Folder Title: EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations

Folder ID: 1210035

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Series: Records of the Portfolio Management Task Force (Wapenhans Report) and follow-up

Sub-Fonds: Records of President Lewis T. Preston

Fonds: Records of the Office of the President

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~~① Ms. Sarkop~~
② V.R

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: December 7, 1992 10:39am

TO: Jane Armitage (JANE ARMITAGE)

FROM: Hans Wyss, CODDR (HANS WYSS)

EXT.: 82851

SUBJECT: Impact of Distress on Portfolio Performance.

Jane,

1. This is in response to your question as to whether we can be more explicit - and uptodate - than the PMTF report on the effect of (economic) distress on the portfolio status at the country level. Expanding on work being done on the ARPP and other work we had carried out in the context of Project Quality TF, we have approached the question from two angles, i.e., by looking at the:

- statistical correlation between economic growth and portfolio performance, and

- relationship between adjustment programs/macroeconomic policies and portfolio performance.

2. The results of this brief analysis are as follows:

(i) projects in countries with negative/low per capita GDP growth have a higher probability of higher supervision rating (i.e., doing worse) than those in countries with higher growth (see Attachment 1 - attachements are being handcarried to your). This finding is based on over 4800 observations in Forms 590 for projects completed between FY81 and FY91 and projects in the current (end FY92) portfolio. A related finding with the same sample was that projects in countries with higher per capita GDP have a higher probability of distinctly lower supervision rating (i.e., doing better) than those in countries with lower income (see Attachemnt 2).

It should be noted here that the first finding, i.e. the strong positive correlation between p.c. GDP growth and healthy portfolio is consistent with the findings of the Project Quality TF (PQTF) report which was based on an analysis of ratings for project outcome rather than supervision rating. The second finding was not (or only very weakly) evident in PQTF analysis. This is not entirely surprising because the focus of supervision ratings (as brought out very well by the PMTF) is on measuring progress of implementation rather than project outcome.

(ii) last year's ARIS pointed out that "the ratio of problem projects....[in] countries committed to economic reform and appropriate policies with or without a current Bank financed adjustment" was much lower than in non-adjusting countries. An update for this year shows an even more pronounced concentration of problem projects in non-adjusting countries:

Problem Projects by Country Status in Adjustment
(as a Percentage of Total Projects)

	ARIS FY91		ARPP FY92
	FY91 classif.	FY92 classif.	
Adjusting with Bank	19	20	18
Adjusting without Bank	17	15	10
Non-adjusting	34	38	41

Note: the classification of countries in this table differs slightly in the two years, reflecting changes in countries' programs (change in listing is given in Attachment 3, page 7).

Thus the portfolio today (end FY92) reflects even better than a year ago the strong difference between the (very weak) portfolio of Bank assisted projects in nonadjusting, highly stressed economies than in adjusting countries. Moreover, a quick review of projects in highly stressed economies with recently started adjustment programs (Sierra Leone, Guyana, Panama, Peru) and one other country listed by the Region as "adjusting without Bank Program" (Guatemala) shows that 50 to 63% of projects in these countries are problem projects (except for Guyana with 33% where adjustment started earlier than in the other countries listed): the same table in Attachment 3 (pages 1 and 3) shows the even more distressed portfolio in these countries before they started out adjustment. Please note that disbursements to these countries had been suspended for extensive periods (and for Peru suspension is expected to be lifted early in 1993).

A separate analysis of the changes between FY91 and FY92 (though slightly differing from the above comparison since it was based on the FY92 sample only) shows the same "trend" of a sharp deterioration in the project protfolio in non-adjusting countries, a marginal decline for adjusting countries without Bank-supported programs, and a slight improvement for countries with Bank-supported adjustment programs (see Attachment 4).

A second finding of the last ARIS, and strongly reflected again in FY92 is the concentration of problem projects in the small low-income countries (i.e., excluding for China and India, though the difference for the latter against the "small countries" has become less marked). As the most recent RAL report pointed out, adjustment programs have tended to be least successful in low income countries. Therefore, the large group of countries listed under adjustment with Bank supported programs (re Attachment 3) needs to be viewed accordingly.

3. Finally, in the preparation of ARPP, a similar statistical analysis was carried out as under 2. (i) - though with a much smaller sample of projects under supervision both in FY91 and FY92. The results show that for projects which obtain significantly higher supervision inputs there is a marked improvement in performance rating after a one year delay. Note however that this result does not reflect diminishing returns in the sense that as projects get older, increased supervision inputs do not lead to improved performance. Moreover, the reservation in the last two sentences in para. 2 (i) applies here as well.

Hans.

Attachments:

1. Expected ARPP Rating as a Function of Growth in GDP per capita.
2. Expected ARPP Rating as a Function of GDP per capita Level.
3. Overall Status Rating and Percentage of Problem Projects FY89-FY92
   - for Countries adjusting without Bank-supported Programs
   - for Countries adjusting with Bank-supported Programs
   - for non-adjusting Countries
   - Overall Status Rating and Percentage of Problem Projects
   - Number of Problem Projects and Size of Portfolio
   - do. by Income Groups
   - Countries changing Classification between FY91 and FY92.
4. Expected Change in ARPP Rating as a Function of Adjusting Status

CC: V. Rajagopalan, OSPVP (V. RAJAGOPALAN, OSPVP)
CC: Jan Wijnand (JAN WIJNAND)
CC: Dominique Lallement (DOMINIQUE LALLEMENT)
CC: Michel Pommier (MICHEL POMMIER)
CC: Rene Ruivivar (RENE RUIVIVAR)
CC: Vinh Le-Si (VINH LE-SI)

Record Removal Notice

File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
12/10/1992	Board Record

Correspondents / Participants

Subject / Title
EDS92-53 Executive Directors' Meeting - December 8, 1992 Effective Implementation: Key to Development Impact (Portfolio Management Task Force) (R92-195) Statement by Mr. Nogues

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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Withdrawn by	Date
Bertha F. Wilson	August 21, 2017

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EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
12/7/1992	Board Record

Correspondents / Participants

Subject / Title
EDS92-50 Executive Directors' Meeting - December 1, 1992 Effective Implementation: Key to Development Impact (R92-195) Statement by Mr. Torres

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
12/4/1992	Board Record

Correspondents / Participants

Subject / Title
A92-81 (Rev.) Notice of Meeting Revised Order of Business

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
11/30/1992	Memorandum

Correspondents / Participants
To: Executive Directors
From: Fawzi H. Al-Sultan

Subject / Title
Portfolio Management Task Force Report

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
12/1/1992	Board Record

Correspondents / Participants

Subject / Title

Statement by Mr. Fawzi H. Al-Sultan, Board Meeting - December 1, 1992, Portfolio Management Task Force Report

Exception(s)

Additional Comments

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File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
11/23/1992	Board Record

Correspondents / Participants

Subject / Title
EDS92-34 Executive Director's Meeting - November 24, 1992, Effective Implementation: Key to Development Impact (R92-195) Statement by Potter

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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Record Removal Notice

File Title	Barcode No.
EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	1210035

Document Date	Document Type
11/23/1992	Board Record

Correspondents / Participants

Subject / Title

EDS92-36 Executive Director's Meeting - November 24, 1992, Effective Implementation: Key to Development Impact (R92-195) Statement by Mrs. Maehlumt

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

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Record Removal Notice

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File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
11/20/1992	Memorandum

Correspondents / Participants
To: Executive Directors
From: David Peretz, UK ED

Subject / Title
IBRD/IDA Board Meeting: Tuesday, November 24, 1992, Effective Implementation: Key to Development Impact (Portfolico Management Task Force Report - R92-195)

Exception(s)
Communications of Executive Directors' Offices

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

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Bertha F. Wilson	August 21, 2017

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File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
11/10/1992	Memorandum

Correspondents / Participants
To: Regional Vice Presidents
From: E. Patrick Coady, Eveline Herfkens, Jorunn Maehlum, David Peretz, EDS

Subject / Title
Women in Development - Portfolio Management Task Force - Reorganization of the World Bank

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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Pauline:
Pl. open a file on Wapfandhans
Taskforce and keep this
in it.
VR o/r
HD
11/10

RECEIVED
011
92 NOV -4 PM 5:08
OFFICE OF THE OSPVP
SECTOR & OPERATIONS POL.

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: November 2, 1992

TO: Mr. Bilsel Alisbah, VP, PAA

FROM: Daniel Ritchie, Director, AST

EXTENSION: 81312

SUBJECT: Strategic Staffing Issues - Procurement Stream

As requested in your memorandum of September 14, 1992, attached is a strategic staffing issues note for the procurement stream.

cc: Messrs. Srinivasan, Moscote, Ohri, Sanchez, Sethi, Singh, Walser, Howarth, Wackman, Aguilar, Braunewell

Messrs. de Capitani, Wessels, Karp, R. Harris, R. Iyer, V. Rajagopalan, Groen, Waterston

DRitchie:ns

PROCUREMENT SECTOR

STRATEGIC STAFFING ISSUES

Introduction

1. The Procurement "sector" in the World Bank differs materially from all other technical sectors:

   (a) procurement permeates all sectors rather than existing as a unique sector of its own;

   (b) procurement is usually a "second profession" for technical staff; all current Regional Procurement Advisors and most procurement specialists come from other technical professions; very few staff are recruited as procurement specialists per se;

   (c) until recently, procurement was assumed to be the responsibility of individual project officers and task managers for their projects; however, with the reduction in the number of engineers and the change in the lending profile over the past several years, procurement work has increasingly become a specialized function. Three of the four Technical Departments now have procurement support units;

   (d) the procurement stream is very senior - 10 of the 23 or higher level positions are at level 25 and above.

2. Not only is the procurement stream unique, the demands for procurement support have been increasing. The Wapenhans Task Force Report indicates that up to 40 percent of all project implementation support goes for procurement. Moreover, the shift in investment lending from infrastructure to the social sectors and from hardware to more technical assistance have increased the number of procurement transactions.

3. The nature of procurement work has also been changing. While document review and contract approval still constitute the bulk of procurement activity, there is growing demand, especially in socialist countries in transition, for assistance in procurement systems development. This policy and institutional work is particularly pronounced in the CIS and East Asian countries.

