Evaluation Results for 1995

OED's 22nd Annual Review of Evaluation Results analyzes evaluation findings for operations evaluated in 1995 and traces the implications for operational policy and management. The results show a modest improvement over last year's, and the long-term trends in outcomes, sustainability, institutional development are moderately encouraging, but no sharp break from the historical record is apparent.

The review explores the Bank's options for improving operational performance. The portfolio improvement program has made a start, but to achieve a dramatic improvement in performance would require even more change than is now underway. The Bank would need to become more selective in its lending, in line with borrowing countries' commitment to growth and poverty reduction and to sound implementation of development projects.

Performance record

The 264 completed lending operations evaluated in 1995—the "1995 evaluation cohort"—represent disbursements of almost $22 billion to 80 countries. Their performance shows some improvement over last year's results. The long-term trends in outcomes, sustainability, institutional development, and Bank performance are moderately encouraging, but no sharp break from the historical record is apparent. (Figure 1.)

- Some 68 percent of the 1995 evaluation cohort had satisfactory outcomes, compared with 66 percent of those evaluated the previous year.

- Forty-six percent of the operations in the 1995 cohort were judged likely to sustain their benefits after the completion of loan disbursements, compared with 44 percent for the 1994 cohort, while 27 percent of the operations had a substantial impact on institutional development (ID), compared with 30 percent for the 1994 cohort. (Box 1.)

- The Bank's performance was judged satisfactory in 78 percent of the operations—better than the rate of 73 percent satisfactory for operations evaluated the previous year. However, in the supervision of loans in progress, the longer-term trend shows a decline in the Bank's performance.

- Borrowers' performance was rated satisfactory in 69 percent of the 1995 cohort. Low-income countries, especially those with weak administrative capacities, tended to perform less well than middle-income countries.

- East Asia and the Pacific continued to be the best-performing region, and Africa the poorest. IBRD loans consistently had better outcomes than IDA and blend-financed operations.

- Investment loans fared slightly better than adjustment loans in the 1995 cohort; since 1990 both lending types have on average performed equally well. Emergency recovery loans, which focused on clear objectives and enjoyed high borrower ownership, tended to be highly successful.

Risks and rewards

The review analyzes patterns of development risk and reward in nearly 1,000 operations evaluated in 1993-95. The risk index reflects evaluators' ratings, made at the time of project completion, of each operation's riskiness, complexity, and demandingness on the Bank. The reward index combines ratings of overall outcome, sustainability of benefits, institutional development impact, and relevance to the borrower's development needs.

Experience shows that risk varies by region, country, sector, lending instrument, project size, and other project characteristics. Individual operations are not at equal risk nor likely to carry equal reward if all goes well.

Although 23 percent of operations had low risks and high re-

Poverty reduction is the Bank's overarching goal. However, most of the operations in the 1995 cohort were designed before the Bank introduced its current strategy for poverty reduction. This strategy consists of support for labor-intensive growth; targeted interventions that focus on human resources—primary education, basic health care, family planning, and improved nutrition—to equip the poor to respond to the income-earning opportunities created by growth; and the provision of a social safety net to protect people who cannot respond to new economic opportunities or are especially vulnerable to economic shocks. About 90 percent of the 1995 cohort are growth projects, while almost one-fourth of today's portfolio of ongoing projects support investment in the social sectors.

The outcomes of growth projects reflect the outcomes of the 1995 cohort. The cohort includes only six growth projects with substantial safety net elements; all of them performed well. Among the 24 projects for human resource development that were evaluated in 1995, 83 percent were rated satisfactory, 58 percent were rated sustainable, and 21 percent were rated as having a substantial ID impact.

Though the Bank conducts good analysis of poverty, the concern for poverty reduction has yet to be mainstreamed throughout the Bank's dialogue with borrowers, country assistance strategies, and lending. A 1996 OED study found that with a few significant exceptions, the findings and conclusions of the Bank's country-by-country poverty assessments have too little influence on its country assistance strategies, and that few of these strategies record progress in poverty reduction. The Bank needs to give more attention to country poverty assessments and their reflection in country assistance strategies, and to countries' own degree of commitment to reducing poverty.

Environment

About one-fourth of the operations in the 1995 cohort had an environmental focus. Many of these were in agriculture. Their outcomes were slightly poorer than the Bank-wide average. About half were approved before 1986, when the Bank made major improvements in its environmental policies. The environmental projects evaluated in 1995 are heterogeneous and, given the changes in the Bank's environmental policy and scope of work since they were approved, they cannot provide a test of current policy on the environment.

Outcomes of environmental projects have improved. Within the 1995 evaluation cohort, the environmental projects approved after 1991 generally had better outcomes than those approved during the early 1980s. Recent operations pay more explicit attention to environmental issues, and there are signs that learning is taking place. At the same time, progress is constrained by the institutional capacity of borrowers and by population growth.

Influences on performance

The review analyzed the influences on portfolio performance, using recent historical data. The findings confirm the importance of client countries' policies, borrowers' performance in implementing projects, and the Bank's own per-
formance. They emphasize that to make its lending operations succeed better, the Bank should devote as much attention to managing developmental risks as it does to managing financial risks.

Borrower performance

Macroeconomic management, sector policies: At the portfolio level, country macroeconomic conditions are the major determinant of performance. The Bank’s lending operations do better in countries with good macroeconomic conditions and favorable sector policies. For example, if Zaire, the country with the poorest performance record, mimicked Korea, the country with the best policy performance, its portfolio performance would improve by nearly 50 percentage points (from 11 percent to 60 percent satisfactory). Thus, while good Bank performance is likely to reduce the risk of project failure, the effort has to be very strong to overcome the odds of a poor economic and implementation environment.

