this implies."

52 "The same process of having to make decisions for the entire group of projects forces you to set priorities," said another borrower. "So you may feel you have to cancel a part of a project or replace one part with another. Supervision is important, but it is useful for the country and the Bank to look at the portfolio as a whole, because project-by-project supervision will vary, depending on the persons involved."
Borrowers perceive a scarcity of counterpart funds as a major reason projects fail. Project conditionality requires the country to provide counterpart funds, but under structural adjustment sectors are supposed to undergo across-the-board cuts.

"Across-the-board cuts, when there is fiscal consolidation or contraction is not the correct procedure," said one borrower. "One has to fix the priorities and then channel the funds accordingly. Problems with project implementation become aggravated when a country has moved to adjustment." This is all the more true when the pipeline is big; then the country must cancel sizable commitments. These cancellations would be easier if the Bank would agree "as a matter of policy to let these savings be rechanneled into new priorities without taking normal time for approving the new loans and new commitments" — and, "to the extent possible, that it reduce the counterpart burden or the fiscal constraints on the borrower.

One recurrent problem is that sector and project conditionality (which might require earmarking funds for education, for example) conflict with conditionality under the structural adjustment support for macroeconomic stabilization (which forbids earmarking).

Borrowers also seem to welcome country implementation reviews (CIRs) because they allow generic, cross-sectoral issues and problems to surface — problems often related more to agencies than to projects. Such a review is also likely to reveal when country objectives and project/sector objectives are at cross purposes. (This kind of portfolio review is more of a problem with cofinancing, but it can also reveal conflicts between the different demands of co-lenders.)

CIRs have not been used in all countries, or with regularity, but borrowers who had experienced them found them useful; one country that has had such discussions twice a year reported "wonderful results." Another borrower said the portfolio review and "the processes that lead to it," not only help the country get a fix on things, "but there's a lot of competition in the system and a lot of pressure on the implementing agencies to perform." CIRs are also heavily attended and given respect by the country's top officials.

If CIRs were followed up seriously, one could "get away with routine supervision missions for that country," said one borrower, with much of the routine work performed by the resident mission. "Two or three main projects could be short-listed for more intense supervision," where the approach should be "problem-solving, not problem-pointing."

Rethinking the Role of Resident Missions

Borrowers were divided about whether, and how much, to strengthen resident missions. Partly this is because their quality and rapport with project officers vary depending on the country and sector and the skill of the mission staff.

The resident mission's role is generally seen as one of facilitating implementation and giving the Bank a window into local cultures and activities. One official said that the Bank's rigidity is the result of "the people processing these files" being "too far removed from the field reality." That country's agricultural projects were more efficient because the resident mission was in contact with what was happening.

The resident mission can help clarify the Bank's contractual requirements. And much of the procurement review process could be delegated to the resident mission, if a procurement expert were attached to it — although, as one borrower suggested, that delegation of power should be well-defined.
But some borrowers had reservations about giving the resident mission a more significant role, fearing that an overstaffed and overburdened mission might lose touch with (and the backing of) Bank headquarters and senior Bank decisionmakers. And to be effective, a resident mission must remain detached from special interest groups and political influence. If people thought they were favoring one bidder over another, things could get sticky. One official complained that the resident mission—as well as consultants and Bank officials—tended to want to see only the highest government officials, which demoralizes the working-level people.

**Jointly Strengthening Supervision**

Borrowers value the Bank as a facilitator, crossing organizational lines within the government, particularly regarding Bank requirements. But one of them sees the Bank’s technical assistance during supervision as only marginally useful. Bank evaluations seem to do better at measuring efficiency (costs) than effectiveness (benefits). "Bank staff is really innovative when it comes to conceptualization but is very regulated when it comes to supervision and implementation."

We need more supervision earlier, they said— to identify problems, to find solutions, and possibly to reorient a project. Borrowers said that the Bank doesn’t value supervision of implementation as much as it values pushing through loans.

During implementation, the Bank is seen as too rigid in adhering to the legal contract, rules and timetables—especially on projects in the social sectors. Borrowers say it is damaging to a project that is on schedule and doing well to suspend disbursements because sector-specific conditionalities (beyond the control of project management) have not been met.

Cancelling a problem project is not always the right answer. If a project to build an aqueduct does not meet macroeconomic conditions or fulfill reporting requirements, the villagers still need water and jobs. Socially, such a project may have a very high priority; the need is still there. The Bank needs more creative problem-solving on projects such as this where the objective is clear but the environment has changed and the approach may need changing accordingly.

Reallocating investment funds from problem projects to healthy projects, which would benefit from faster disbursements, would ultimately speed up the process of adjustment.

Some borrowers feel they should take a key role in supervising themselves. This would usually require additional staff and training, but they could be attached to counterpart Bank staff for a year of training and then take over many of the jobs they have learned—or large parts of those jobs.

"In the long run, the project belongs to the borrower," said one official. "I think we must accept the responsibility to supervise projects that we have taken money to implement, and we must set up institutions to be able to do this adequately. The Bank’s responsibility then stops at ensuring that that institution is properly set up and capable of undertaking such supervision."

Some borrowers feel that Bank missions should do more supervision in association with local partners, who could do almost daily supervision—particularly in areas such as housing and agriculture where it is important to correct things as the project is implemented—so that every third month a more extensive Bank mission could come. At least, said one official, the countries could prepare an implementation report that would ease the work of the supervision mission.
71 "Where the borrower has a supervising outfit which also undertakes implementation supervision," said one borrower, "there should be a way in which aids memoires from those missions could form an input to the Bank’s missions. As of now, the Bank missions do not benefit from the missions undertaken by the borrower." The borrower’s supervisory agency could prepare progress reports (with preliminary analyses) before the Bank’s supervision mission comes, which would make the supervision mission more efficient and fruitful — and would perhaps reduce their frequency. Now, reported one borrower, there are too many Bank supervision missions coming on too short notice.

72 If we were better trained (by EDI), said one official, the Bank would not have to send missions so often. At the time of negotiation, a framework for implementation could be set up specifying what local consultants would do in terms of monitoring and supervision of compliance with contracts. When a Bank spokesman said that the number one type of institutional problem was financial and that local auditing services had generally proved to be inadequate, another borrower suggested that the Bank try joint monitoring efforts between Bank missions and an independent local consultant, whose skills would thereby improve.

73 Most borrowers thought supervision should be done through the sectoral agency — perhaps with an apex unit (possibly attached to the ministry of finance or planning) serving as a watchdog, coordinator, and facilitator. It is important, said one borrower, to keep evaluation separate from implementation; those who "do" projects are biased in evaluating them.

74 Borrowers seemed to agree that the Bank was weakest at supervision. Supervision would be more effective if the Bank focused more on critical points in implementation. Bank supervision has not adapted to the shift toward more social sector projects, which require a more adaptive, evolutionary approach to project design — more constant feedback, adjustment, fine-tuning, and problem-solving.

Linking Review and Evaluation to Project Design

75 Borrowers found the mid-term review to be "one extra report" which is less useful than regular supervision or follow-up reports, because it comes too late for mid-course correction. "If we wait for the mid-term missions, we have too many problems to correct." Relying too much on mid-term reviews would encourage procrastination on decisions that should be made as problems arise.

76 "Even when you do a mid-term review, the idea is to ensure that the project is on course. If it’s not on course, what do we do for the rest of the life of the project?" This could be an opportunity to bring in new ideas or new components, to restructure. But the Bank is rigid here, say borrowers: the mid-term review is looked at as a checkpoint, not as an opportunity to adapt to changing circumstances or analysis.

77 Similarly, borrowers frankly expressed little regard for project completion reports and ex-post evaluations, which look nice on the shelf but were of little value as "lessons learned" as they are rarely read, except by people wanting to know how to write one. "Once the project is complete, everyone forgets about it." Too much time elapses before the reports are produced, and the countries don’t have the funding to do the reports themselves, although they would probably learn more by helping prepare them.

78 But what happens, then, to lessons learned from prior experience? Here, the Bank’s enormous breadth and depth of experience could be enormously helpful to borrowers. The problem, said more than one borrower, is that evaluation departments are isolated from project preparation departments. "Something is not working," said one official, "because the problems we are encountering
in today’s projects are the same problems encountered in projects many years ago." "I would differ on the point that the world changes very fast," one borrower said, "we keep making the same mistakes because we did not learn from earlier experience. So I would argue that...it is useful to be able to review the past and to build the future on the basis of what was attempted in the past."

79 The Bank’s institutional memory of lessons learned is especially important in politically unstable countries, said one borrower, where "we have this awful system of very frequent changes. We keep making the same mistakes because we did not learn from earlier experiences." Mechanisms could and should be devised, he said, for sharing the lessons learned from earlier projects with the people preparing new projects. All the more so as the gap between appraisal estimates and ex-post evaluation results is widening — perhaps because, as one official put it, "some of us have become project-driven" and hence overoptimistic. Most project officers think their project is unique and will succeed where others have failed, said one official.

80 Perhaps it is the country’s responsibility to link such evaluation to new projects, said one borrower, but it is also the Bank’s responsibility. After all, "the Bank’s function is to have good projects, disburse them, and get final results — not to have 20 percent of its loans undisbursed."

Appreciation of the Borrowers’ Workshop

81 Participants in the workshop seemed genuinely grateful for an opportunity to suggest improvements in the Bank-borrower relationship, and hoped that their comments would lead to change.

82 "We think this workshop is really of much importance," said one borrower, "because we have serious problems about aid utilization. In spite of our best efforts, we have not been able to exceed a particular level of performance in aid utilization. It has sometimes come down rather than going up.

83 Said another, "Transmit to Mr. Preston that we want to have this opportunity [for an open exchange], for example, in areas like procurement, like maintenance of value, like currency pooling...areas that affect us on the financial side or in other forms. We think that this kind of discussion also could help the Bank to find a better solution for both parties."

Summary of Main Points

84 Borrowers feel that many of the problems that arise in project implementation could be prevented by better concept, preparation, and appraisal of project proposals. They feel that project design and preparation too often has the Bank’s stamp on it instead of the country’s — reflecting policies the Bank currently favors instead of the country’s felt needs.