4. The <u>location</u> of procurement specialists is also an emerging question. Not only does the trend toward clustering procurement specialists continue (for better or worse, and this is a strategic issue), but an increasing amount of procurement work is being done in Resident Missions. (All procurement by the Interamerican Development Bank is done in the field.) In some cases (such as Turkey), it is proving to be an efficient method for more routine procurement processing activities.

5. Finally, a <u>'career' stream</u> for procurement specialists is now emerging. The Procurement Staffing Group has approved a career stream for procurement staff which is about to be published. It recognizes the importance of, and distinctions between, procurement monitoring, procurement processing, procurement advice and quality control, procurement planning and procurement policy making and interpretation.

<u>Strategic Personnel Issues</u>

6. Within this context of the changing nature of procurement work in the Bank, several strategic staffing issues arise.

<u>Shortage of Staff</u>

7. For the reasons stated above -- loss of engineers with procurement experience, growth of demand for procurement and the relative unattractiveness of procurement for many project staff -- there is a severe shortage of staff to move into the procurement stream. Despite a special request to each SOD Chief in the context of 1992 PPR cycle, only a handful of individuals have been identified for clearance as senior procurement staff.

8. The shortage of staff dedicated to procurement work is acute and will become more severe due to retirements in the next few years. Of the ten current procurement advisers and principal procurement specialists, four (40%) reach mandatory retirement within the next four years. There is an urgent need to identify and develop current staff at level 24 to fill these gaps. Also, six of 17 procurement staff at level 23/24 (35%) will reach mandatory retirement by 1996. Hence, ten procurement specialists need to be recruited just to replenish the stock of professionals in this sector due to turnover.

9. In addition to turnover, the procurement sector continues to be understaffed. The Asia TD procurement unit, for example, processes only about 20% of the Region's procurement work, and the addition of two new staff in FY 93 (for a total of 5 HL staff) still cannot keep pace with

demand. This shortage of staff can not be corrected by replenishing the current stock and by the use of consultants. The shortage is especially critical in ECA, but all other regions experience a shortage of procurement specialists. While the Procurement Staffing Group recognizes the Bank's resource constraints, allocation of additional resources dedicated to the procurement function in each region should receive priority attention. The Procurement Staffing Group estimates that eight to ten additional procurement specialists are needed over and above the turnover mentioned in paragraph 8 above in order to adequately address procurement issues on the Bank's lending operations. While this incremental number will need to be verified through an RVP by RVP review (once the current restructuring is completed), we estimate that a total of 10 replacement and 8 - 10 additional procurement specialists (compared to a total of 38 today - see attachment) will be needed over the next 3 years.

Skills Development and Training

10. Procurement is not the most attractive profession in the eyes of many project staff. Despite its critical importance to the efficiency and effectiveness of the Bank's work, it has been seen as routine and tedious compared to other project work. However, in light of the Wapenhans Report and the need for more systematic, and highly skilled, attention to project implementation, the procurement profession has to become more explicitly managed and developed. This means identifying potential entrants into the stream and explicitly preparing them through development assignments or other means. Also, it means designing a career stream which is more attractive and rewarding. In the short-term, current staff reaching mandatory retirement age of 62 who could continue employment should be identified through the 1993/94 PPR or new CDR process. Finally, the Bank should begin a systemic search of external candidates to join as procurement specialists (possibly starting as consultants and undergoing specific pre-assignment training).

11. The Procurement Staffing Group is of the opinion that, while short-term consultants are an effective way of meeting critical needs, long-term consultants should not normally be hired by managers for procurement work, given the critical fiduciary responsibility they perform. If there is a continuing demand, the preferred mode of meeting this long-term demand is through hiring procurement specialists on a regular or fixed-term basis. There is currently no data base from which procurement specialists can be identified, especially for short-term consultant assignments. Such data base should be developed and made available to operational managers and staff.

12. The Procurement Staffing Group also recommends exploring how field offices could be more involved in procurement work. There has been positive experience, for example in India, and the transfer of some procurement work to field offices may reduce work load at headquarters and transaction costs overall.

13. Finally, the procurement supervision function is an integral part of supervision of projects. As such, it needs to be planned and carried out with full coordination with other supervision activities, therefore, the training of task managers in procurement issues should be improved and reinforced. While it is recognized that task managers may not have the qualifications to handle complex procurement problems, they should be equipped to spot procurement issues in order to have them addressed by procurement specialists. Moreover, they must be able to inform and advise borrowers on the basic elements of the Bank's procurement process.

Conclusion

14. In summary, the most pressing strategic staffing issues for the procurement stream during the coming 2 - 3 years will be to:

- complete and publish the career stream description for procurement staff;

- identify, and prepare a development program for, potential entrants into the procurement stream, especially at senior levels; up to six or seven will be needed annually for replacement and growth;

- develop greater competence in procurement policy and institutional development work, especially for ECA and East Asian socialist countries in transition;

- evaluate the experience of, and potential for, using Resident Missions in procurement;

- assess the prospects for increasing the size of procurement support units as focal points for Regional procurement processing; and

- increase awareness of procurement issues in all staff through proper training and incentives.

Attachment

Procurement Staffing
July 1992

Units	16-17	18-20	21-22	23-24	25	26	27	Total
CODPR				2	2	1	1	6
AFRVP				1		1		2
AFR CDs		1		2				3
AFRTD		1	1	4				6
EAPVP	1					1		2
EA CDs	1			1				2
SASVP						1		1
SA CDs	2							2
ASTIN		2		1	1			4
LACVP				1		1		2
LAC CDs	5							5
EMTPR				1		1		2
EM/EC CDs		1						1
TOTAL	9	5	1	13	3	6	1	38

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File Title EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	**Barcode No.** 1210035
Document Date 10/15/1992	**Document Type** Memorandum

Correspondents / Participants
To: Robert Picciotto, Director-General, Operations Evaluation Department
From: David M. Goldberg, Deputy General Counsel

Subject / Title
Reporting After Project Completion

Exception(s)
Attorney-Client Privilege

Additional Comments

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Bertha F. Wilson	August 21, 2017

PORTFOLIO MANAGEMENT

TASK FORCE - WORKING GROUP

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Prem C. Garg	x-32532	H7-111	477-0712
Samir K. Bhatia	x-37065	N7075	334-0566
Michel J.L. Pommier	x-84004	A11-095	FAX # 76987
Joanne Salop	x-37499 ~~x-84005~~	A11-091	FAX # 70644
Dominique M. Lallement	x-82849	F12-027	FAX # 477-7199

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Soraya Massoud	x-80027	E1237	Fax # 477-7535

PETER EIGEN FAX # 61014

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~~FAX~~ / Bhatia

~~Fall~~

LINDA HOFFMAN FAX # [illegible]

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12/9/1992	Board Record

Correspondents / Participants

Subject / Title

EDS92-51 Executive Directors' Meeting - December 1, 1992, Effective Implementation: Key to Development Impact (R92-195) Statement by Mr. Bonavoglia

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

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EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
12/10/1992	Board Record

Correspondents / Participants

Subject / Title
EDS92-52 Executive Directors' Meeting - December 1, 1992, Effective Implementation: Key to Development Impact (R92-195) Statement by Mr. Aris Othman

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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Bertha F. Wilson	August 21, 2017

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THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

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92 SEP -8 PM 6:07
OFFICE OF THE OSPVP
SECTOR & OPERATION POL.

VP 9/18

DATE: September 8, 1992

TO: Mr. V. Rajagopalan, OSPVP

FROM: Jan Wijnand, Acting Director, COD

EXTENSION: 81490

SUBJECT: Wapenhans Task Force—Follow-up on Recommendations

1. The discussion draft report of the Portfolio Management Task Force presents 6 main areas of recommendations. Although such recommendations are still in a draft form, we have tentatively attached a table of follow-up actions to be undertaken by various units of the Bank. The table also presents COD's comments on specific recommendations when we felt that the report required major strengthening.

2. Finally, we would like to call your attention on the fact that the report lacks clear recommendations on specific subjects on which the report identified existing weaknesses that need to be addressed:

(a) improve rating methodology for project under supervision;
(b) strengthen management capacity for supervision;
(c) improve task management function for more effective supervision;
(d) strengthen peer review system; and
(e) greater management attention to portfolio management.

Attachment

cc: Mr. Wyss (CODDR) (o/r)
Ms. Salop (OSPVP)

PORTFOLIO MANAGEMENT TASK FORCE
FOLLOW-UP ACTIONS

A. Introduce the concept of Country Portfolio Performance Management linked to the Bank's core business processes

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
1. Introduce annual Country Portfolio Performance Reviews (CPPR).	CDs	TDs, LOA, Legal	FY94	Supplemental budget may be necessary in FY93 to conduct portfolio review with Borrower.
2. Reflect CPPR in country Strategy Papers.	CDs		FY94	OD to be updated.
3. Link CPPR to Business Plan and CAM.	CDs	PBD	FY94	
4. Link CPPR to Creditworthiness Review and Lending Allocations Review.	CDs	FRS, IEC	FY94	OSP sectors to assist CDs developing Country Portfolio Performance Indicators.
5. Introduce Annual Report on Portfolio Performance Review (ARPP).	CODOP	CDs, OSP sectors	FY94	
6. Link ARPP to OSP work programs.	OSP		FY95	OSP might consider retaining some flexibility to formulate work program outside of ARPP.
7. Develop Country Portfolio Performance Indices.	CDs	OSP sectors, CODOP FRS, IEC	FY93/FY94	

B. Provide for Country Portfolio Restructuring in adjusting countries including the reallocation of undisbursed balances of loans/credits

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
Restructure Bank's investment project portfolio in countries in adjustment.	CDs	LOA, Legal, CFS, IEC	From FY94	Restructuring appears particularly relevant for countries undertaking a "stabilization" program rather than for those in adjustment. Concept should also apply to countries where external and internal circumstances have suddenly changed. In addition to the above, a specific recommendation needs to be made to now which have been in problem status for, say, more than 1-1/2 years. Bank should set clear goals for tackling all "mature" problem projects through end FY93. CODOP to update ODs.

C. Improve the quality of projects entering the portfolio

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
1. Ensure Country Commitment.	CDs	Legal	FY93	OD 9.00 to be updated. COD to follow the Regions' methodological experimental application for appraising Borrower's commitment.