Commitment, ownership: Government commitment to operational goals has a strong effect on operational outcomes. The experience of outstanding and poor operations confirms this finding. Among 356 operations (the 1995 evaluation cohort plus 92 operations for which OED produced performance audits in 1995), 16 were rated as outstanding and 8 as poor. The outstanding operations all benefited from strong borrower ownership and commitment, while none of the poor operations did so.

Bank performance

Supervision: The Bank’s performance in supervising ongoing operations has been declining each year, from 82 percent satisfactory in operations that closed in 1991 to 74 percent satisfactory in those that closed in 1994. Operations generally have become more demanding, complex, and risky. Yet the outstandingly successful past operations show effective monitoring and flexible adaptation by the Bank to changing conditions, while the poor operations show neither. The Bank has recently taken action to improve supervision; this is an area that merits continued attention.

Appraisal: Among operations evaluated in 1995, the Bank’s weakest area of performance was in appraisal, where other Bank studies have already highlighted that greater realism is needed. But the longer-term trend suggests that the Bank’s performance in appraisal is improving.

Policy implications

The findings of the review suggest that:

- In countries where the policy framework is distorted and implementation capacity weak, the Bank should favor advisory and capacity building services over lending.
- Because its record in free-standing technical assistance operations has been poor, the Bank should develop strategic alliances with well selected partners to help build client countries’ capacity in parallel with—or, better, ahead of—Bank loans and credits.
- Where risks are high, domestic capacities are weak, and/or borrower commitment is not assured, pilot operations should precede full-scale Bank lending.

• Development risk assessment, monitoring, and evaluation should be strengthened throughout the project cycle and used to shape the design and execution of the Bank’s country assistance strategies, with added emphasis on portfolio implementation issues in the Bank’s dialogue with country authorities.

Options for improving performance

A series of tests was conducted, using data on operations evaluated by OED between 1991 and mid-1996, to trace the likely impact of different options for improving portfolio performance.

The results show that portfolio improvement is a formidable task. The nature of the Bank’s main lending product—the slow gestation, slow disbursement investment project—means that the current portfolio is largely shaped by past
decisions and contractual relations. The implications for quality management are fundamental: the development risks of individual operations must be explicitly defined up front, and well-defined protocols set to limit, monitor, and manage exposure to development risk at the country and sector levels. Otherwise the Bank’s operational managers will continue to be driven by overambitious expectations for change in country policies.

Applying the model to the portfolio active in fiscal year 1996 suggests that without improvement measures, performance will remain close to the current level with about 68 percent of operations rated satisfactory.

The Bank’s portfolio improvement program is, however, laying sound foundations for development risk management. Bank managers and staff are being held more directly accountable for results than in the past, and new professional networks, along with new training programs for staff, are expected to improve project management. The Quality Assurance Group is using new measures of risk that will make it easier to spot problem projects in time to overhaul or restructure them. Model simulations show that these initiatives should gradually improve performance over the next eight years or so, as the Bank renews its portfolio.

The achievement of a stretch goal—say 80 percent of the portfolio reaching satisfactory outcomes over the next five years or so—would require more drastic changes. It would call for a much deeper restructuring of country portfolios, with widespread cancellations of substandard projects (at least one-fifth of today’s portfolio). Decisions would be needed not just about further improvements in the Bank’s operational effectiveness but about what businesses the Bank should be in, and for whom, and how its products and services are to be differentiated from those of competitors and collaborators.

Such a new paradigm for Bank assistance would be shaped by the broad goal of poverty reduction through environmentally and financially sustainable growth. Key elements might be:

- A highly selective approach to lending that is based on countries’ commitment to poverty reduction, sound macroeconomic management, and sound implementation of development projects. For some countries, application of these criteria may lead the Bank to limit its assistance to economic and sector work and institutional support. In extreme cases, the Bank would provide no support until the country authorities showed their commitment to growth, poverty alleviation, and effective management of public expenditures.
- Use of nonlending instruments, including policy analysis and knowledge transfer, to help improve client countries’ conditions for development.
- More results-oriented, participatory economic and sector work, especially in receptive poorly performing countries.
- More reliance on strategic alliances with other agencies, including NGOs.
- Much broader and more systematic use of piloting, before lending for full-scale projects.
- Stronger, more effective support of borrowers’ implementation capacity, shifting resources for supervision from countries that need little to countries that need a lot.

The Committee on Development Effectiveness of the Bank’s board of executive directors discussed the review and highlighted issues for consideration by the board. They debated the strategic choices that would be necessary if the Bank is to achieve a high level of satisfactory project outcomes. They emphasized that as a development institution the Bank should not shy away from risks, but that it should recognize and manage risks better.

The committee welcomed the modest progress the Bank has made in improving quality of new projects. It stressed the importance of assessing development risks at the beginning of the project cycle, and of designing projects flexibly, the better to cope with changing conditions and unanticipated risks. Members agreed that borrower ownership is important and should be nurtured, and stressed the importance of sensitivity to social, cultural, and historical factors in the design of operations to ensure the sustained commitment of governments and civil society. They welcomed the Bank’s efforts to improve portfolio management, though pointing out that proactive portfolio restructuring needs additional emphasis. Expressing concern about the long-term decline in the Bank’s supervision performance, they encouraged management to pursue initiatives for decentralization of the Bank’s work to the field. As to the persistent poor performance of Bank technical assistance operations, the committee undertook to continue working with management to understand problems and identify possible solutions. The committee urged management to give appropriate attention to the findings and recommendations of the review.

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December 1996