85 The Bank is now seen as wishing to "call the shots," in negotiations and elsewhere. Many borrowers feel that Bank staff is driven more by pressure to lend — to get Board approval on new business — than by a desire for successful project implementation.

86 During negotiations, the Bank’s lawyers and its voluminous documentation overpower borrowers — who cave in to unrealistic demands for conditionality in order to get the negotiations over with. During negotiations the Bank is particularly rigid about timetables, and tends not to listen to what borrowers say will be impossible.
Borrowers contend that more projects will succeed if borrowers "own" them from the outset, are committed to them, and recognize that they will have to pay for the consequences of wrong decisions -- theirs or the Bank's. To that end, most borrowers feel that the Bank should be less involved in preparation than it is.

Projects would be stronger if the Bank allowed borrowers to make their own mistakes -- if they backed off to a position of providing support and advice (when the country asks for it) as well as a disinterested judgment on the quality of concept, design, and implementation. The more the Bank gets involved in preparation, the less likely it is to be capable of objective assessment during appraisal.

Borrowers lamented the declining quality of appraisal -- particularly the failure to identify inadequate institutional capability (especially in financial management) and recommend institutional strengthening. They want reduced Bank involvement in preparation and design, but the same insistence on rigorous analysis that the Bank used to expect, since only in that way will they develop the capability for independent project development.

During implementation, if circumstances or the economic environment change, the Bank is not flexible about allowing the project to change its approach -- so long as it sticks to the agreed-upon objective. The "blueprint" approach to implementation, and the kind of supervision and procurement that went with that, worked fine when the Bank's portfolio included mainly hardware projects. They are not so appropriate to the social sector projects that occupy an increasing portion of the Bank's portfolio. These require a more "evolutionary" approach to implementation, and more regular, locally based monitoring, supervision, and problem-solving.

Many borrowers consider it important that the Bank and country sort out priorities jointly. Thus, they welcome country implementation reviews (which reveal problems common to many projects, among other things) and country investment portfolio reviews (which, during structural adjustment, allow a reallocation of funding when structural adjustment requires fiscal tightening, which creates a shortage of the counterpart funds and personnel that are a condition of many sectoral projects).

And borrowers viewed this workshop as a healthy sign of the Bank's desire to help countries get things right.
BORROWER'S WORKSHOP ON PROJECT IMPLEMENTATION

Possible Questions for Discussion

Welcome and Introductions

Background in brief

Purpose: to hear the views of our clients -- not as government representatives, but as people who have been at the "receiving end" -- on how the Bank can help countries improve their project implementation.

Who's who

Session I: Framework for Project Implementation

What are respective roles and accountabilities, in general, of Guarantor, Borrower, Executing Agency and Bank?

- Is the Bank's input of requisite quality, timely, adequately focussed?
- Are country institutions well equipped and coordinated to handle their responsibilities with respect to Bank-financed projects (e.g. administrative requirements, level of complexity, etc.)?

The design framework: Bank assistance strategy, project identification, preparation, appraisal, negotiation:

- What should be the balance between Bank and country roles in conceptualization and design?
- What is the appropriate level of detail in defining project objectives and specifications for various types of projects? What should be the balance between a "blueprinting" and an "evolutionary" approach?
- Are implementation plans, including funding arrangements, adequately developed?
The documentary framework: Loan documents, appraisal reports, implementation plans, etc.:

- What is the relative value of the appraisal, implementation and contractual documents from Borrower's viewpoint?
- Are general loan covenants well understood and are the institutional and project-related covenants appropriate and well understood? How committed do Borrowers feel to them?
- Are the contractual remedies appropriate and clearly understood? What are the expectations at outset? What is the Borrower's attitude to enforcement?
- How well is the formal negotiation handled?

The supervision framework: What are Borrowers' perceptions of Bank effectiveness in providing:

- "Substantive" technical assistance during implementation (i.e. the advisory function)?
- "Facilitation" -- representing implementing agency's needs to other ministries, and conversely
- Assistance in complying with Bank administrative requirements (e.g. reporting, procurement)
- Compliance review and enforcement?

Session 2: Conduct of Bank Supervision Work

Specific Aspects of Bank Supervision Work:

- How do Borrowers see process during start-up phase (i.e. between loan approval and first disbursement)? What are their preferred approaches?

- How do Borrowers see the Bank’s procurement approval process? What is the utility of Bank procurement requirements/guidance; and how do they perceive the Bank’s administrative efficiency?

- Should we have standard bidding documents, subject to negotiations?
- Are specifications, standards and supervision sufficient to ensure quality execution under contracts?

- How do Borrowers see progress reporting? Are reports required by the Bank useful to them?

- How do Borrowers see auditing of project activities?
  - Should the Bank review audit capabilities/arrangements at the country level as well as in advance of loan/credit negotiation?
  - Should external audit of project accounts/entities be a regular feature of the oversight structure set in place by project sponsors?

- How do Borrowers see disbursement arrangements and documentation requirements?
  - Should the Borrower use independent auditors approved by the Bank (for Bank-assisted projects) to check disbursement documentation ex post and recommend refunds or other suitable remedies?

- Should there be a greater country role in compliance review and progress monitoring -- e.g. an agency in a central ministry to oversee implementation and identify actions needed and taken or to be taken by executing or other agencies?

- Should EDI play a role in helping to impart needed implementation skills?

- How do Borrowers/Guarantors view Project adaptation -- changes, restructuring, cancellation? Do perspectives differ among central ministries, sectoral ones, and executing agencies?
Project-Specific Supervision in General:

- What is your view of the intensity of Bank involvement during supervision?
- Resident Missions -- roles and comparative advantages/disadvantages for supervision (e.g. timing, expertise, type of help? Use of local staff?
- Bank missions from Washington -- appropriately timed, staffed (skills, continuity, demeanor), and conducted? Efficient? Are their requests reasonable?
- What are Borrower’s views on Bank’s use of consultants in supervision tasks?
- Are "midterm" reviews useful to Borrowers?
- From Borrower’s perspective, is donor coordination in supervision (including reporting and audit requirements) effective when cofinancing exists?
- What is the utility of Aides Memoires as an instrument of implementation assistance by the Bank? What other instruments would be helpful?

Session 3: Learning Lessons During Implementation: Responses to Generic or Systemic Problems

- What are the means for feedback during implementation? How can broad areas in need of attention be identified and addressed?
- Are "country implementation reviews" -- i.e. across the portfolio of Bank-assisted projects -- useful to Borrowers?
- Are "thematic" reviews -- e.g. of audits or other subjects across projects -- useful to Borrowers?

Session 4: After Implementation: Learning Lessons of Experience; Accountability

- How should success be measured?
- How do countries become aware of the lessons of experience in their own and other countries?
- Are project completion reports and project performance audits useful to the country?
- Would/should countries do them if Bank did not?
- Should evaluations of project impact (e.g. after a few years’ operation) be more often done by countries, the Bank?
Towards a Results-Oriented Evaluation and Rating

Methodology for Bank-Supported Operations
Wapenhans Task Force:
Towards a Results-oriented Evaluation
and Rating Methodology for Bank-Supported Operations

I. Introduction

1. This paper discusses strategic aspects of the Bank's evaluation methodology. It focusses narrowly on the question of how to use evaluation during appraisal and supervision as a tool for enhancing the quality of Bank-supported operations. Its perspective on methodology emphasizes uncertainty and possible mismatches between Bank managers' incentives and Bank development impact objectives. This leads to three guiding principles. First, since the actual conditions of operation (and implementation) will be known only after all or part of the investments (or policies) are in place, forecasting the likely conditions of operation is an essential feature of the evaluation exercise, and critical for design. Second, during supervision, information that helps to refine our view of the most likely outcome should be sought and used as a basis for rating projects and for determining whether adaptations to program/project design are warranted. Third, tracking changes in evaluations between appraisal and completion, and using the changes as a tool of portfolio performance management, may help to better align managers' concerns with Bank objectives, thereby influencing managers’ actions at the upstream stages of the project cycle.

2. The paper develops these themes in two core sections. Section II discusses the main findings of the ECON Report, which recommends making the Bank's appraisal of investment operations more realistic in projecting outcomes, more results-oriented, and more uncertainty-conscious. To this end, ECON stresses the importance of explicitly identifying the macroeconomic, institutional, behavioral, and financial assumptions underlying the analysis and testing the sensitivity of the project outcome to changes in assumed parameter values. Section III proposes the development of a country portfolio index, which would be used for monitoring changes in the quality of the portfolio during implementation. In turn, the country index would be an aggregation of individual project ratings, based on intermediate indicators established during appraisal. The idea is to make the project supervision ratings more reliable, so that they can play a stronger role in signalling the need for action at the project level even as they provide a more reliable basis for aggregation into measures of country portfolio performance.

3. These two sections of the paper are interlocking. Indicator tracking aims to compress and strengthen the feedback cycle between project design and appraisal on the one hand, and outcomes on the other. With a shorter cycle, managers should be more concerned with results. The objective is to focus project evaluation, design, and selection on implementation and other factors that are decisive for determining operational outcomes. The demand for realistic evaluations, which pinpoint key risks, would rise as a result. To meet this demand, appraisal methodology needs to be sharpened—to stress sensitivity analysis and the frequently central role of macroeconomic and institutional factors in project success or failure—and to provide the analytic basis for the selection of the indicators.

4. Several additional points bear mentioning at the outset. First, although ECON deals only with investment operations, the indicator approach is proposed for tracking the value of the entire portfolio—that is, including adjustment operations. Many of ECON's recommendations—such as spelling out the underlying assumptions and the relevant lessons of experience—apply equally to adjustment

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operations, although the specific operationalization of these recommendations will necessarily differ in an adjustment context. But clearly, enumerating the success criteria for evaluation is necessary for any operation, and from there the identification of intermediate indicators for monitoring during implementation is conceptually a small step.

5. Second, the paper's main focus is on an operation's net present value, or the conceptual analogue in operations for which benefits are not monetized. Accordingly, the indicator tracking system applies to that concept of project success. For poverty reduction objectives (especially for projects included in the Program of Targeted Interventions), a separate set of indicators and portfolio index could be developed. This is discussed in Section IV of the paper. Section IV also discusses possible extensions to the environment and institutional development.