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
2. Foster broad-based participation in project preparation.	CDs	Legal	FY93	A clear statement is needed both for the sake of borrowers and Bank staff that the Bank's role is one of ensuring that each operation has built into the agreed project/program all the support which the borrower requires to carry out the project without any technical assistance from Bank staff beyond facilitation vis-à-vis actions under the Bank's control.
3. Introduce more rigorous analysis of project risks/sensitivities.	CDs	DEC, OSP, TDs	FY93	OSP sectors, CODOP, CODIS, DEC to assist in developing an indicator tracking system. ODs to be updated.
4. Emphasize implementability in design and appraisal.				
• Design projects in light of agency capability (complexity issues)	CDs	TDs	FY93	
• Implementation and procurement plan	CDs	TDs, CODPR	FY94	
• Cofinancing	CDs	CFS	FY94	New OD to be introduced on cofinancing.
• Staff Appraisal Reports	CDs	COD, Legal	FY94	CODPR to advise CDs on design of procurement plan. CODOP to assist in making the SAR a more practical document.
5. Ensure Borrower understanding of objectives, implementation plans, procedures and responsibilities.	CDs	Legal, EDI	FY93	

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
6. Reflect priorities in loan documents				
• Conditioning practices in general	CDs	Legal	FY93	This recommendation needs substantial rewording to clarify that essential covenants "beyond the control of the executing agency" should be recorded in the agreement with a guarantor/government.
• Use of financial covenants	CDs	CODOP, OSP, Legal	FY94	COD's study on compliance with financial covenants should be completed by end of FY93. ODs updated accordingly.
• Loan documents to include implementation and operation plans.	Legal	CDs	FY94	
7. Strengthen role of Legal Department; create covenant database.	Legal	CDs	FY94	

D. Define the Bank's role in and improve its practice of Project Performance Management

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
1. Clarify and adhere to the Bank's proper role.	CDs		FY94	See comments under C2.
2. Pay special attention to start-up.	CDs	EDI	FY94	CODPR to continue support to procurement training.
3. Develop Performance Monitoring Systems based on implementation plan and critical indicators.	CDs	TDs, Legal	FY94	CODOP and CODIS to provide support in developing tracking system.
4. Improve progress tracking and Form 590.	CODIS	CDs, CODOP	FY94	CODOP and CODIS to provide guidance/assistance.

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
5. Use "Mid-Term" Reviews only when necessary.	CDs		FY93	
6. Monitor changes in Borrower commitment.	CDs		FY94	
7. Increase Bank's decisiveness in Portfolio Performance Management.	CDs		FY93	"Mature" problem projects should be dealt with by end FY93.
8. Make standard bidding documents mandatory and work to improve borrower procurement practices.	CDs	CODPR, Legal	FY94	
9. For ICB, revise the guidelines and standard contracts.	CODPR	Legal	FY93	
10. Create an Advisory Bank Operations Procurement Review Committee.	CODPR	Legal, CDs	FY93	Likely to be opposed by the Regions, but should be supported.
11. Introduce thrid party verification and certification.	CDs	CODPR, Legal	FY94	Potential problem could be to persuade Borrower to accept the requirement and pay for the auditor's cost out of the loan.

E. OED

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
1. Emphasize development impact in OED's independent review • OED should produce an annual assessment of the President's ARPP.	OED		FY94	We object to this recommendation on the ground that it would move OED into the evaluation of the "active" portfolio rather than its traditional role of ex-post evaluation.
• Impact evaluation reports should in future play a longer role in OED's work program.	OED		FY94	
• OED should continue to produce special studies.	OED		FY93	
• OED should continue to assist Borrowers in enhancing ex-post evaluation.	OED		FY93	
2. Replace the PCR with an Implementation Completion Report.	CDs	CODOP	FY94	OD on PCRs to be revised in FY93.

F. Create an internal environment supportive of better Portfolio Performance Management

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
1. Emphasize on-the-ground net benefits as the prime value.	CDs	Personnel	FY94	This recommendation should receive a more elaborate treatment.

Recommendations	Lead Unit	Other Units Involved	Proposed Timing	COD Comments
2. Hold line managers accountable for results in Portfolio Performance Management.	RVPs/CDs	Personnel	FY94	
3. Recognize and reward Portfolio Performance Management work.	RVPs/CDs	Personnel	FY93/94	
4. Enhance skills required for Portfolio Performance Management				
• Recruitment	Personnel	CDs	FY94	Technical skills matter merit attention in a broader context. Specific studies need to be undertaken.
• Introduce training on project performance management.	Personnel	CDs, OSP sectors	FY93	OSP to advise on future training programs.
5. Establish resident missions for all countries with significant programs.	CDs	Personnel		CODOP to produce an OD on the role of resident missions.
6. Use Information Management Technology to better advantage				
• Bank information needs should be tailored to business decision needs.	CDs	CODIS	FY94	CODIS to assist CDs in reviewing their information needs.
• Provide assistance to Borrowers to better use information technology.	CDs	CODIS	FY94	CODIS to assist CDs.
• Establish a global communication network.	ITF	CDs, OSP, COD		

To keep. Rajagopalan
55055

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

RECEIVED
002
92 JUL 24 PM 5:56
OFFICE OF THE OSPVP
SECTOR & OPERATION POL.

8/14

DATE: July 23, 1992

TO: Distribution Below

FROM: Willi A. Wapenhans, EXC

EXTENSION: 80121

SUBJECT: Report of the Portfolio Management Task Force

1. I attach a revised draft of the report on Portfolio Management. We have attempted to incorporate the many useful comments we have received and importantly the constructive reactions of the Steering Committee at the mini retreat. Please feel free to let me know where we may have failed to take sufficient account of your concerns.

2. The report, still a confidential discussion draft, is being made available to the Managing Directors. I have suggested to Mr. Stern that he may wish to call for an extended Loan Committee meeting to include all RVPs and other directly affected VPs to review the recommendations before they are finalized.

cc: Members of the Advisory Committee
Members of the Steering Committee
Members of the Task Force

8/28.

VR o/r
~~LTK~~
~~JS~~
?attendees
? copies

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: August 5, 1992 11:06am

TO: See Distribution Below

FROM: Jane Armitage, EXC (JANE ARMITAGE)

EXT.: 81114

SUBJECT: Portfolio Management: Discussion of Draft Report

A copy of the draft report prepared by the Task Force on Portfolio Management was sent to you last week by Mr. Stern, with a covering memorandum requesting that you organize internal discussions on the draft report with your management teams.

On Friday, September 11 at 10:30 am there will be a meeting in the conference room in E1227 to review the technical recommendations of the draft report. We suggest that the Directors of the Technical Departments attend this meeting, together with two additional representatives per Region (selected on the basis of their comparative advantage on technical issues). We suggest that OSP also nominate two Directors to participate in this meeting.

On Monday, September 14 at 10:30 am there will be a meeting in the conference room in E1227 to discuss the managerial and procedural implications of the draft report. We suggest that the Regional and OSP Vice Presidents participate in this meeting, together with two representatives each from their respective management teams.

DISTRIBUTION:

TO:	S. Shahid Husain	(S. SHAHID HUSAIN)
TO:	Edward V.K. Jaycox	(EDWARD V.K. JAYCOX)
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A-127

1. Wapenhans Task Force Report.

2. Naim Committee Report followup – Taharse memo & Sven's note.

3. Regional L/C OSP procedures – Quarterly progress Report –

4. Other business –
Env. Board Report } WDR Topics (due Sept. 10), Report on VP board, TFAP,
Baird Comments on O.D. }
Policy Committee meetings (Friday-Morning)

ODs – Badly drafted, misused & misinterpreted.

- Technical Expertise.
- Internal to the Bank – How we get things done in field.
- Supervision time 70% in HQ 30% in field
  Report Criticises it but will make it worse!
- Distinction between Countries not made.

Market failure } – Policy failure

Poverty – Market answer

- Organisation issue – Skill mix
- Not Budget ~~neutral~~
- Env. not a PSE – integrated
- Procurement Committee –
- Indicator using $ value
- Have not managed – I agree c̄ Wilfried

- Supⁿ & other activities.
- Trade off – which "other" activities – ?
- 70% of Supⁿ in HQ. Is this ok.
- Bank – borrower relationship.
- our own behavior / attitude in Banks. How Can we change.

Management Contract

Implementation – incentives.

Disagreement with recommendations:

Skill mix – Technical Skills – not accepted (there are lots of eco. Engs.)

Procurement Committee rejected.

Disagreement with the idea of an Annual Pr. Report on all countries

does not make sense ~~onni~~. Change questioned.

Agreement: Management Contract should be revised.

Genuinely embarrassed – big problem –

We don't do enough in the field – Sr. Managers should board.

See projects in field.

Strong sense of increase –

Issue of Skills is related to fragmentation.

Super Soils Eng asked to supervise financial aspects

Roads project supervised by Municipal Engineer in Bangladesh.

Where Soils impt. in that Country.

Attention given to process & procedure detracts from Quality –

* 17% of our professional staff think what they do at appraisal is relevant to Quality of Implementation.

Report uses Statistics – portrayal of Staff attitudes.

Institutional & Policy issues – no ownership.
We are becoming judge & Party –

L.P: 1. Reinstate professional sup.n Get rid of TDs – old Sector dept type –
2. Have initiating project brief prepared by borrower –
3. Procurement Boards, External Audit, Systems, etc.

M.P. 1. Get rid of TDs.
2. Problems of Entorlance & dev. impact which require professional input.
should govern supervision.

Correct person – { Ratability to professional judgement
{ on development impact.

- Gradual but steady deterioration in Portfolio.
- Technical problems did not appear to be prominent causes of decline.
- Procurement – which is estimated to take more than a third of Bank's total staff time devoted to Supn. is another cause of major problems.
- Adjustment lending less affected than investment lending. In FY'91 only 11% of adjustment projects were in trouble.

- 400 or 17% of portfolio are problem projects
  229 of them or 57% had been so for 2 consecutive years.
  144 or 28% " " " 3 " "
  60 or 15% " " " more than 3 " "
- main implementation issues in problem projects of over 3 years are counterpart financing, project management procurement & disbursement.
- About 50% of staff involved are technical specialists, 10% after 3 years
- Typically same problems & same recommendations were repeated mission after mission.