6. Third, the focus of this paper is on Bank actions and processes. This is not to preclude the involvement of borrowers. Quite the contrary. Building local capacity for evaluating investments—both in the context of public expenditure reviews and sector investment loans—is an ultimate goal of the ECON exercise. But before proceeding to that stage of the exercise, we need first a methodology appropriate to the times. Once broad consensus is reached within the Bank, we can proceed with dissemination.

II. ECON Findings and Recommendations

7. The OED database records the results of completed Bank-supported operations that have been evaluated by OED. Seventy-five percent of these operations have been rated satisfactory. The other 25 percent have failed. (Box 1 summarizes the Regional and sectoral breakdown.) Can we do better? To what extent can better economic analysis enable us to increase the success rate? With these questions in mind, the ECON Task Force has been reviewing the Bank's methodology and practice with respect to the evaluation of projects. The principal finding is that the Bank is not effectively using economic analysis as a tool of project design, appraisal, and supervision. The main findings and recommendations follow.

A. Findings

8. The ECON Report starts with a reconsideration of the Bank's economic appraisal methodology, which underlies OMS 2.21, Economic Analysis of Projects. Distinctive features of this methodology, which was developed during the 1970s, include a focus on social pricing and income distributional weights; the use of "accounting rates of interest" to bridge divergences between consumption and investment interest rates; and disaggregated shadow prices for individual labor and product markets. The paper concludes that these features were never fully operationalized within the Bank, and—contrary to

2/ See Assistance Strategies to Reduce Poverty and OD 4.15, Poverty Reduction, para. 52.

3/ A Bankwide working group chaired by OSP. The Task Force was convened in the wake of OED's 1986 Annual Review of Evaluation Results, at the suggestion of Mr. Rovani.
Box 1: Historical Success Rates by Sector and Region

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<td>—</td>
<td>—</td>
<td>*47</td>
<td>—</td>
<td>90</td>
<td>*42</td>
</tr>
<tr>
<td>Non-Sector</td>
<td>53</td>
<td>74</td>
<td>*81</td>
<td>78</td>
<td>*98</td>
<td>79</td>
<td>74</td>
</tr>
<tr>
<td>PHN</td>
<td>*100</td>
<td>*79</td>
<td>—</td>
<td>*62</td>
<td>*24</td>
<td>*45</td>
<td>62</td>
</tr>
<tr>
<td>Transport</td>
<td>79</td>
<td>92</td>
<td>96</td>
<td>66</td>
<td>93</td>
<td>75</td>
<td>83</td>
</tr>
<tr>
<td>Urban</td>
<td>96</td>
<td>100</td>
<td>*92</td>
<td>81</td>
<td>*94</td>
<td>*63</td>
<td>88</td>
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<tr>
<td>Total</td>
<td>59</td>
<td>84</td>
<td>80</td>
<td>62</td>
<td>83</td>
<td>76</td>
<td>74</td>
</tr>
</tbody>
</table>

Source: OED Database.

* Fewer than 10 observations.

the opinion of some academics—they are not the most important issues on which the Bank should deploy its scarce project analytic resources in the 1990s. Rather, the mounting evidence suggests that the critical methodological and practical issues relate to the evaluation of the impact of policies and institutions on project performance; the building of project evaluations around realistic assessments of the likely environment affecting implementation, including institutional capacity and the macroeconomic framework; and the need for realistic risk/sensitivity analysis as an input into selecting or rejecting projects or project components and to help identify performance and benefit indicators to be monitored during implementation and operation.


9. This conclusion is supported by the ECON report's review of current Bank practice. The review confirms that—for those operations for which an economic rate of return (ERR) is calculated—appraisal estimates are optimistic and narrowly focused on the calculation of ERRs. To be sure, there is considerable variation in the quality of SARs, but even the best do not quantify the risks to project costs and benefits of slippage on the macroeconomic, financial, and institutional capacity/implementation fronts. Yet these are prominent sources of project difficulty and failure. OMS 2.21 notwithstanding, no SARs report truly expected ERRs, in the sense of their being the mean of the set of possible outcomes. Downside risks are systematically ignored, and as a result projected ERRs are biased upwards. No SARs cite the success rates for completed projects in either the sector or the country (or preferably both) although, as is clear from Box 1, there is considerable variation.

10. These analytic shortcomings have direct implications for the quality of projects. Since important project risks are not systematically considered, designs for which these risks make the expected ERR too low are not systematically rejected. Quantifying the risks and their implications for project costs and benefits should expose the weaker project elements, which can be strengthened or dropped, leading to more robust project designs. Even better, sensitivity to macroeconomic, financial, and institutional risks can be considered during project identification, thereby influencing project selection early on. It can be reflected in proxy variables to be monitored during implementation, with a view to triggering remedial action as appropriate.

11. Meanwhile, for projects in the social sectors, which constitute an increasing share of Bank and IDA lending, there are no Bankwide benefit standards for investment operations. Benefits are often treated exclusively in qualitative terms. But even where benefits are quantified, cost-effectiveness analysis is not provided. In referring to differences across sectors in the degree of quantification appropriate for the analysis and justification of investment operations, OMS 2.21 indicates that “revenue-based measures of benefits may not be feasible or relevant in many cases, especially in sectors such as education, population, nutrition, and health,” although it notes that “it may be possible to use quantitative criteria in such sectors more often than is customary.” In practice, many operations lack clear statements of the criteria for judging success. The majority lack benchmarks for measuring performance during implementation. But without clearly defined success criteria, it is impossible to identify shortfalls during supervision and to set in train corrective measures. Nevertheless, while the majority of operations lack explicit success criteria and monitoring indicators, well-designed operations include them. See for example Box 2.

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9/ ECON reviewed 181 SARs, covering all investment loans/credits approved in FY91.


8/ Note that strictly speaking net present value (NPV) > 0 is the criterion for project selection. There are technical reasons why the NPV test may differ from the ERR test. Nevertheless, for presentational purposes, this paper uses ERR throughout, since it is a more familiar concept.

Box 2: Best Practice Example: Explicit Success Criteria for Education Projects

The Trinidad and Tobago Education and Training for Youth Employment Project clearly states its objectives, and indicates the criteria by which it will be evaluated. For use at the mid-term review, it explicitly states that the following criteria will be used to evaluate the success of the project after three years from the effective date of the loan:

- at least one and half times as many graduates from Youth Training and Employment Partnership Program (YTEPP) compared to a control group of non-graduates for YTEPP with similar characteristics to YTEPP trainees, would have found employment or self-employment: or

- graduates from YTEPP should receive earnings 20 percent greater than the control group of non-graduates from YTEPP with similar characteristics to YTEPP trainees. This measure would reflect the effectiveness of the program in contributing to both the increased success of YTEPP trainees in finding employment and/or in obtaining higher wages. The earnings of those in self-employment will be calculated separately from those in wage work. In view of the short time frame for assessing the gains of the program, the assessment will also identify indicators suggestive of higher future earnings (i.e. continuing education, advancement in jobs and growth in earnings through self-employment).

The project also specifies monitoring indicators which will be used as a basis for annual evaluations and supervision ratings.

\[g/\text{SAR Report No. 9065-TR, May 1, 1991.}\]

B. Recommendations

12. This suggests that (1) implementation of the guidelines needs to be enhanced and (2) that the guidelines themselves need to be changed. ECON's specific recommendations for the drafting of OD 10.40, Economic Evaluation of Investment Operations include:\footnote{ECON's recommendations also include downgrading the prominence accorded to the theory of differential and fiscal weights, multiple conversion factors, and accounting rates of interest. These concepts, while included in OMS 2.21, Economic Analysis of Projects, have never been fully implemented.}{10}

- Upgrade the attention paid to realistic evaluations of projected economic impact, based inter alia, on the lessons of experience, including the success rate in completed projects in the sector, country, and Region, as for example shown in Box 1.

- Widen the coverage of economic cost-benefit analysis of investment lending, to include the evaluation of policies and institutional change/capacity, integrating as appropriate, the findings of institutional development specialists and staff with other skills in assessing the likely performance of project-related institutions.\footnote{See also Denise Veillancourt, Janet Nassim, and Stacey Brown, "Population, Health, and Nutrition: FY91 Sector Review."}{11}
• Ensure that the macroeconomic, financial, technical, and behavioral assumptions underlying the analysis are clearly spelled out.

• For operations for which ERRs are not calculated, require a clear identification of project goals and cost-effectiveness analysis.

• Reaffirm that a common methodological approach to evaluation obtains throughout the project cycle—from identification through appraisal and implementation to completion and beyond. (See Box 3.)

• Use sensitivity analysis to test the impact of variations in key parameter assumptions.

• Institute an indicator tracking system for all operations (see Section III below), with the indicators identified at appraisal—on the basis of sensitivity analysis, inter alia used as a basis for monitoring—and reevaluation of the operations—during implementation, and for informing the supervision ratings. (See Box 4.)

• Provide effective support to task managers in securing appropriate skills, the lessons of experience, inputs about and analysis of country economic variables, and methodological guidance—including through an enhanced role for lead economists and chief economists in the economic evaluation of investment operations.

13. The ECON Report notes that effectively implementing these recommendations will need to go beyond the drafting of new guidelines. Ask any task manager about project analysis, and the discussion quickly turns to lack of management attention, staff incentives, and perceived pressures to lend. Many staff feel that projects will not be dropped even if the appraisal surfaces problems with likely viability. Hence if appraisals are to contribute an improvement in project quality: (1) managers will need to worry about the actual on-the-ground impact of investment operations; and (2) economists will have to sharpen critical aspects of evaluation analysis. The ECON proposal embodies three actions:

• **Monitor portfolio quality.** The proposed indicator tracking system, if implemented, should help to focus management attention on the evolution of a project’s—or a country portfolio’s—projected on-the-ground impact. By shortening the feedback period, this should help to increase managers’ concern with implementation and impact during the upstream stages of project processing. As a result, managers should become more concerned that projects are designed to be successful; that unjustifiably risky components are weeded out prior to negotiations; and that losses resulting from less than satisfactory performance projects are contained. Managers should thus be more concerned with both the substance of sensitivity analysis and the results of indicator tracking. With Bank managers more focused on in-country results, realistic ex-ante assessments of likely results will become more valuable to them, and accurate, forward-looking economic and institutional evaluations likewise. These changes should lead to better designs early on in the project cycle so that fewer problems surface at appraisal. But it is unlikely — and probably suboptimal — for no problems to arise at appraisal. In the event, the acid test will be the willingness to drop problem projects.
Box 3. Evaluation and Rating Methodology over the Project Cycle

**Expected Benefits > Expected Costs**

**Identification**
- ESW suggests a high return activity that the Bank can uniquely assist with
- Back of the envelope calculations used to establish the case
- Unknowns mapped out for study

**Preparation**
- Compare alternatives, using ERR/cost effectiveness analysis
- Pick best, based on realistic assessment of key parameters and risks
- Build consensus of critical stakeholders

**Appraisal**
- Evaluate expected development impact, reflecting lessons of experience and risks
- Define quantitative success criteria and intermediate indicators on basis of project objectives
- Establish necessary policy measures and other conditions for achieving success
- Sensitivity analysis determines indicators to be tracked during implementation

**Negotiations**
- Agree on the success criteria and performance indicators
- Establish the basis for the reporting of the necessary information
- Include in covenants the necessary conditions for achieving success
- Include in legal documents trigger mechanism if shortfall, regardless of cause

**Implementation**
- Track indicators
- Change in development impact rating triggers possible remedial action
- Aggregate project development impact ratings into country portfolio index

**Completion**
- Formal reevaluation
- Performance rating relative to success criteria established at appraisal
- Transition to and preparation for operation

**Operation**
- Impact evaluations
- Focus on sustainability as appropriate for project concept
Box 4. Best Practice Example: Intermediate Indicators for Monitoring Projects/Programs

The recently-approved China Henan Agricultural Development Project presents a good example of the technique. At appraisal, the projected ERR for the project’s irrigation and crops component was estimated at 38 percent. The ERR was found to be sensitive to implementation delays, but not very sensitive to price changes, reflecting the existence of sunk costs and relatively low per-hectare investment costs. Meanwhile, in the livestock components, the projected ERR for household pig production was found to be 40 percent and, for household broiler production, 49 percent. The analysis revealed that the livestock components were very sensitive to prices. Reflecting the narrow proportionate spread between input costs and sales values, a price drop of 10 percent or an input price rise of 10 percent would turn the ERR negative.

The implications are clear. Supervision should be alert to implementation delays in the irrigation component but less concerned about delays in the livestock component. Meanwhile, on prices, the concern would be with pig and broiler prices but less so with crop prices. The Form 590’s development impact rating should move accordingly. For example, a 10 percent drop in poultry and pork prices would turn the livestock component into a problem activity.


• Provide institutional support for project economists. Box 5 contains an operational framework for project analysis. It shows the continuity between project appraisal and implementation via the tracking indicators to be identified in the project analysis. It would be useful for the Bank to make available an interactive software package that would allow the project economist to tap into the Bank’s data bank for the lessons of experience relevant to the project assumptions about the macroeconomic, institutional, financial, social, technical, environmental, and procedural variables, and to the proposed action plan for the government, the borrower, the project entity, the beneficiaries, cofinanciers, and the Bank.

• Involve the chief and lead economists. Given the increasing policy content of investment operations and the importance of the links between investment operations and ESW on the one hand and between investment operations and the macroeconomic framework on the other, lead and chief economists have an important role to play in guiding project economic analysis. Their involvement particularly at the identification stage of the project cycle will signal the importance of project economic issues to sector and country economists. Their involvement will help to ensure that probing questions about the underlying economic rationale for a project are asked—in time for major changes in design to be effected in a cost-effective manner. Their involvement in Regional review processes will help to ensure follow-through. Nevertheless, given the other demands on their time, chief and lead economists are likely to play primarily a catalytic role, with country and sector economists playing a stronger project role than at present.

12 See also LAC, “Enhancing Quality and Efficiency,” April 21, 1992.
Box 5: ECON Framework for Evaluation over the Project Cycle

What are the project/program outputs? How will we know if the operation has succeeded? What will we measure?

- Outputs:
  - ERR/NPV or cost effectiveness test:

What are the key assumptions that need to be met for the project to succeed?

<table>
<thead>
<tr>
<th>Lessons of Experience</th>
<th>Project Assumptions</th>
<th>Rationale for any Differences</th>
<th>Sensitivity of Project Outcome to Deviation</th>
<th>Probability of Occurrence of Switching Value</th>
<th>Indicator Tracking</th>
</tr>
</thead>
</table>

- Macroeconomic
- Institutional
- Financial
- Social
- Technical
- Environment
- Procedural

Who needs to do what during implementation for the project/program—or component—to succeed?

<table>
<thead>
<tr>
<th>Lessons of Experience</th>
<th>Actions</th>
<th>Timing</th>
<th>Remedies</th>
<th>Sensitivity of Project Outcome to Deviation</th>
<th>Compliance Tracking</th>
</tr>
</thead>
</table>

- Government
- Borrower
- Project Entity
- Beneficiaries
- Co-financiers
- Bank

1. For components with social goals, outputs will be expressed in terms of reaching target groups, etc.
2. By how much does the variable need to fall for the project component to be unsatisfactory?
14. This is by no means the whole story. A key issue is clearly country capacity for project analysis. ECON recommends that, once the broad outlines of the approach are agreed within the Bank, we discuss it more broadly with clients (and donor agencies) in the context of public expenditure reviews and sector investment lending operations, inter alia.

III. Indicator Tracking

15. As noted, a critical factor in improving the Bank’s evaluation of operations is shortening the feedback period between project design and results. One way of doing this is to intensively mine the information emerging during implementation for early warning signals and for evidence that may cause the initial evaluation of the project to change. Such an approach would also clearly facilitate fine-tuning (or restructuring) project design during implementation.

A. Current Supervision Rating System

16. In principle, we already reevaluate operations throughout implementation. We record project ratings on the Form 590 and they are aggregated and analyzed in the ARIS. OD 13.05, Project Supervision, for example, indicates that the supervision rating for project development objectives:

“assesses the extent to which the project will meet its development objectives. The rating takes into account policy and institutional objectives and related quantitative monitoring indicators. Where a project seeks to improve policies, institutions, or efficiency, or seeks to increase production or other output, the degree to which this is likely should be taken into account in the rating. If an economic rate of return was calculated at appraisal, its current status should be rated.

17. However, in practice, there are problems with the current rating system. A full assessment is beyond the scope of this paper, but a few salient points are relevant. The first is that the ratings are based on a non-audited self-assessment system. Second, the current rating system is not transparent. There is no section of the Form 590 for explaining the basis for the development impact rating. Third, there is the recurring problem that many projects receive satisfactory ratings during supervision, only to fail on completion. More than anything, this seems to reflect the fact that there is not a systematic attempt to reevaluate actual or expected benefits during implementation. This is a major failing. Potentially, it perpetuates the continued implementation of project designs that may no longer make sense in the face of changes in factors affecting the benefit stream.

13/ See, for example, CEDE, Application of Cost-Benefit Analysis in Latin America and the Caribbean, 1990.

14/ LAC’s help in developing this approach is gratefully acknowledged—with special thanks to Messrs./Ms. Aiyer, Flore, Hagenstrom, Hamann, Luzuriaga, Rothschild, Solowsky, Uhlig, and Zearley.

15/ Kreditanstalt fur Wiederaufbau uses an expanded monitoring system to this effect. See “Konzept fur ein Verbessertes Projektmonitoring,” Arbeitsheften-Materialien-Diskussionsbeiträge, Nr. 2, November, 1990.

16/ Seventeenth Annual Report on Implementation and Supervision, FY91, Tables 11 and 12.
B. Improving the Supervision Rating System

18. Improving the system for rating projects needs to focus on supervision methodology, based on indicators identified during appraisal. This is increasingly being done in LAC and in Africa,\textsuperscript{17} as a follow up to the 1991 ARIS. It is consistent with practices followed by many experienced project staff in monitoring progress.\textsuperscript{18} The approach also has implications for negotiations. The major implications for actions in the different stages of the project cycle are shown below. A project illustration is provided in Box 6.

**Box 6. Best Practice Example: Intermediate Indicators for Evaluating Investment Operations**

Quantitative monitoring indicators are often agreed upon during negotiations as a basis for assessing progress during implementation in meeting project goals. In the *Mexico Second Low Income Housing Project*, the indicators include the number of units financed and the distribution by loan size, by type of unit, and by geographic area. These indicators are being used to inform the supervision ratings in the Form 590.

Actual experience in supervising this project has surfaced an important ambiguity in the Form 590's rating system. Some of the project's monitoring indicators related to distributional targets were not met, although the rest of the project is fully on track.\textsuperscript{19} This is clearly an issue that is likely to arise more generally—with performance on growth/efficiency not necessarily moving in step with performance on poverty reduction. This suggests that it would be useful to separate out the distributional impact into a separate rating for poverty reduction (see Section IV).

The follow up *Mexico Housing Market Development Project* also uses quantitative monitoring indicators. This project has a strong policy component—the main objective being regulatory reform in the states. Designing indicators of progress was not straightforward. During appraisal, the discussion with the authorities focused on a procedure and format to be used to assess the regulatory environment of the 31 Mexico states and the Federal District. The monitoring indicators include quantitative measures of regulatory reform (regulatory costs, times for permit issue, etc.); financial performance indicators and housing sector indicators. These will be used as the basis for an annual project review, as well as to inform the Form 590 ratings.

\textsuperscript{a/} See Miguel Martinez, "Interesting Incentives to Further Improve on Implementation—Highlights of the Semi-Annual ARIS Meeting with Mr. Jaycox," June 3, 1992.

\textsuperscript{b/} See Thomas Zeslaw to Ricardo Halperin, Mexico Second Low-Income Housing Project Supervision Report, April 27, 1992.

\textsuperscript{g/} See George West, "Information Systems Support for Portfolio Management," June 15, 1992.

\textsuperscript{17/} See Miguel Martinez, "Interesting Incentives to Further Improve on Implementation—Highlights of the Semi-Annual ARIS Meeting with Mr. Jaycox," June 3, 1992.

Appraisal:

- Clearly identify project goals and establish concise project objectives consistent with sectoral/strategic views; if relevant, calculate the ERR.

- Conduct sensitivity analysis for key variables.