XXX
- Data suggests managers are reluctant to take decisive action except in extending closing dates.
- Many Bank staff perceive appraisal as marketing devices for securing Loan Approval – a professional assessment of a project or a reform proposal is not always the case today.
- 56% of respondents to Task Force Survey said their Division chiefs lacked time or expertise to help achieve substantive Quality at entry and guide them towards realistic objectives.
- only 17% of staff felt that analytical work done during project preparation was compatible with achievement of project Quality.
- Existing practices tend to put a premium in recruitment, in formulating work programs and in promotions – on conceptual & planning abilities rather than on managerial & implementation experience.

- A revealed preference among Bank staff and managers for conceptualization, planning & design.
- 76% of staff consider the resources allocated to portfolio management as inadequate – although in recent years not all resources budgeted for supn. have been spent.
- Even though staff report severe time constraints on supn., budget analysis shows that managers favor lending when allocating resources.
- 71% of staff felt Task managers are not only over worked but overwhelmed by responsibilities for which they have little or no prior Bank experience or in Bank training.
- Senior staff work on new lending – Junior staff (54% in grades 23 and below) new staff and YPs are frequently given supn. responsibility.
- Work done in H.Q accounts for 70% of time spent on supn. and only 30% in field.
- Inadequate attention to problem solving during supn. missions.
- inexperience of staff in project management.

(page 20) • Usually, staff and managers respond to non-compliance (with covenants) by ignoring it, waiving it or occasionally taking informed steps to deal with it.
- 62% complain about general absence of feedback on supn., – this is consistent with lack of management attention.
- CSP are silent on lessons learnt from portfolio performance.
- Follow up on implementation problems is slow – a fact –

Staff perceive a lack of attention to implementation issues on the part of Senior Managers.

c: Mr. Wyss

V. Rajagopalan o/r
cc: LRM
JS

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003
92 AUG -5 AM 9:59
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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 4, 1992

TO: Mr. Willi A. Wapenhans, EXC

FROM: R. Picciotto

EXT: 84569

SUBJECT: **Portfolio Management and Evaluation**

Having commented on other aspects of the Task Force Report on previous occasions, this note deals mostly with the evaluation function which is treated in three different places -- the main report; Annex A (Supporting Measures) and Annex D (Operations Evaluation in the Bank). However, before dealing with evaluation proper, I wish to make a few comments on closely related issues.

Implementation

While sound, comprehensive and refreshingly frank, the diagnostic of the Task Force is not accompanied by a detailed action plan. In this sense, the report may be falling prey to the same weakness it is decrying: a predilection for conceptual analysis and a reluctance to focus on implementation. Apparently, design of detailed prescriptions was deliberately postponed to a second phase. This gap needs to be filled promptly.

Country Focus

The Report recommends linking country portfolio performance management to core business processes. However, the specific nature of country portfolio performance reviews is not clearly described. Nor is the new ARIS concept (APRR) made explicit. Finally, the nature of linkages between CPPR and the creditworthiness exercise is far from clear.

Institutional Development

Most importantly, the report does not acknowledge that far more emphasis on institutional development in the design of country assistance programs holds the key to sustainable improvement in portfolio performance. In particular, the report does not sufficiently highlight the importance of improved financial controls, domestic contracting and procurement practices. Generally, more explicit support for the recommendations of TARTF would have been helpful.

Quality at Entry

The set up of an improved economic evaluation framework is well articulated although methodological specifics are lacking. However, there is inadequate emphasis on the need to upgrade the quality of financial appraisal, a topic which deserves the same degree of commitment as ECON has begun to elicit. Furthermore, the report should make clear when and how projects already in the portfolio should be tackled.

Portfolio Restructuring

The reallocation of undisbursed balances of loans and credits within a country portfolio (as part of restructuring) is limited to "countries in adjustment". Clearly, the policy framework in the country should be satisfactory for such flexibility to be exercised. However, adjustment lending should not be a prerequisite for making use of this instrument. There may be good performers, already in a post adjustment lending phase, who (saddled with problematic portfolios) would greatly benefit from this kind of facility.

Mid-Term Reviews

The report recommends that midterm reviews should be used with discretion and not be made mandatory. While timely decisions should not be postponed just because a midterm process is in place, routine supervision as currently practiced has not proven sufficient for timely restructuring. The strong presumption should be that a mid term review will normally be undertaken. And OED should take on a review of the mid-term process on a regular basis, so that if required to do so, the DGO can attest to its adequacy. ?X

Inspection vs. Evaluation

Unfortunately, the report does not deal with the need for an inspection capacity within the Bank. It may be the lack of such a capacity which first triggered the demand for an independent commission on Narmada. This gap could lead to pressures on OED to create such a capacity. Such an approach would not be in line with OED's current mandate. Neither would a change in mandate be desirable: evaluation is best kept distinct from inspection and control.

A central facility for field inspection, kept separate from regional management would help to improve supervision. The need for senior Bank management to have a credible capacity to follow through on external complaints is also real and growing. While External Relations can and does help channel and deal with routine inquiries, it cannot be expected to play an ombudsman's role where controversy reflects prima facie evidence that Bank policies and standards may not have been observed in letter or in spirit.

Public scrutiny of Bank operations will continue and the exceptional need to set up another independent commission cannot be ruled out. However, based on the self evaluation principle on which the Bank's evaluation function is built, it would be best for management to be endowed with a "first line" capacity for inspection and control. Where the Board concludes that an outside, independent review is needed, the review should be contracted through the Office of the DGO which has the necessary independence and expertise.

Evaluation

While the overall diagnostic regarding evaluation offered by the report is sound, the recommendations are dispersed between the executive summary; the main report and two annexes which are not fully consistent in their substantive emphases, let alone their tonality. The final report should provide a clear, comprehensive and coherent statement of what the task force recommends with respect to evaluation, reflecting the comments below.

The executive summary recommends to "preserve OED's credibility as an instrument of independent accountability and refocus ex post evaluation on sustainable development impact." This emphasis is misplaced: there is no current challenge to OED's credibility or its independence. A positive statement of the need to broaden the scope of OED's work program (implicit in the rest of the report) should replace this language.

Section V of the report states that OED should abstain from any advice or comment on any activity that may be subject to future OED evaluation to avoid dilution of its independence. This formulation is paradoxical since to prevent such feedback would in and by itself limit OED's independence, let alone affect its relevance. And as stressed in Annex D, OED should not be inhibited in providing early feedback, provided this is done in a way that prevents involvement in decision making.

The report also proposes that the PCR should become an Implementation Completion Report (ICR) which would inter alia assess plans for the transition to operations and define the indicators to be used to monitor operations and development impact. However, the ICR stage is late in the game to define tracking indicators. These should be laid out in the appraisal report and reporting requirements agreed at negotiations. For the existing portfolio, there ought to be a one year program to define a revised evaluation framework for all loans and credits in the portfolio. In addition, until the new style ICR is put in place and its routine production is considered of adequate quality, it might be imprudent to withhold distribution of ICRs from the Executive Directors.

The report notes that OED should evaluate the Annual Report on Portfolio Performance (ARPP). This is a valid role which will, however, require substantial enhancement of OED's process review and methodological capacity. In any event, it does not seem appropriate for OED to comment on a report submitted by the President to the Board. It would be far preferable for the ARPP to be submitted by the OSPVP to the President for circulation to the Board.

Finally, while the budget impact section at the end of the report recognizes that reallocation will not be adequate to fund OED's recommended emphasis on impact evaluation work, it should make clear that incremental resources are also needed for expanding OED's work in country assistance program evaluation; early feedback; process audits and evaluation capacity advisory services since these have also been endorsed by the task force.

As summarized in the attachment to this memorandum, Annex D makes excellent recommendations which should all find their way into the main report.

cc: Messrs. Scott, Richardson

ATTACHMENT

SUMMARY OF RECOMMENDATIONS CONCERNING EVALUATION

Main Report

Section IV recognizes the importance of "learning lessons from experience" through three distinct cycles: (a) feedback in a country context; (ii) feedback according to projects; sectors and program objectives; (iii) professional learning through training and dissemination.

Section V (Principal Recommendations) stresses that evaluation must be independent; uninvolved in decision making; concerned with objective evaluation of policy and practices; and increasingly focussed on impact assessments.

Annex A

This annex quotes approvingly from the DGO's report to JAC about the role of evaluation. It emphasizes: (i) the need for an OED assessment of the annual report on portfolio performance, including methodological aspects; (ii) the need to redeploy resources from PCR audit to impact assessment; (iii) the need for special studies; (iv) the role of OED in assisting member countries in ex post evaluation in the context of broad based public sector management programs managed by the regions.

The annex also recommends that the ICR (new style PCR) should no longer be circulated to the EDs (but be available on request) and that it should form the base for OED audit decisions, a proposition which should be revisited after a phase-in period for the new instrument. Annual performance reports prepared by the borrower after the ICR would be copied to OED and help in impact evaluation. The timing, frequency and extent of reporting would be set during negotiations.

Annex D

First, the annex rightly emphasizes the link between evaluation and the portfolio performance information system and stresses the need for institution building assistance by the Bank to achieve it in the interest of project owners.

Second, it stresses the need for periodic self assessment and audit of country assistance programs, as a new product requiring development. This is a fundamental proposal with major resource implications.

Third, the annex refers to a consolidated annual evaluation work plan for the Bank and it states that the DGO should henceforth attest periodically to the adequacy of the Bank's consolidated evaluation program. This raises the issue of integration of IAD's reviews of operational practices and policy processes.

Fourth, the annex proposes early feedback, e.g. by exposing all executive project briefs to informal comment by evaluation staff in order to ensure that planning for new projects benefits from all relevant experience. This feature already exists in IFC.

Fifth, it notes that process evaluations should 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" while the DGO should henceforth attest through selective audits to the adequacy of evaluations not carried out by OED. Here again, the proposal makes eminent sense but it involves resource implications.

The World Bank

THE WORLD BANK/IFC/MIGA
1818 H Street, N.W.
Washington, D.C. 20433

PLANNING AND BUDGETING DEPARTMENT
Office of the Director
FAX Number: (202) 334-0566

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008
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1 MS
2 DH
3 VR

FACSIMILE TRANSMISSION

DATE : September 9, 1992

TO : Mr. V. Rajagopalan

FROM : Samir Bhatia

EXT. : 37065

SUBJECT : See the attached

The attached may be of some interest to you.