- Designate important variables as indicators for monitoring during supervision, as a basis (1) for approximating the ERR where full reestimation is not possible; and (2) for indicating by how much the assessment of an operation's impact has improved or worsened—for SALs (see, for example, Box 7), PHN projects, and institutional and policy components. Indicate how project outcomes and ratings are expected to vary with the key variables.

Negotiations:

- Include in the agreements reached during negotiations the necessary actions by the borrower for achieving success as defined in the project.

- Include in the legal documents a trigger mechanism for consultations about possible restructuring/cancellation, if there is a shortfall in the project indicators that makes success unlikely, regardless of the cause of the shortfall. Provide for appropriate remedy in case of failure to achieve agreement following consultations.

Implementation/Supervision:

- Track the critical indicators.

- Reflect the movements in the critical variables in the development impact rating.

- Explain the analysis in the Form 590, or in a revised Form 590.

- Decide what action is necessary.

C. From Supervision Ratings to a Country Portfolio Index

19. **Illustrative Index.** Once supervision ratings are based on a sound, transparent, analytically-based system, they can provide important data for tracking the performance of the country portfolio. For illustrative purposes—to show the purposes the portfolio index could serve—this section considers various possibilities using the existing ARIS database, which records project supervision ratings for the active portfolio. Box 8, for example, shows the evolution of the development impact ratings, which have been converted into an index. (In the box, higher numbers are better; 100 corresponds to a supervision rating of one.) The index shown there is based on the individual project/operation development impact ratings, weighted by the respective share of the loans in the active portfolio, for the 28 largest country portfolios.

20. **Conceptual Problem with Cross-Country Comparisons.** There is a major question about the validity of country comparisons using an index along the lines developed in Box 8. Countries clearly differ in ex ante implementation risks. Based on completed projects, for example, the success rate ranges from a low of 17 percent for Uganda to a high of 100 percent for China. (See Box 9.) These ex ante risk
Factors could conceivably be used to „interpret“ the results. However, any such interpretation will need

| Year | Health Services | Non-Essent. Public Rec. Expenditure on Primary Pupil (Grades 1-6) | Non-Essent. Public Rec. Expenditure | Net Foreign Assets of Bank at Mid-Period | Direct Foreign Investment | Foreign Personal Property Owned by Foreign Residents
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Proprietorship of Business Acquired by Foreign Entities on Foreign Exchange Basis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Other Public &amp; Publicly Guaranteed Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Real Gross Fixed Capital Formation/GDP</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(US$ Million)</td>
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<td>1990</td>
<td>200</td>
<td></td>
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<td>120</td>
<td>220</td>
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<td>1991</td>
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<tr>
<td>1993</td>
<td>160</td>
<td></td>
<td></td>
<td>170</td>
<td>190</td>
<td>225</td>
</tr>
</tbody>
</table>

**Box 7. Best Practice Example: Indicators for Assessing SLT Outcome**

The second dimension of SLT, aims at describing a sustainable increase in the rate of economic growth in order to increase employment opportunities and acceptable living standards. Its scoring is guided in order to measure continued efficiency and acceptable living standards.
to be cautiously exercised. Indeed, if the supervision ratings suggest better performance than the historical record of completed projects, this may reflect genuine improvement in country performance, or optimism. The dimensions of the scope for interpretation are provided in Box 9, which compares the country success rates for completed projects with the likely success ratings in the ARIS database. Note that the discrepancy is large for Kenya, Philippines, Algeria, Brazil, and Mexico, and very large for Nigeria, Tanzania, and Uganda. Based on other evidence, the case for improved performance is clearly stronger for some of these countries than for others.

21. **Changes over Time.** A better way to use the country portfolio index may be to see how it changes over time. This would abstract from cross-country factors and focus on how a country portfolio is doing compared with its own performance in the previous year. Such a measure may also be subject to optimism, although it will only matter if there is a change in the degree of optimism from one year to the next. Here there are two alternative measures—gross and net. The gross measure would simply calculate the change in the country index from year to year. However, since the composition of the portfolio may change, this may be misleading. For example, if a number of new loans are opened, the index will tend to improve. To correct for this, we can look at the index in net terms—that is, holding constant the composition of the portfolio by pairwise comparing the ratings given to the part of the portfolio that is common in any two adjoining years. (See below.)

22. **Country Portfolio Index.** Box 10 constructs such an index of change. (As with Box 8, a larger number is better; 100 implies no change from the previous year.) It is expressed in net terms; that is, the index reflects the changes in the ratings between the two years for the same set of operations. Note that only Mexico saw improved portfolio ratings in each of FY90 and FY91, while forty percent of the countries saw a deterioration in both years. In the other countries, performance was mixed. This formulation of the index could provide the basis for a meaningful dialogue on the country portfolio, focused on the reasons for year-to-year changes. (Are they due to country factors? To sector factors? Were the initial estimates overly optimistic?) It would also be useful to discuss the index in comparison with PCR ratings for projects completed in the year.

23. **Systemic Safeguards.** Clearly if the index approach is to be useful, it will need to have credibility within the institution. To this end, the following systemic safeguards should be considered:

- The specific indicators to be used for rating the project should be approved during the Regional loan approval process, and the RVP should be accountable and responsible for the integrity of the system within the Region.

- The analysis for deriving the project rating should be transparent, with the Form 590 suitably amended to accommodate the supporting analysis.

- Spot audits by the Technical Departments could review a certain percentage of supervision reports.

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19/ That is, projects rated 1 or 2 are considered likely successes.
### Box 8. Development Impact Index\(^1\) of Major Country Portfolios

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of Projects</th>
<th>Value of Active(^2) Portfolios (US$ millions)</th>
<th>Index of Development Impact(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa</strong></td>
<td></td>
<td></td>
<td>FY89</td>
</tr>
<tr>
<td>Ghana</td>
<td>36</td>
<td>1,480</td>
<td>93.3</td>
</tr>
<tr>
<td>Kenya</td>
<td>31</td>
<td>1,120</td>
<td>73.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>44</td>
<td>4,882</td>
<td>74.7</td>
</tr>
<tr>
<td>Tanzania</td>
<td>24</td>
<td>1,190</td>
<td>76.3</td>
</tr>
<tr>
<td>Uganda</td>
<td>25</td>
<td>1,064</td>
<td>67.7</td>
</tr>
<tr>
<td><strong>East Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>83</td>
<td>9,698</td>
<td>97.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>83</td>
<td>9,885</td>
<td>83.7</td>
</tr>
<tr>
<td>Korea</td>
<td>19</td>
<td>1,310</td>
<td>95.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>20</td>
<td>1,024</td>
<td>90.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>35</td>
<td>3,358</td>
<td>89.7</td>
</tr>
<tr>
<td><strong>South Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>46</td>
<td>2,824</td>
<td>80.3</td>
</tr>
<tr>
<td>India</td>
<td>109</td>
<td>21,070</td>
<td>79.3</td>
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<td>Pakistan</td>
<td>59</td>
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<tr>
<td>Sri Lanka</td>
<td>28</td>
<td>1,148</td>
<td>90.3</td>
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<tr>
<td><strong>RCA</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>21</td>
<td>2,227</td>
<td>98.3</td>
</tr>
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<td>Poland</td>
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<td>2,218</td>
<td>100.0</td>
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<tr>
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<td>36</td>
<td>6,187</td>
<td>75.0</td>
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<tr>
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<tr>
<td>Venezuela</td>
<td>7</td>
<td>1,683</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1/ Country portfolio average, weighted by the value shares of the active loans in the portfolio.
2/ Outstanding in FY91.
3/ 100 corresponds to a supervision rating of 1; 86.4 corresponds to a supervision rating of 2, etc.

Source: ARIS Database.
| Region       | No. of Projects | Value of Active Portfolios (US$ millions) | Success Rate (Completed Projects) | Success Rate (Ongoing Projects) | Divergence Indicator | Ongoing Completed |
|-------------|-----------------|------------------------------------------|----------------------------------|---------------------------------|----------------------|-------------------|                  |
| **Africa**  |                 |                                          |                                  |                                 |                      |                   |
| Ghana       | 33              | 1,380                                    | 79.9                             | 96.1                            | 120                  | 99                |
| Kenya       | 31              | 1,120                                    | 49.2                             | 87.4                            | 181                  | 116               |
| Nigeria     | 44              | 4,892                                    | 26.3                             | 74.7                            | 284                  | 102               |
| Tanzania    | 24              | 1,190                                    | 54.8                             | 91.1                            | 262                  | 122               |
| Uganda      | 25              | 1,064                                    | 17.2                             | 74.3                            | 432                  |                   |
| **East Asia** |               |                                          |                                  |                                 |                      |                   |
| China       | 83              | 9,496                                    | 100.0                            | 98.8                            | 99                   |                   |
| Indonesia   | 83              | 9,885                                    | 85.5                             | 99.0                            | 116                  |                   |
| Korea       | 19              | 1,310                                    | 98.4                             | 100.0                           | 102                  |                   |
| Malaysia    | 20              | 4,024                                    | 77.9                             | 95.3                            | 132                  |                   |
| Philippines | 35              | 3,358                                    | 65.8                             | 98.4                            | 150                  |                   |
| **South Asia** |             |                                          |                                  |                                 |                      |                   |
| Bangladesh  | 46              | 2,924                                    | 66.0                             | 94.2                            | 143                  |                   |
| India       | 109             | 21,070                                   | 78.6                             | 93.9                            | 123                  |                   |
| Pakistan    | 59              | 2,248                                    | 84.7                             | 99.0                            | 117                  |                   |
| Sri Lanka   | 28              | 1,148                                    |                                  | 87.6                            |                      |                   |
| **ECA**     |                 |                                          |                                  |                                 |                      |                   |
| Hungary     | 21              | 2,227                                    | 100.0                            | 100.0                           | 100                  |                   |
| Poland      | 12              | 2,218                                    |                                  | 100.0                           | 100                  |                   |
| Turkey      | 36              | 6,187                                    | 87.0                             | 83.0                            | 95                   |                   |
| Yugoslavia  | 15              | 2,082                                    | 79.4                             | 100.0                           | 126                  |                   |
| **MNA**     |                 |                                          |                                  |                                 |                      |                   |
| Algeria     | 21              | 2,704                                    | 58.3                             | 85.9                            | 147                  |                   |
| Egypt       | 25              | 1,933                                    | 88.6                             | 82.9                            | 93                   |                   |
| Morocco     | 34              | 2,630                                    | 96.2                             | 99.4                            | 103                  |                   |
| Tunisia     | 50              | 1,122                                    | 94.6                             | 100.0                           | 106                  |                   |
| **LAC**     |                 |                                          |                                  |                                 |                      |                   |
| Argentina   | 21              | 2,832                                    | 67.4                             | 79.2                            | 118                  |                   |
| Brazil      | 74              | 10,372                                   | 53.9                             | 86.6                            | 135                  |                   |
| Chile       | 15              | 1,222                                    | 96.3                             | 100.0                           | 104                  |                   |
| Colombia    | 29              | 2,993                                    | 79.2                             | 81.6                            | 103                  |                   |
| Mexico      | 47              | 10,101                                   | 56.0                             | 99.5                            | 178                  |                   |
| Venezuela   | 7               | 1,685                                    |                                  | 100.0                           |                      |                   |

1/ Ongoing in FY91.
2/ All operations rated 1 or 2 in the PIEs 950 are scored as expected outcomes.
3/ 100 implies ARIS ratings are equivalent to the OED historical ratings. If the divergence indicator > 100, then the ARIS ratings > OED ratings. If the divergence indicator < 100, then the ARIS ratings < OED ratings.