Samir

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92 SEP -9 PM 1:26
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Total number of pages including cover sheet: 62

If you experience any problem in receiving this transmission, please call telephone no. (202) 473-0217.

CC: TASK FORCE MEMBER

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: September 8, 1992 10:58am

TO: W. Wapenhans (W. A. WAPENHANS) D-13-21

FROM: Francisco Aguirre-Sacasa, AF3DR (FRANCISCO AGUIRRE-SACASA)

EXT.: 34380

SUBJECT: Draft Report of the Portfolio Management Task Force
Comments from the Africa Region

1. Africa Region managers and staff have reviewed the draft report on portfolio management, which the task force which you head has prepared. The report, and its recommendations, have also been widely discussed --including at the DMT and RMT levels.

2. The report and the issue which it raises --how to give greater emphasis to the successful implementation of ongoing Bank-financed operations in order to truly bring about development-- is one which has struck a responsive chord at all levels. Staff expectations have been raised by the report and there is a genuine hope that the Bank's culture will be modified as the result of this exercise and that greater priority will be given by the institution to strengthening efforts "on the ground." This, by the way, has been a regional preoccupation for some time and has resulted in Africa's own attempt to build an "implementation culture."

3. The following paragraphs contain our major comments on the report. More detailed remarks are found in the notes prepared by our Country and Technical Departments, which I am sending you separately.

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

4. We welcome the establishment of a linkage between country performance and new lending. The report should, however, make this important message clearer and more prominent, i.e., that better-performing countries should be rewarded with higher lending volumes and that, conversely, countries whose implementation record is weak should --other things being equal-- receive less new lending. This call for more selective treatment of countries needs to be a core message of the report.

5. It is equally important, in our view, that the report break the long standing and rigid link between new lending and overall allocation of Bank staff/cam resources to a country. In Africa, for example, institutions tend to be weaker than in

other regions and the Bank, therefore, needs to play a more pro-active role in project execution. Consequently, resources allocated to countries should reflect the labor intensive nature of supervision and should not be cut down simply because we have decided --as in the case of Nigeria-- to do less new lending until execution of the portfolio improves.

6. While we sympathize with the quest for a meaningful quantitative measure of country performance, we cannot endorse the specific proposal made in the report. Instead, we favor an approach that will be more judgmental and which would make allowances for country conditions. For instance, we do not believe that a project's importance is necessarily proportional to its dollar value --yet this is the implicit assumption in the choice of weights used to calculate the country portfolio index. In any event, this index, which should first be tried on a pilot basis, is unlikely to be more than one among many criteria on the basis of which management will assess country performance. In contrast to the proposals of the report, our experience in the Africa Region shows that collegial involvement of Country Teams leads to realistic assessments of project performance ratings (thus, potentially, to realistic country ratings).

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

7. Portfolio restructuring should not be limited to adjusting countries: it should be encouraged wherever needed, whether the country is adjusting or not. We also recommend that the authority required to approve portfolio restructuring lie within the Regions, except when Board approval is indispensable (for instance, where substantial changes are proposed in project description).

C. Improve the Quality of Projects Entering the Portfolio

8. Fostering Borrower commitment and beneficiary participation during project preparation is a crucial recommendation. While we in the Africa Region have tried a number of approaches to reach this objective (e.g., through participatory approaches to project preparation, project launch workshops and beneficiary assessments) we feel that the report should provide more practical guidance about ways to achieve greater Borrower commitment and beneficiary participation. The report should also distinguish the roles and responsibilities of the Borrower from those of beneficiaries (their objectives are not necessarily the same; indeed, sometimes they may be at variance with each other). Finally, the notion should be dispelled that greater Borrower commitment will necessarily result in less Bank staff involvement.

9. The report indicates that there is "strong consensus among staff that the current quality review system is superior ... because of close associations between project teams and Departmental Management Teams, Country Teams and Peer Review groups at an early stage of project processing." We therefore are disappointed that the report does not recommend shoring up these systems for quality enhancement in project implementation.

10. It is refreshing to see the concept of "implementability" at the heart of project appraisal. However, the report should go one step beyond and develop the notion that implementation should not rely exclusively or primarily on technical assistance but on the gradual building of local capability through long-term commitment with local agencies (for instance, with repeater projects). We support the use of implementation manuals as working documents (not necessarily as part of the legal documents) keeping in mind that flexibility must be secured, particularly in the social sectors, where conditions may change significantly during project implementation. We suggest that the report examine the advantages associated with an expanded Project Preparation Facility which would allow alternative implementing arrangements to be tried in some cases during preparation, thus helping avoid the "limbo" through which projects sometimes go during their initial phase.

11. We agree that project complexity should be kept to a minimum. Putting this principle into practice would result in a larger number of (smaller, better focused) projects which could be accommodated by the Board under streamlined procedures.

12. With respect to legal documents (contract), we would like the report to make specific recommendations to deal with the apparently frequent lack of covenant compliance by Borrowers. In a similar vein, the concept of Borrower accountability needs to be developed, together with its practical implications.

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

13. The report indicates that 12 staff weeks per year per project do not allow enough time to meet all the demands of portfolio management. Yet, it fails to make any recommendation in this respect. At the very least, and short of calling for increased resources, the report should recommend that Task Managers be relieved of some of the administrative, inward-looking work they currently have to do. More generally, we suggest that the report be closely re-examined to determine their likely impact on the amount of administrative work that would have to be performed by Task Managers.

14. Task Managers' ability to manage project implementation should be examined against the broader background of the post-Reorganization Bank. It is regrettable that the report does not explicitly cover one area of its mandate, namely, the analysis of "the regional management structure and practice for supervision, including the roles of TD, SOD and country teams."

15. The distinction between mandatory "core" supervision responsibilities and implementation assistance should developed with some reference to the strength of local institutions. In many African countries, the weakness of local institutions effectively requires Bank staff to go beyond "core" supervision.

16. We do not support the proposal to establish a central advisory Bank Operations Procurement Review Committee with mandatory review functions. This would tend to undermine the devolution of responsibility to the Regions. In addition, it would not significantly modify our current practices since, at present, we invariable consult CODPR on large, complex and controversial procurement. Instead, we suggest that the report make specific recommendations about improving procurement skills among Task Managers and strengthening Borrowers' procurement capacity.

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

17. We support the recommendation that OED focus more on impact evaluation and sustainability. It would be advisable for evaluations to be clustered, rather than undertaken on a project-by-project basis, to better disseminate lessons learned. We do not believe that the proposed evaluation by OED of the President's Annual Report of Portfolio Performance would yield much. OED's focus should be to evaluate completed operations, not internal management reports concerning the current portfolio.

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

18. This is the most important of all recommendations, the one that most resonates with the aspirations of Bank staff members, and the one they have greeted with the greatest skepticism. The supporting measures associated with this recommendation fall short of what is needed to actually implement it. The experience of private firms that have gone through "cultural changes" similar to the one proposed by the report suggests that, without leadership and commitment from the Board and senior management, the proposed change will simply not take place. The report should say so.

19. We fully agree with the need to modify the "approval culture," which is at the root of the way we do business. It is lending targets that drive the Bank's administrative budget, create the system of incentives perceived by staff, effectively de-emphasize the implementation of the current portfolio, and downplay the need to evaluate results on the ground.

20. We fully support the recommendation that excellence in implementation be comparable to excellence in lending work as a criterion for staff promotion to Grade 25 and above. It will be necessary to find a good way to measure excellence in implementation, one that is not based on paper products or internal documents but on actual results on the ground (taking into consideration easy or difficult country institutional environment). More generally, we recommend that promotions to other grades also take into account similar criteria.

21. We fully support the recommendation that line managers should be as accountable for managing country's portfolio performance as for new lending. However, we believe that the recommendation should be stronger, clearer and much more precise. For instance, at what point should a manager be declared to be a non-performer, and what would be done in that event.

22. I hope that these comments are useful to you. I am sending you hard copies of the individual departmental submissions.

CC: Edward V.K. Jaycox (EDWARD V.K. JAYCOX)
CC: Michael J. Gillette (MICHAEL GILLETTE)
CC: Francis X. Colaco (FRANCIS X. COLACO)
CC: Francisco Aguirre-Sacasa (FRANCISCO AGUIRRE-SACASA)
CC: Edwin Lim (EDWIN LIM)
CC: Katherine Marshall (KATHERINE MARSHALL)
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CC: Mohamed Muhsin (MOHAMED MUHSIN)
CC: Kent Lydic (KENT LYDIC)
CC: Max Pulgar-Vidal (MAX PULGAR-VIDAL)
CC: Africa ISC Files (AFRICA ISC FILES)

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 9, 1992

TO: Mr. V. Rajagopalan, OSPVP

FROM: R. Srinivasan, CODPR Rani

EXTENSION: 84090

SUBJECT: PMTF (Wapenhans) Recommendations

RECEIVED
019
92 SEP -9 PM 5:20
OFFICE OF THE OSPVP
SECTOR & OPERATION POL.

I have attached a brief summary of the recommendations on PROCUREMENT and additional arguments/rationale for the Advisory Operational Procurement Review Committee, for major contract awards.

cc: Messrs. J. Wijnand (CODOP); H. Wyss (CODDR) o/r

P-1866

PROCUREMENT

PMTF (WAPENHANS) Recommendations

1. CODR supports all the recommendations of the PMTF in respect of Procurement. In fact CODPR assisted the TF in developing the recommendations.

2. The recommendations and their impact on OSP - CODPR - workload are briefly listed below:

List of recommendations Annexure A page 2	Action by
(i) Mandate use of S.B. Documents	-Regions -CODPR to develop more SBDs
(ii) Improve borrower procurement practices (planning, documents etc.)	Region
(iii) Review Guidelines in the area of Social Sector and Private Sector Operations. Improve S.B.Ds by introducing clauses on quality assurance, independent engineers etc.	CODPR
(iv) Create Advisory Operations Procurement Review Committee chaired by CODPR.	CODPR/ Regions/ Legal
(v) Introduce third party verification for "post-review" contracts and for "Country Procurement Review".	Region/ CODPR

3. Regions would probably oppose (iv) creation of Advisory Procurement Review Committee chaired by CODPR, on the grounds of unnecessary 'centralization'. The following are some points in support:

   (i) applies only to large contracts ($25M for goods/works and $10M for consultants).

   (ii) would apply to less than 50 or 1% of all contracts covered by prior review but covers over 50% of the value of all contracts covered by prior review.

   (iii) review involves numerous 'judgements' of technical, commercial and at times legal nature, see Attachment 1 for illustrations.

   (iv) essential to ensure consistency in the exercise of these judgements among regions since bidders, the procurement rules and the supervisory agency are the same.

(v) even today cases of a complex nature are brought to CODPR, to provide expert advise and arrive at an institutional position. See illustrations at Attachment 2. Proposal is to systematize this process.

(vi) provides CODPR with invaluable case history as input for policy/Guideline review.

(vii) both ADB and IDB have a Central Procurement Review Committee. The former reviews all conracts above $3 million and others which are referred to it, and the latter reviews award proposals in case of complaints (on an exceptional basis).

4. Other options:

(i) Standing Procurement Advisory Committee to which the Region/Legal, may bring cases at their initiative, not mandatory.

(ii) Regional Committee with CODPR/Legal participation.

Issues that Arise in the Evaluation of Bids for Major Contracts for Equipment/Civil Works

-- Technical

- technical responsiveness to various provisions in the bid specification.
- acceptability of alternative design/features/equipment
- seriousness of technical deviations -- which justify rejection of bid, and which can be tolerated, but has to be evaluated
- quantification of acceptable deviations
- acceptability of technical personnel (dam)
- acceptability of methods of construction
- adequacy of construction equipment
- allocation of merit points to technical features

Commercial:

- procedural -- acceptability vis-a-vis market practice, bid bond format -- alternative instruments
- warranty obligations and their coverage
- spare parts/service facilities

Legal:

- acceptance of contract terms
- applicable law
- liabilities

Illustration of CODPR Involvement in the Review of Large Contract Award Proposals

B. Award Proposal

Technical

Bangladesh:	LPG plant	--	quantification of deviations (spares, warranty) technical responsiveness Legal liabilities
Turkey:	high arch dam	--	method of construction (pouring concrete)
Columbia:	concrete dam	--	method of construction qualification/experience of bidder
Malawi:	highway	--	technical omissions/quantification commercial issues (retention money)
Ethiopia:	trucks	--	life cycle costing quantification of fuel cost/spares Legal -- contract terms
India:	rails	--	tolerances on profile ability to perform (Yugoslavian)
Hungary:	pay telephone	--	technical responsiveness
China:	proposal to rebid	--	lack of competition ??
	port cranes	--	tolerances on lifting capacity/reach
Poland:	drilling equipment	--	technical responsiveness
Thailand:	computers	--	technical responsiveness to wetstone test
		--	acceptability of merit points awarded

Nigeria:	garbage trucks	--	acceptability of parts points awarded for technical merit
Chile:	highway	--	capability to perform
Turkey:	dredgers	--	technical responsiveness
Turkey:	mine locomotives	--	technical responsiveness

A L L - I N - 1 N O T E

DATE: 30-Jul-1992 11:19am

TO: V. Rajagopalan, OSPVP (V. RAJAGOPALAN, OSPVP)

FROM: Joanne Salop, OSPVP (JOANNE SALOP)

EXT.: 37499

SUBJECT: Wapenhans Task Force Report

Raj,

I attach a draft note to Willi on the above. Kindly let me know how you would like to proceed. Willi is away until August 10. We could therefore hold the comments until after you are back -- and that would allow us to reflect the discussion with the OSP directors on Monday. But if we wait, we will probably miss Ernie and Sven, whom you may want to cc (in addition to Yves and Bob).

Joanne

CC: Richard Meyers (RICHARD MEYERS)

To: Willi

From: Raj

Subject: Portfolio Mangement Task Force Report

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1. This report addresses an important topic; it has potentially far-reaching consequences for the institution. However, in its present form, the report is not fully convincing. I would urge you to reconsider the logic of the report's argument and the supporting evidence -- and most importantly the consistency between the two -- as you proceed to bring this exercise to closure. My specific concerns follow.

2. Logic. The structure of the report's argument is:

* the portfolio has deteriorated - G
* there are several causes: global factors, country factors, and project factors; quality at entry is inadequate, hence projects are handicapped from the beginning
* staff believes that management does not care about supervision
* the solution includes greater focus on portfolio management; a clearer definition of the Bank's role in implementation; easier restructuring of the portfolio in adjusting countries; better risk and appraisal analysis to weed out the weak projects before they enter the portfolio; and better incentives for staff to do supervision work.

3. Evidence. The evidence presented and referenced in the report is convincing that quality at entry is weak and that macroeconomic, institutional, and project complexity factors are important causes of poor project performance. What is surprising, however, is the total lack of evidence on the role of supervision in project outcomes. Paragraph 23 discusses serious non-compliance with covenants; and paragraph 25 discusses supervision of "problem projects". These paragraphs, however, provide no evidence on the importance of supervision in determining whether projects are satisfactory or not. Paragraph 23 simply tells us that the Bank does not exercise its legal remedies; paragraph 25 tells us that the Bank supervises "problem projects" more intensively than other projects. The "evidence" cited in Chapter IV is all about staff opinions about inadequate attention to supervision; there is nothing about whether supervision matters for "on-the-ground" results.

4. Prescription. Based on the diagnosis and the evidence, it is easy to accept the report's recommendations to strengthen appraisal analysis, making it more realistic and risk-conscious.

Plus it makes sense to use indicators to track performance during implementation, as a possible early warning system for emerging problems. It also makes sense to focus managers' attention on the portfolio by linking portfolio mangement to core business processses. It is less easy to accept some other recommendations, which do not seem justified by the report's analysis. These are:

* Incentives and Skills Enhancement: According to the report, project/portfolio management performance should play a role in staff advancement, and training should be developed for supervision. But, as noted above, the report provides no evidence that supervision matters. Shouldn't advancement be tied to improving quality at entry, since the report provides ample evidence that getting it right at the design stage is the critical step? Shouldn't training likewise be focused on identification, design, and appraisal?

* Restructuring in Connection with Adjustment: The WDR 1991 research cited in Chapter III suggests that projects do better with good policies even if the policy framework was not in place at the initiation of the project. If so, what is the evidence that adjustment lending undermines project performance? If this evidence exists, it should be presented, and juxtaposed against the WDR results; if it does not, the recommendation should be dropped.

* Bank's Role in Portfolio Management: While I support the idea of the Bank listening more and leaving adequate scope to country counterparts, I am not convinced by the concern that our involvement may "dilute borrower accountability." The Bank is interested in facilitating development, not in assigning blame. I can imagine a reduced role for the Bank in much of Africa leading to more local accountability and less development. Would that be a change for the better? How do you expect the proposal to work, in countries where Bank staff play a critical role? What specific changes from the present do you envisage?

* Annual Portfolio Performance Report: I agree with the idea to replace ARIS's focus on supervision with a focus on the portfolio. But if the primary concern is country director accountability, I would keep additional material to a minimum. The present concept described in the report -- and especially Annex A -- appears to be a not fully thought out. As described, it would be a multi-focused mega-task, incorporating ARIS, RAL, the annual sector reviews, and reports on the PSEs. In my view, this would be a tremendous mistake. The inclusion of sectoral annexes and annexes on the areas of special emphasis will dilute the focus on country portfolios. It will also duplicate other work. The sectoral material can be handled in the context of the sector strategy papers proposed by the the Naim Committee. For the programs of special emphasis, we have the progress reports on poverty reduction and the annual report on the environment. We are also preparing a Board paper on WID, which was requested by

the Development Committee. These vehicles offer an opportunity to "mainstream" the portfolio concept throughout our sectoral policy work -- leaving the ARPP to concentrate on country portfolio management issues.

cc: MDs; Mssrs. Rovani, Picciotto

WAPENHANS TASK FORCE REPORT: FOLLOW-UP

1. *What needs to be done?* The problems described in the Report point to a three-pronged solution.

- Initiate a portfolio clean-up program.
- Establish a system for identifying problem projects early and for taking actions to fix them in a timely fashion.
- Ensure that we do not continue to repeat the mistakes of the past with the new projects entering the portfolio.

2. *How can OSP help?*

- OSP can help with portfolio clean-up operations. Restructurings are tantamount to new projects. OSP can work with Regional staff on diagnosing problems and redesigning projects. (To give an order of magnitude, the 25 staffyears in incremental operational support OSP is providing this year could support 10 staffweeks each for 100 problem projects. Note that page 29, paragraph 71 of the Report mentions 100 projects a year for restructuring.)
- OSP can help to identify indicators for the different subsectors, to be used for monitoring and evaluation during supervision. This would establish the basis for a more systematic project rating system. (See Annex C, page 10, paragraphs 15-18.) This would need to be a collaborative effort with the Regions and OED.
- OSP can help to develop a database that systematically incorporates the sectoral lessons of experience, which could provide a set of yardsticks against which to judge project assumptions for realism. (See Annex C, page 9, Box 5.) This would help to weed out of the pipeline, projects and project components that are viable only under assumptions that are optimistic by historical standards. This effort would also need to be collaborative with the Regions and OED.
- OSP can help to identify the kinds of conditions that must be met in projects in the different subsectors if they are to achieve "on-the-ground" development impact. We are already doing this in our best-practice and policy work, which aims to distill for operational staff what works and what does not work. We are also now involved in an exercise to extract the specific points of sectoral guidance for evaluating projects throughout the project cycle, as called for in the Report. Operational support and peer reviews offer opportunities at the "retail level" for OSP to help infuse its sectoral knowledge into project design. The Regional Loan Committees provide additional channels for quality enhancement.

wapenhan.box
September 13, 1992

Sector Reviews

Sector	Main Policies	Policies Still Relevant?	Difficult Issues?	Proposed Board Date
Agriculture				
Education				
Energy				
Family Planning				
Forestry				
Health and Nutrition				
Industry				
Power				
Transport				
Urban				
Water and Sanitation				

A-

A L L - I N - 1   N O T E

DATE: 14-Sep-1992 08:22am

TO: V. Rajagopalan, OSPVP (V. RAJAGOPALAN, OSPVP)

FROM: Michel Pommier, CODOP (MICHEL POMMIER)

EXT.: 84004

SUBJECT: Wapenhans Task Force - Follow up on Recommendations

Per your request, and in addition to COD's comments provided under Mr. Wijnand memorandum dated September 8, I would like to draw your attention to a few points that might be worth to consider during the discussions of the WTF report's recommendations with Mr. Stern.