Source: OED and IMF Database.
D. Benefits and Costs of Developing and Using the Index

24. **Benefits.** At the macro level, the index can form the starting point for a focused discussion on country portfolio performance management. At the micro level, the index can help to surface problems in individual projects. It can be used to trigger project reevaluation and remedial action. Of greater importance, the improvement of sensitivity analysis at the appraisal—and earlier—stage can help to weed out project components that are especially vulnerable to risks with a high probability of occurrence. It can also help to improve supervision planning. Clearly the key issue is the sensitivity analysis. This crucial step in project appraisal establishes the principal variables to be monitored for changes in development impact during implementation. Hence by improving sensitivity analysis, we can improve supervision planning.

25. **Costs.** Even though the proposed approach makes use of existing systems, there will necessarily be costs in implementing it. For the 220 or so new loans approved each year, the costs should be small relative to other preparation costs. They would entail basically a smartening up the project analysis through greater specificity and focus on sensitivities. However, for the 1800 or so loans in the portfolio, the issue will be more problematic. Meaningful sensitivity analysis was probably not done. To now go back and identify the key variables for tracking during supervision will entail additional work. Even if each operation were to take only one day, the one-time cost would total some eight staff years, or US$1.5 million. If one week each, the cost would be US$7.5 million. To this we would need to add the cost of additional upstream guidance to staff conducting the sensitivity analysis. This could take the form of sector panels of experts to establish the standard variables for sensitivity analysis for different project types—and the relative weights of the variables—and/or of a comparator project data base, which could generate subsector benchmarks for use by task managers. This would cost an additional three staff years, or US$0.6 million.

IV. Indexes for the Programs of Special Emphases

26. The approach developed above has potentially wider applicability. In principle, indicator tracking can be used for any project objective. This section discusses possible separate indexes for poverty reduction, environment, and institutional development. It concludes with a brief discussion of a possible composite country index.

A. Poverty Reduction

27. Bank operational policy does not recognize the amalgamation of poverty reduction and ERR (or analogous measure for projects not amenable to ERR analysis) into a single measure. Rather, according to OD 4.15, *Poverty Reduction*, operational impacts on poverty are to be considered separately.\(^{20}\) Moreover, targeting is to be the primary determinant of whether a lending operation is to be counted as poverty-reducing or not in the Bank's monitoring system, under the "Program of Targeted Interventions." Projects in the following categories are to be included:

\(^{20}\) See, for example, para. 29 of OD 4.15. It states:

"Bank-financed poverty reduction projects must pass the same economic tests that apply to other projects. They must have a satisfactory economic rate of return or—in projects where the calculation of an economic rate of return is not practicable—be the least cost way of achieving project benefits. Rather than relaxing the standard investment criteria for Bank-financed projects, greater operational attention should be paid to identifying projects and project designs that both benefit the poor and have high returns, whether measured explicitly in terms of an economic rate of return or implicitly as for human resources development."
### Country Portfolio Index — Constant Composition

**Country Portfolio Index (CPI)**

<table>
<thead>
<tr>
<th>Country</th>
<th>CPI FY90/FY89</th>
<th>CPI FY91/FY90</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>98.1</td>
<td>88.7</td>
</tr>
<tr>
<td>Kenya</td>
<td>97.2</td>
<td>96.1</td>
</tr>
<tr>
<td>Nigeria</td>
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<td>73.5</td>
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<tr>
<td>Tanzania</td>
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<td>86.0</td>
</tr>
<tr>
<td>Uganda</td>
<td>98.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Eastern Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>99.7</td>
<td>99.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>100.6</td>
<td>96.9</td>
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<td>Malaysia</td>
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<td>92.2</td>
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<tr>
<td>Philippines</td>
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<td>98.4</td>
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<tr>
<td><strong>South Asia</strong></td>
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<tr>
<td>Bangladesh</td>
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<td>100.9</td>
</tr>
<tr>
<td>India</td>
<td>106.7</td>
<td>98.0</td>
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<tr>
<td>Pakistan</td>
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<td>97.5</td>
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<tr>
<td>Sri Lanka</td>
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<td>94.3</td>
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<tr>
<td><strong>ECA</strong></td>
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<tr>
<td>Hungary</td>
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<td>Poland</td>
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<td>Turkey</td>
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<tr>
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<td>104.9</td>
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<tr>
<td>Algeria</td>
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<td>95.3</td>
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<tr>
<td>Egypt</td>
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<td>97.1</td>
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<tr>
<td>Morocco</td>
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<td>95.0</td>
</tr>
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<td>Tunisia</td>
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<td>83.5</td>
<td>103.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>91.3</td>
<td>99.2</td>
</tr>
<tr>
<td>Chile</td>
<td>78.7</td>
<td>90.7</td>
</tr>
<tr>
<td>Colombia</td>
<td>102.4</td>
<td>88.0</td>
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<tr>
<td>Mexico</td>
<td>103.4</td>
<td>100.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1/ The CPI for FY90/FY89 includes only the projects in the portfolio in both FY90 and FY89. Similarly, the CPI for FY91/FY90 includes only the project in the portfolio in both FY91 and FY90.

Source: MfB.
• projects with a specific mechanism for targeting the poor; and/or

• projects for which the proportion of the poor among project beneficiaries is significantly larger than their proportion in the overall population.

28. The OD is explicit (para. 31) that the *appraisal* of such projects should carefully assess the:

> "targeting mechanism to be used .... During project preparation, the risks of project benefits being diverted to better-off groups should be carefully evaluated."

The OD is also explicit (para. 41) about the *monitoring of progress* in poverty reduction projects. Accordingly, it states:

> "... every such project should have benchmarks and monitorable social indicators for gauging progress. Poverty-reduction projects often encompass innovative features that warrant review—for possible adaptation—during implementation. Monitoring and evaluation systems should establish the information base for judging how these features are working and for redesigning the project if necessary. At the end of the implementation period, the monitoring and evaluation system needs to provide information to assess progress in achieving project targets and reducing poverty."

Finally, the OD is explicit about *supervision* (para. 42). Thus:

> "Where projects include specific targeting of services to poor people, the monitoring and evaluation system should be used (a) to assess whether these services are indeed reaching the target group, inter alia, by tracking feedback through beneficiary assessments as the project progresses, and (b) to identify adjustments to project design that would increase its efficiency and effectiveness in reaching target groups."

29. It is clearly consistent with the above that indicators of success in reaching target groups be identified at appraisal, and tracked during implementation. They can be combined into a project poverty-reduction index. In turn, the project indices can be aggregated into a country poverty-reduction portfolio measure, using the various index options discussed above and illustrated in Boxes 8-10.

B. Environment

30. It may also be useful to have a separate index of environmental impact. Indeed, the Form 590 already recognizes this, allowing for an explicit rating for environmental issues. To some extent, a project's environmental impact will be reflected in the economic index, where environmental objectives are essential for meeting project economic goals. For example, in an agriculture project, stabilization of erosion may be an essential precondition for achieving a project's primary economic objectives. However, in other projects, environmental goals may be separable from the primary economic goals, or there may be tradeoffs with the project's primary goals. For such operations, it may make sense to track environmental performance separately. As with the approach espoused above, indicators should be identified at appraisal for tracking during implementation. The movement of the indicators would inform the environmental rating.
C. Institutional Development

31. Following the above line of thinking, it is also possible to evaluate a project's progress in meeting institutional development goals. As with the environment, some institutional development objectives may be essential for achieving project success, and would therefore need to be captured in the project's economic rating. But some aspects may be quite separate, and may warrant separate monitoring. A composite institutional development impact rating would require a team effort between an economist to evaluate the impact of institutional development and an institutional analyst to evaluate the impact on the institution itself.

D. Composite Index

32. Having established individual indexes, the question arises as to whether (and how) they might be combined into a single index, and what such an index might mean. This goes beyond the realm of economics and is very much an issue of tracking performance vis a vis Bank operational priorities. A possibility would be to assign weights at appraisal for economic impact, poverty reduction, environment, and institutional development, based on an assessment of Bank operational priorities in the country. These weights could be used throughout implementation to add up the individual indexes, which in turn would be derived via indicator tracking, in line with the processes described above. In turn, the individual project indexes could be aggregated into a single country index, using loan-share weights. A composite index developed in this way could provide a single measure of progress in achieving project/program goals, but would need to be interpreted and used with extreme caution, especially given the subjective nature of the weights to be assigned to economic impact, poverty reduction, environment, and institutional development in the individual project indexes. In the circumstances, the development of a composite indicator is not recommended.