1. The implementation of the report's recommendations are unlikely to be budget neutral, at least in the short run, for the regions and OSP. For the regions, the "savings" anticipated by the report from procurement certification by third parties and from a lesser involvement by Bank staff during project preparation have not been underpinned by a rigorous analysis. Furthermore, the weeding out of problem projects (those in problem status for at least 1 1/2 year) is likely to require a substantive supplementary budget allocation in FY93. For OSP, beside the revision of a large number of ODs (currently not budgeted), the development of sector/country indicators and their related tracking system would need to be resourced in FY93.

2. The report recommends to ensure country commitment at various stages of the project cycle. However, no specific methodology has been offered. The regions have sought clarifications, but were told that it is up to them to experiment. I can agree with some further limited field experimentations, but a number of researches and practical applications already exist. Hence, OSP could take the lead for developing a methodology, tailored to the Bank's need, and therefore respond to the regions' concern.

3. Finally, the time and efforts needed for the development of country standard bidding documents have not be accounted for.

CC: Hans Wyss (HANS WYSS)
CC: Jan Wijnand (JAN WIJNAND)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

RECEIVED
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92 SEP 10 PM 1:56
OFFICE OF THE OSPVP
SECTOR & OPERATION POL.

DATE: September 10, 1992

TO: Mr. V. Rajagopalan, OSPVP

FROM: Mohamed T. El-Ashry, ENVDR MTE

EXTENSION: 33202

SUBJECT: Report of the Portfolio Management Task Force

1. I have reviewed the above report of the Task Force and have the following comments.

2. The purpose of the task force was to assess why the Bank's portfolio performance is declining so markedly, and how this can be changed. The report findings emphasize the Bank's undue preoccupation with project preparation, loan approval and disbursements, rather than on implementation planning and assessment of major risks to good performance.

3. The report makes a number of recommendations for improving performance including: (a) introducing concept of country portfolio management; (b) developing indicators for measuring performance; (c) improving project performance management; and (d) providing better guidance and initiative for the staff to plan and monitor implementation.

4. The focus on country-level portfolio management and development impact is a step in the right direction. The report however falls short of defining what indicators will be used to judge the quality of performance and how these indicators will be developed. It is also not clear how "sustainable development" is defined in the context of the report.

5. The report lacks specifics on "how to", for example, (a) initiate and sustain an on-going dialogue with countries and its implication to the Bank's day-to-day operation; (b) integrate intellectual thinking in the context of projects for development in the 90's etc.

6. One of the most disconcerting aspects of this document is that it sets environment apart as a "program of special emphasis", abbreviated as "PSE"; poverty reduction and women in development are also grouped here (p. 7, para. 20). This is simply not acceptable at a time when integration of such issues is now universally recognized as critical for sustainable development (a term the report uses frequently without explanation). Moreover, the Bank is a leader in better defining this integration through such documents as the WDR '92 and our participation in UNCED, amongst others.

7. Similarly, on skills mix, the report finds that 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 (p. 17, para. 45). It goes on to state, however, that the task force analysis confirmed that technical skills used to support implementation were, in general, adequate considering the low incidence of technical problems encountered in implementation. From the growing number of Bank reports with contrary findings, it is difficult to understand the basis of this observation. Furthermore, while the report finds that technical skills are sufficient, it concludes that the availability of financial specialists and management specialists are "disturbingly limited" considering the incidence of managerial and financial problems in the portfolio (p. 18, para. 48). This finding raises images of a much narrower Bank role in development -- essentially moving and auditing funds, in spite of the report's reprimand that this has contributed to poor performance -- at a time when other evaluations point to more broader problems.

8. Finally, a number of recommendations focus on the need for improved reporting mechanisms to ensure portfolio quality. None of these recommendations incorporate reference to the need for improved economic and sector work, improved economic analysis to better understand real costs and benefits, improved social analysis to ensure borrower ownership, or improved incentive structure and accountability. As the report stands, it is replete with generalities, but disappointingly weak on linkages with other Bank reports or the realities of development work as we move through the 1990's.

cc: M. Petit (AGR)

The World Bank
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Managing Director

July 30, 1992

RECEIVED
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92 JUL 31 PM 4: 14
OFFICE OF THE OSPVP
SECTOR & OPERATION POL.

Messrs. Husain
Jaycox
Kaji
Koch-Weser
Rajagopalan
Thalwitz
Wood

Subject: Draft Report on Portfolio Management

Attached is the draft report "Effective Implementation: Key to Development Impact" which has been prepared by the Task Force on Portfolio Management under the chairmanship of Mr. Wapenhans. Annex A which sets out the supporting measures for implementation of the recommendations is also attached. Mr. Wapenhans has also circulated this draft to members of the Portfolio Management Steering Committee and the Advisory Council.

This is an important report which potentially has major implications for the way we do business. We ask that you distribute the draft report to your management teams and then organize internal discussions on the report's findings and recommendations. In September, we will hold two meetings: one to review the technical recommendations of the draft report and another to discuss its managerial/procedural implications. A paper would then be prepared defining the management's proposed program of action based on the analysis and recommendations in the draft report, for subsequent discussion with the Joint Audit Committee.

Copies of the draft report can be obtained from Mr. Richardson (ORG). Additional supporting documentation, including annexes and working papers are also available on request.

cc: Karaosmanoglu, Sandstrom, Wapenhans

EFFECTIVE IMPLEMENTATION:

KEY TO

DEVELOPMENT IMPACT

Table of Annexes

Report of the Portfolio Management Task Force

Annex A

Supporting Measures Related to the Principal Recommendations

Portfolio Management Task Force

SUPPORTING MEASURES RELATED TO THE PRINCIPAL RECOMMENDATIONS

This annex enlarges 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 Borrowers' 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.

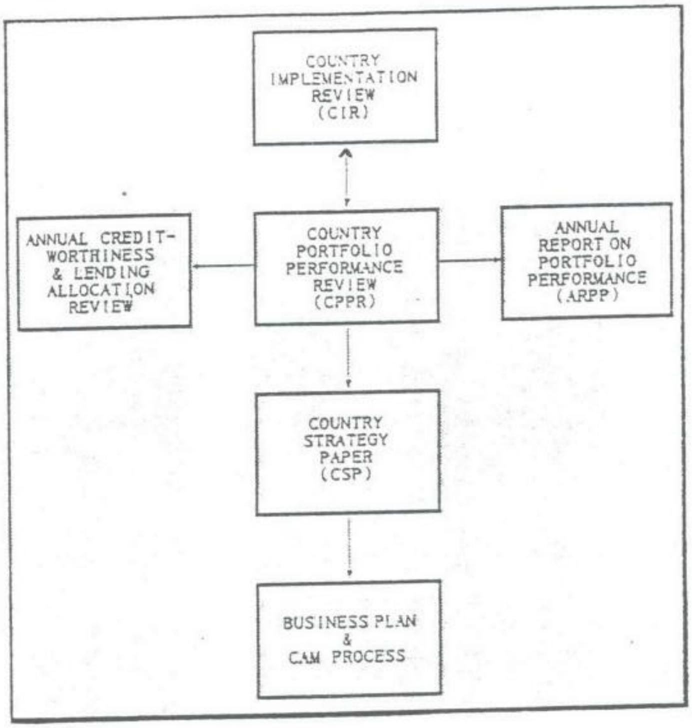
4. Link CPPR to Creditworthiness Review and Lending Allocations Review

The results of the CPPR should also be taken into account in the Creditworthiness and Lending Allocations 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-focussed 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.

Figure 1. Linkages in Portfolio Performance Management Processes



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. The details of these indices -- and their linkages to other phases of the project cycle -- are elaborated in Annex C of the Task Force report. Quantitative indices would 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 Implementation Completion Report (ICR) ratings for projects 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 also 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. 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[1]. 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 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. 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

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.

Drawing on the analysis of the ECON Report[2], 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 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, and institutional 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 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 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

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2/ Economic Analysis of Projects: Towards an Approach to Evaluation for the 1990's; Draft Final ECON Report; June 19, 1992.

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 exceeds 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) asses 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.

Wording rather [illegible] concept overplayed!

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.

not necessarily or always.

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.

There is always room for judgement

Sounds right but not really so!

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 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 staff 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 Action Plans. 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.* ~~*When a project has been a problem project for two years, restructuring should be considered.*~~ 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[3]. *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

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3/ 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.

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 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 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 *ex post* audit of SOEs to the Borrower. A copy should be sent by the Borrower to the Bank.

E. Preserve OED's Credibility as an Instrument of Independent Accountability and Refocus *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 refocussed on the transition to the operational phase and the sustainability of the project. While OED may wish to rely on the refocussed PCRs for its audits, it should also become more concerned with impact evaluation and sustainability.

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."[4] 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. 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; ?

4/ SecM92-576, May 4, 1992.

- *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."[5] 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.

5/ Jack Welch, CEO of G. E..

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 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's 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 continuity[6]. *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, disbursement documentation and implementation planning*[7]. 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

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6/ 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).

7/ Comparable and much more elaborate training is offered in large private corporations.

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.

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[8].

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

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8/ "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.

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, 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 Creditworthiness Review and Lending Allocations Review
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. Preserve OED's Credibility 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

Annex B

Summary of Proceedings of Conference with Borrowers

Portfolio Management Task Force

THE WORLD BANK BORROWERS' WORKSHOP

ON

PORTFOLIO MANGEMENT

Highlights

[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 conditionalities 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."

7 Bank representatives assured workshop attendees that negotiations are not a holiday.

8 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."

9 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.

10 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.

11 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.

12 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. — What does this involve ?
- The Bank be more flexible about changes in implementation plans.
- The rigor of staff appraisal reports be restored. — more conditions
- 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.

No problem with this

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."

where?

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."

means Bank appraisal is poor.

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."

Not so!

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.

Not clear as to what is meant

?✓

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.

not a borrower problem

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.

make 'something more lasting' philosophy!

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."

True

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

will be a Bank product?

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.

What ever happened to mid year or mid term review?

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."

34 In particular, borrowers want more thorough institutional evaluation upfront. They feel that it is important to identify institutional weakness and to provide technical assistance to strengthen the institutions needed for effective implementation.