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See Mamadou Dia to Miguel Martinez, “Implementation Issues—Follow-up to the FY91 Regional ARIS,” April 27, 1992, for a proposal to introduce indicator tracking as a basis for supervision ratings for TA projects.
Operations Evaluation in the Bank

Portfolio Management Task Force
OPERATIONS EVALUATION IN THE WORLD BANK

A RADICAL VISION FOR THE '90s AND BEYOND

The Background

The Office of the Director General, Operations Evaluation was created in 1975 to institutionalize independent reporting to Executive Directors and Management about the development effectiveness and the lessons of experience of Bank operations. The vision driving the early evolution of that Office embodied: i) self-evaluation of all Bank projects by operational staff, ii) independent audits of the integrity of the evidence and analysis of project evaluations by operational staff, iii) annual overviews by the evaluation staff of project evaluation findings and significant lessons of project experience, and iv) a continuing program of independent studies of particular aspects of Bank operational experience and processes.

In the seventeen years that have since elapsed, this early vision has been largely realized. A robust and useful Bank-wide evaluation system is now in place. Evaluation of outcomes is an accepted obligation of all operational units, not just of the Bank’s evaluation staff. Portfolio coverage is comprehensive. Transparency of reporting is the rule. Lessons of experience are increasingly being recycled to improve the effectiveness of new operations. Efforts to interest borrowers in participating in evaluations of their Bank-supported projects and adapting the Bank’s evaluation experience for their own purposes are beginning to bear fruit.

But the Bank has also changed during this period—in the emphases of its operations, in its structure and processes, in the international environment it confronts, and in the concerns of member governments and their representatives on the Bank’s Board. The vision of the ‘70s accordingly also needs to change. The purpose of this note is to point to where change appears to be most needed.

1 References to Bank operations include IDA operations as well.
2 References to projects include operations of all types.
The Future

Widespread concern among Executive Directors and staff about the deterioration in the Bank's portfolio, the dearth of information about operational (as distinct from implementation) performance of Bank projects and the need for earlier feedback of significant lessons of operational experience suggest that an enlarged vision for the '90s is now needed.

The main thrust of this paper is that the Bank's present evaluation system should be modified in the following respects:

- the portfolio performance information system should include comprehensive information about project benefits as well as about implementation outcomes;

- operational staff should evaluate periodically the overall performance of their country portfolios as well as the performance of the individual projects in each portfolio;

- the Bank should have a consolidated annual evaluation work plan, to ensure that the work program of the Operations Evaluation Staff complements adequately the evaluation work plans of other Bank units; and

- the Bank should develop an early evaluation feedback loop. One approach might be to expose all executive project briefs to informal comment by evaluation staff, to ensure that planning for new projects benefits from all relevant operational experience.

The reasoning behind these recommendations is outlined briefly below.

Does anyone now know what loan benefits are?

"Comprehensive completion reporting by Regional staff has been Bank policy since the mid-'70s. PCRs have since provided basic information for OED evaluations, which have expanded considerably in scope and impact in this period, and for periodic OED
reporting on the implementation performance of all projects. However, the Bank lacks comparable information about the performance of projects during their benefit-generating phase. Operational staff may know about the actual benefits of projects in which they have been involved, about the actual benefits of projects subject to OED’s impact and other evaluation studies, about actual benefits revealed through repeater projects and sector reviews, and about the benefits anticipated at the conclusion of projects’ implementation phase. However, comprehensive monitoring of actual development outcomes is not yet part of portfolio management in the Bank.

This performance information gap reflects in large part the fact that the day to day business of the Bank focuses more on new lending and the supervision of implementation and disbursement than on what happens during the later life of Bank loans. Regional work programs and budgets, performance assessments of Regional managers and staff, Board debate and decisions, the Bank’s annual reporting, Bank dialogue with borrowers—all highlight the front end of the lending cycle. The development benefits of this lending are not yet a benchmark against which the performance of the institution and its staff are commonly evaluated. Portfolio management now systematically monitors implementation, disbursements and loan service, but not development results.

The many Regional managers and staff who do endeavor to keep informed of operational results do so without clear institutional incentive. They are expected to report on pressing procurement and other implementation problems of the operations they supervise, but not on development benefits; nor should they be since supervision ends when disbursement ends. Executive Directors and Management now learn about the results of Bank lending episodically, mainly through repeater projects and OED reviews. Staff mobility reinforces the divorce between concern for new lending and its development benefits.

Operational staff are profoundly concerned with results ex ante: they apply major energies to the design, analysis and conditionality of country programs and new operations in order to maximize the probability of positive outcomes; and they build monitoring and evaluation components into many projects. However, they are not now accountable for results. What happens later is often perceived to be more OED’s concern than theirs.
The radical premise of this paper is that the Bank should be as concerned about and accountable for the "development worth" of its loan portfolio as it is now for its performance as a financial intermediary. If this premise is accepted, then portfolio management will have to begin to look beyond implementation. PCRs produced by the Regions now generate comprehensive information about actual project performance only through the implementation phase. For the Bank to be accountable for the development performance of its lending, comparable information would also have to be generated about the actual benefits of Bank loans.

Is comprehensive information about the portfolio's development performance feasible?

Portfolio management could quite readily encompass the benefit-generating phase of Bank lending if performance data on outstanding loans were to be designated as a new (Regional) product, separate from the reports in which these data would be analyzed and communicated. For this to happen, country departments should be made as responsible for information about the development performance of their country portfolios as they are now for information about implementation.

Comprehensive information about the operational performance of Bank-supported projects need not imply extending supervision reporting through the benefit-generating phase of all loans. The Regions need only arrange for systematic borrower reporting about the development performance of their outstanding loans, just as they now arrange for systematic borrower reporting about implementation. When and how this information might be used is a separate question.

Much information about loan performance is probably already available to well-managed borrowers and could be readily shared with the Bank if it is not already shared; but most borrowers would probably not be able to respond. In these cases, the generation of information about performance after implementation should become as much a goal of the project as the generation of information about implementation. The primary objective would not be to satisfy a Bank need. The objective would be institution-building—to satisfy the minimal management information needs of project owners, which the Bank could then share.
To this end, Bank appraisals should begin systematically to:

i) identify the minimum information borrowers should have for themselves about the operational performance of their projects,

ii) evaluate the borrower's capacity to generate this information, and

iii) identify and arrange for the support needed to help the borrower develop capacity that is lacking.

Would the Bank's evaluation products change?

Comprehensive information about the development performance of Bank loans would make it possible to enlarge and enrich the present mix of evaluation products.

Country portfolio evaluations The most important new evaluation product that should be developed would be periodic country department overviews of the performance of their country portfolios: not costly self-contained reports that discuss the composition, rationale and evolution of each country portfolio, but brief reports—mainly tables—showing for each portfolio what was expected at appraisal, what is expected now, actuals to date, and brief commentary about significant deviations from expectations for both individual projects and the country portfolio as a whole. The performance indicators tracked would be those agreed with the borrower at appraisal.

Other portfolio evaluations This information would make it possible to generate at negligible cost a variety of periodic assessments of portfolio performance: overviews of trends in country portfolios, in Regional portfolios, in sector portfolios, in special interest portfolios, in problem projects, and in the Bank's overall portfolio. Assessments of portfolio development performance would no longer have to rest primarily on the benefit re-estimates after implementation that are now the basis of PCR ratings and OED's annual reviews.

The PCR Since the PCR marks just one point in the much longer life of projects whose benefit-generating phase still lies ahead, evolution along the lines described would
make the PCR a still important, but no longer the final, evaluation of most projects.\(^1\) A PCR should continue to be produced for every loan: to provide comprehensive information about implementation expectations and results, and an updated benchmark against which to plan for and evaluate future benefits. But it could now become a different and less costly product: brief tables presenting expected and actual implementation times and costs, expected and re-estimated operational costs and benefits, brief analysis of significant variances from expectations, key lessons, and a forward-looking assessment of the project’s likely development impact.

**Lending process evaluations** Transparent evaluations of experience with lending process such as supervision, procurement, loan covenants, use of consultants, etc. should continue to be produced. But whether they should henceforth be produced by OED, OSP, or IAD should be determined in the light of the competencies and work programs of these units.

**Evaluations produced outside OED** Improved information about portfolio performance would facilitate more evaluations of operational experience of the kind that have long been carried out outside OED—by OSP in its policy work, by DEC in research, and by the Regions in their economic and sector work. To ensure that the Bank receives full benefits from these diverse initiatives, the Director General should henceforth, in addition to ensuring as he does now that OED’s studies benefit from and build upon other Bank evaluations, also:

- attest periodically to the adequacy of the Bank’s consolidated evaluation program, and
- attest, through selective audits as is now done for PCRs, to the adequacy of the evidence, analysis and findings of selected evaluations not carried out by OED.

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1 One observer has suggested that since the PCR doesn’t mark the completion of the project but only of its implementation and Bank disbursements, the PCR might better be renamed “disbursement completion report”, or DCR.
Does anyone else share this vision?

The views in this paper are those of the author alone. But their central thrust appears to be shared by the DGO, judging by his recent note to the JAC about the future of evaluation in the World Bank (JAC92-19/1, May 26, 1992).

- "...the time may have come to view, more systematically, the country as another 'unit of account', supplementing the project."

- "...accountability has become less a matter of successful project implementation than of development impact..."

- It has become increasingly important to "...improve the information base for reporting on performance."

- "There is a need to institute a consistent thread, or continuum, throughout the life of Bank operations from identification to impact evaluation, keeping in sight at all times the intended goals and the expected results."

- "To know more about the development impact of Bank operations calls for an explicit up-front definition of indicators to capture and track the operations' economic and social worth... To this end, the Regions need to ensure that new projects contain workable monitoring and evaluation systems..."

- "...more clearly formulated ex ante economic analyses of operations... would provide a solid basis for making judgments on performance as the project cycle unfolds."

- "Integrating the PCR into the project cycle, by preparing it in connection with the last supervision mission, makes it a powerful tool not only for assessing results but also for specifying actions still needed in the post-completion period."
• "PCRs should become more fully a tool of country portfolio management."

• "...the perception of the Bank's accountability has changed: what matters is not just whether the Bank's resources were actually used according to the plans agreed at the appraisal stage, but what contribution they made to the borrower country's development. This change calls for country staff themselves to begin looking more systematically at the eventual impact of their operations."

• "...country departments should consider engaging more systematically in the self evaluation of country strategies and portfolio management, as a routine, integral part of the country planning process."

• "...evaluation should extend backward [from the PCR]—to yield better indicators and lessons from ongoing performance—and forward—to yield more informed judgments about long-run development impact. . . ."

The recommendation that the DGO henceforth attest to the adequacy of the Bank's consolidated evaluation program when presenting OED's work program for approval follows from the fact, noted by the DGO, that:

"...OED's studies program naturally overlaps areas of concern to operational units, research staff, and the internal auditing department. . . Where to pitch the evaluation studies program in relation to self-evaluation, policy, research, and operational work is thus a matter of judgment—as to how much of the Bank's operational policies, programs, and processes should be subject to independent and transparent evaluation. . . ."

The Portfolio Management Task Force

The terms of reference of the operations evaluation sub-group posed eight questions. The implications for the Task Force of the vision outlined above are noted briefly below as replies to the questions posed.
1. What, if any, changes in the role, practices and program emphases of OED should be recommended?

Accountability The Bank should remain the self-evaluating institution that it has been since the present PCR policy was instituted. But its accountability should be enlarged to include loan benefits as well as implementation outcomes.

Consolidated evaluation program The DGO’s role as the independent evaluator of the Bank’s development effectiveness should not change; neither should his role as the auditor of portfolio performance evaluations done elsewhere in the Bank. However, if the Bank were to begin to formulate and monitor the explicit consolidated institutional evaluation program that is recommended, that should be done jointly by the Office of the President and the DGO, and the DGO should attest to the adequacy of OED’s work program in the context of the Bank’s consolidated evaluation program.

Scope of work Some Board members have suggested that the scope of OED’s work be enlarged to include reviews of loans under implementation, in order to provide the Board with earlier assessments of portfolio performance than it now receives.

OED has long reviewed selected loans still under implementation in order to update and test findings from completed loans about a particular issue under study. It could also audit Regional and OSP reviews of projects under implementation, although it has not done so to date. However, it would appear inappropriate for OED to evaluate ongoing operations which are still being supervised by operational staff. The Board should be informed to its satisfaction about projects under implementation; but it should be looking to Management for this information, not to OED. If past reporting to the Board about ongoing projects has been deficient, that problem should addressed directly, not through OED.

Early feedback Staff may know what is happening with their projects under implementation, but it is not always clear that all relevant lessons of experience have been adequately reflected in the design of these projects. To respond to this long-standing concern, the Bank should consider establishing an early evaluation feedback
loop, in which all executive project briefs would be exposed to informal comment by OED. The objective would be to ensure that all new projects took account of the relevant lessons of operational experience, and that evaluation lessons were formulated by OED in full awareness of current operational plans. Such interaction should not compromise OED's independence in any way.

2. **Is the PCR and audit process working well?**

This note has not endeavored to evaluate current practice and experience. However, it suggests that the specifications and role of the PCR merit review for the reasons noted above.

3. **Is the balance of OED attention among PCR reviews, PCR audits, special studies, country reviews, impact evaluations, annual review, country development, and feedback/dissemination what it should be?**

This note has not endeavored to evaluate current practice and experience.

4. **Is 100% PCR coverage and 40% audit coverage really necessary?**

PCR coverage should remain at 100%. But the audit ratio should be reconsidered. To test the integrity of PCR reporting may not require as high an audit coverage as the audit of a representative sample of the Bank's portfolio would require.

OED should consider auditing other Bank evaluations in addition to PCRs.

5. **In considering the operation closed (for the Bank) six months after the last Bank-financed disbursement, is the Bank neglecting vital dimensions (e.g.) in institution building and policy reform) which extend beyond disbursement?**

Yes; that is the reason for the "radical vision" proposed.
6. **Should the Regions do impact evaluations?**

OED should be the primary source of impact evaluations. But whenever the continuation of a sector lending program called for validation of assumed patterns of program benefits and relevant OED evaluations were not available, ready access to information about post-implementation performance should encourage the Regions to evaluate impact on their own.

7. **Is the before-and-after ERR basis of comparison too narrow?**

Adding to a borrower's debt cannot ever be justified without commensurate benefits. Thus, wherever an ERR was part of the ex-ante justification for a loan, it should be a basic part of its post-evaluation. However, benefits that cannot be assessed this way should still be evaluated by whatever means are feasible and appropriate.

8. **Are the special emphases adequately covered in OED work?**

This note has not endeavored to evaluate current practice and experience.
List of Working Papers

Portfolio Management Task Force
List of Working Papers

Working Paper A: The Bank's Mandate: Nature and Division of Responsibilities
Working Paper B: Review of Problem Projects
Working Paper C: Supervision of Policy Based Loans
Working Paper D: Procurement
Working Paper E: Computerized Database for Legal and Related Documents
Working Paper F: Information Flow Analysis of Supervision Functions
Working Paper H: The Role of Information Management and Technology in Portfolio Management
Working Paper I: Use of Plans of Action in Legal Agreements
Working Paper J: Review of Staffing and Skill Mix in Supervision
Working Paper K: The Role of Non-Governmental Organizations (NGOs) in Project Implementation and Supervision
Working Paper L: Cofinancing and Portfolio Management
Working Paper N: Construction Quality of Heavy Civil Works Projects
Working Paper O: Programs of Special Emphasis: Implementation of Women in Development
To: Vice Presidents and Department Directors  

Subject: Portfolio Management  

The Bank and IDA have currently under implementation USD 138 billion in lending commitments, representing about USD 360 billion in projects/programs. The effective implementation of this portfolio is vital to the growth prospects of our member countries. The advice the Bank provides through its supervision of these operations is one of the most important forms of development assistance we provide. Successful implementation of approved operations outweighs new annual commitments as an indicator of the Bank's development effectiveness. It, therefore, deserves commensurate management attention.

The Bank’s ability to provide effective assistance in the course of supervision depends on its capacity to draw timely lessons from on-going and completed lending operations and to disseminate this information expeditiously. The learning cycle starts with the negotiation for a project/program and continues through the PCR to OED impact studies. Its major components are the regular supervision missions, Country Implementation Reviews, the regional management of supervision follow-up, the Annual Report on Implementation and Supervision, OSP analysis on development effectiveness, and the PCRs. The OED project evaluations, sectoral reviews and impact studies complete the cycle.

It is timely for us to review the management of this cycle; the respective responsibilities of the owner, the guarantor and the lender, and the role assigned to the various unit in the Bank; the methodologies employed to assess success and failure; and the system for extracting and disseminating implementation experience. Our implementation and evaluation systems should enable us to have a regular and realistic assessment of the development impact of the Bank's lending activities and serve as a basis for practical recommendations to improve operating policies and practices.

To conduct the review of, and to make recommendations for improving, the Bank's basic portfolio management and evaluation process, I have asked Mr. Wapenhans to chair a Task Force staffed from the Regions, OSP and OED. The areas to be included in the review are described in the attachment. The recommendations of the Task Force will, of course, take fully into account OED’s current mandate and its special reporting relationship to the Executive Directors. In addition to being supported by OSP and OED, Mr. Wapenhans will consult closely with Messrs. Rovani and Picciotto, the current and the prospective Director-General for Operations Evaluation, and with Mr. Rajagopalan, VP, Sector and Operations Policy.

Once the Task Force has been organized, Mr. Wapenhans will advise me of its work program. The complexity and scope of the subject requires that we devote adequate time and resources to it. The work will be facilitated by the considerable amount of prior analysis in the Bank, by work now in progress on some elements of portfolio management, by the experience of other organizations, and by the extensive literature on evaluation and assessment of development effectiveness. I expect that the Task Force should be able to report by July 1, 1992.

cc: Messrs. Wapenhans, Rovani
The Task Force will make use of the considerable analytical work available on the supervision and evaluation functions in the Bank and elsewhere, consult with borrowers, EDs, staff and other organizations, as appropriate; and engage consultants, as necessary, to supplement internal capabilities. The Task Force review should include:

- Objectives of supervision; implementation responsibilities and mandates; measurement of performance and its consistency with the objectives.

- Project/program design; articulation of goals and commitments; policy environment and consensus of major participants; consistency of covenants negotiated in a country/sector context.

- The technical quality and scope of supervision, including specifically the staffing of missions, the allocation of time between review of financial, procurement, institutional and technical issues; the allocation of time between site visits and agency offices; supervision work at Headquarters, including procurement; non-regional (Legal, OSP) support for supervision.

- The regional management structure and practice for supervision, including the roles of TD, SOD and country teams; the internal review mechanisms; the use of field office staff (headquarters and local) in supervision and the efficiency of the current balance in countries with different size lending programs; the role of the SOAs and Project Advisors; relevance and accuracy of the rating system; effectiveness of compliance supervision; allocation of staff to supervision in response to technical complexity and institutional needs; procedures and practices for project/program reformulation during implementation; internal processes for collating and disseminating experiences.

- Handling of that part of the portfolio which is consistently demonstrating unsatisfactory performance.

- The learning and dissemination process; the adequacy of regional/country/sectoral analysis of experience and its dissemination; and the efficacy of training provided to staff in supervision objectives; preparation of project managements for transition to operational phase. Possibilities of consolidating project supervision into supervision reports; consolidation of PCRs.

- The quality and utility of the Annual Review of Implementation and Supervision (ARIS); proposals for regular and explicit treatment of development effectiveness and its measurement; the PCR system and its management.

- The post-completion evaluation concepts and methodology, audit coverages and practices; the respective accountabilities of borrowers and the Bank in project evaluation; the policy and practice of OED project, country sector evaluations; the link between OED findings, staff training and project/program design.

- Proposals for longer-term impact studies and the evaluation of borrower institutional capacity and service levels beyond the confines of the project/program objectives.
Portfolio Management Task Force

Task Force Membership

Anex G
PORTFOLIO MANAGEMENT TASK FORCE

Task Force Members:

Samir Bhatia
Prem Garg
Dominique Lallement
Michel Pommier
Joanne Salop
Willi Wapenhans (Chairman)
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J.C. Peter Richardson (Secretariat)

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Claude Blanchi
Pieter Bottelier
Abdallah El Maaroufi
David Goldberg
Enzo Grilli
Harinder Kohli
Hans-Eberhard Kopp
Miguel Martinez
V. S. Raghavan
Daniel Ritchie
Edilberto Segura
Hans Wyss

Advisory Council Members:

Robert Picciotto
Visvanathan Rajagopalan
Yves Rovani