35 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

36 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.

37 "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."

38 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.

39 "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.

40 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.

41 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." 8

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."

53 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.

54 "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.

55 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).

56 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.)

57 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.

58 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

59 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.

60 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.

61 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.

62 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

63 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."

64 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.

65 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.

66 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.

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

68 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.

69 "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."

70 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 aides 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 though 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.

mid-term review not accomplishing purpose

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.

87 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.

88 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.

89 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.

90 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 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.

91 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).

92 And borrowers viewed this workshop as a healthy sign of the Bank's desire to help countries get things right.

Draft: 5/13/92

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 1: 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: <u>Conduct of Bank Supervision Work</u>

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?

Annex C

Towards a Results-Oriented Evaluation and Rating Methodology for Bank-Supported Operations

Portfolio Management Task Force

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,[1] 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 projected 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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1/ See *Economic Analysis of Projects: Towards an Approach to Evaluation for the 1990s*; draft final report, June 10, 1992.

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),[2] 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[3] 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

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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 1988 *Annual Review of Evaluation Results*, at the suggestion of Mr. Rovani.

Box 1: Historical Success Rates by Sector and Region

Success Rates of Completed Operations

	Africa	*East Asia*	*ECA*	*LAC*	*MNA*	*South Asia*	*Bank*
	(percentages)						
Sectors:							
Agriculture	40	75	81	49	75	61	62
DFCs	56	75	78	72	91	83	76
Education	72	96	*100	80	67	*51	81
Energy/Public Utilities	74	99	67	64	86	85	81
Industry	45	72	71	61	72	92	75
Multi-Sector	*37	--	--	*47	--	*0	*42
Non-Sector	53	74	*81	78	*98	79	74
PHN	*100	*79	--	*62	*24	*45	62
Transport	79	92	96	66	93	75	83
Urban	96	100	*92	81	*94	*63	88
Total	59	84	80	62	83	76	74

Source: OED Database.

* Fewer than 10 observations.

the opinion of some academics[4]—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[5] 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.

4/ See, for example, Ian Little and James Mirrlees, "Project Appraisal and Planning Twenty Years On," *Proceedings of the World Bank Annual Conference in Development Economics, 1990, Supplement to the World Bank Economic Review*, 1991.

5/ See *World Development Report 1991, The Challenge of Development*; Daniel Kaufmann, "The Forgotten Rationale for Policy Reform: The Productivity of Investment Projects," April 1991; and Daniel Kaufmann and Yon Wong, "The Impact of Macroeconomic Policies on Project Performance in the Social Sectors," August 1991. See also Gerhhard Pohl and Dubravko Mihaljek, "Uncertainty and the Discrepancy between Rate-of-Return Estimates at Project Appraisal and Project Completion."

9. This conclusion is supported by the ECON report's review of current Bank *practice*.[6] 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.[7] OMS 2.21 notwithstanding, no SARs report truly *expected* ERRs,[8] in the sense of their being the mean of the set of possible outcomes.[9] 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 recognize—and in turn to eliminate—components that are unlikely to succeed. Without performance standards, 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.

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

7/ See Harry Walters, "The Performance of Agricultural Projects in Africa: A Review of Project Ratings and Risks," June 1990; "The Gap Between Economic Rate of Return (ERR) Estimates at Appraisal and Completion, and Project Risk Analysis," SecM89-819; June 1989; and Michel Pommier, "Report of the Task Force on Loan Processing and Project Quality," April 1992.

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.

9/ Instead, a point estimate of the ERR based on an assumption that "everything goes according to plan"—the EGAP—is the standard. See George Beier, "Discussion Paper: Economic Analysis in Project Appraisal," May, 1990.

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:[a]

- 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.

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a/ 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:[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.[11]

10/ ECON's recommendations also include downgrading the prominence accorded to the theory of differential and fiscal wights, 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.

11/ See also Denise Vaillancourt, Janet Nassim, and Stacey Brown, "Population, Health, and Nutrition: FY91 Sector Review."

- 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.

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a/ SAR Report No. 9041-CHA, April 16, 1991.

- ***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.***[12] 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[1]:
- ERR/NPV or cost effectiveness test:

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

	Lessons of Experience	Project Assumptions	Rationale for any Differences	Switching Values: Sensitivity of Project Outcome to Deviation[2]	Probability of Occurrence of Switching Value	Indicator Tracking 1993	1994	1995	1996
•Macroeconomic									
•Institutional									
•Financial									
•Social									
•Technical									
•Environment									
•Procedural									

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

	Lessons of Experience	Actions	Timing	Covenants/ Remedies	Sensitivity of Project Outcome to Deviation	Compliance Tracking 1993	1994	1995	1996
•Government									
•Borrower									
•Project Entity									
•Beneficiaries									
•Cofinanciers									
•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.[13] 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[14]

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.[15]

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[16] 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./Mdme. Aiyer, Flora, Hagerstrom, Hamann, Luzuriaga, Rothschild, Selowsky, Uhlig, and Zearley.

15/ Kreditanstalt fur Wiederaufbau uses an expanded monitoring system to this effect. See "Konzept fur ein Verbessertes Projektmonitoring," *Arbeitshafen-Materialien-Diskussionsbeitrage*, 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,[17] as a follow up to the 1991 ARIS. It is consistent with practices followed by many experienced project staff in monitoring progress.[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 during negotiations as a basis for assessing progress during implementation in meeting project goals. In the ***Mexico Second Low Income Housing Project***,[a] 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.[b] 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***[c] 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.

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a/ SAR Report No. 8019-ME, November 8, 1989.

b/ See Thomas Zearley to Ricardo Halperin, Mexico Second Low-Income Housing Project Supervision Report, April 27, 1992.

c/ SAR Report No. 10475-ME, May 26, 1992.

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

18/ See George West, "Information Systems Support for Portfolio Management," June 15, 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

Box 7. Best Practice Example: Indicators for Assessing SAL Outcome

The second *Moroccan SAL*[a] aims at achieving a sustainable increase in the rate of economic growth, in order to ensure employment opportunities and acceptable living standards for its growing population, while improving external creditworthiness. The program includes monitoring indicators to be used for semiannual review with the Bank. The indicators, and their targeted paths, are presented below. These indicators were chosen for monitoring because of their significance as direct or indirect measures of success in meeting the program's macroeconomic and social objectives. Deviations from the projections would trigger discussions with the Government to identify underlying problems and explore corrective measures. The indicators extend beyond the planned disbursement period, in order to provide continuity to the economic dialogue in the context of the Bank's overall lending program.

Macroeconomic and Social Indicators being Monitored under SAL II

		1991	*1992*	*1993*	*1994*
			(percentages)		
Total Gross Fixed Capital Formation/GDP		23.5	23.9	24.2	24.4
Real Growth Rate of Manufactured Exports		9.0	9.5	9.0	9.0
Gross Public and Publicly Guaranteed External Debt/Total Foreign Exchange Earnings		250	230	210	190
Proportion of Births Attended by Health Personnel	Rural	3	5	7	10
	Urban	50	55	60	65
			(US$ Millions)		
Direct Foreign Investment		180	300	400	500
Net Foreign Assets of Bank Al-Maghrib		2,900	3,200	3,400	3,600
			(DH Millions)		
Nonsalary Public Recurrent Expenditures Primary Pupil (Grades 1-6)		36	41	47	55
Nonsalary Public Recurrent Expenditures on Health Services		460	529	608	699

a/ President's Report No. P-5637-MOR, April 8, 1992.

factors could conceivably be used to "interpret" the ratings. However, any such interpretation will need 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.[19] 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.

19/ That is, projects rated 1 or 2 are considered likely successes.

Box 8. Development Impact Index[1] of Major Country Portfolios

	No. of Projects	Value of Active[2] Portfolios (US$ millions)	Index of Development Impact[3]		
			FY89	FY90	FY91
Africa					
Ghana	38	1,480	93.3	93.0	90.3
Kenya	31	1,120	73.0	82.3	83.7
Nigeria	44	4,892	74.7	77.0	63.0
Tanzania	24	1,190	76.3	73.7	66.0
Uganda	25	1,064	67.7	71.3	75.7
East Asia					
China	83	9,696	97.7	98.0	98.3
Indonesia	83	9,885	83.7	89.7	90.0
Korea	19	1,310	95.0	94.7	91.7
Malaysia	20	1,024	90.0	92.7	89.3
Philippines	35	3,358	89.7	73.0	91.3
South Asia					
Bangladesh	46	2,824	80.3	74.3	77.0
India	109	21,070	79.3	85.3	84.3
Pakistan	59	5,248	89.7	84.7	85.3
Sri Lanka	28	1,148	90.3	74.3	80.3
ECA					
Hungary	21	2,227	98.3	91.7	93.0
Poland	12	2,218	—	100.0	86.0
Turkey	36	6,187	75.0	71.3	74.0
Yugoslavia	15	2,082	80.3	86.3	87.3
MNA					
Algeria	21	2,704	74.7	75.7	78.0
Egypt	25	1,933	76.7	79.3	77.0
Morocco	34	2,690	85.7	91.3	91.7
Tunisia	30	1,122	86.0	85.7	89.7
LAC					
Argentina	21	2,832	75.0	75.3	71.0
Brazil	74	10,332	81.0	76.3	78.7
Chile	15	1,222	97.3	90.0	84.0
Colombia	29	2,993	81.0	79.7	75.3
Mexico	47	10,101	87.6	89.7	93.3
Venezuela	7	1,685	100.0	100.0	99.3

1/ Country portfolio average, weighted by the *value* share of the active loans in the portfolio.
2/ Outstanding in FY91.
3/ 100 corresponds to a supervision rating of 1; 66.6 corresponds to a supervision rating of 2, etc.

Source: ARIS Database.

Box 9. Success Rates for Major Country Portfolios: Completed and Ongoing Projects Compared

	No. of Projects	*Value of Active Portfolios[1] (US$ millions)*	*Success Rate (Completed Projects)*	*Success Rate[2] (Ongoing Projects)*	*Divergence Indicator:[3] Ongoing/ Completed*
			(percentages)		
Africa					
Ghana	38	1,480	79.9	96.1	**120**
Kenya	31	1,120	48.2	87.4	**181**
Nigeria	44	4,892	26.3	74.7	**284**
Tanzania	24	1,190	34.8	91.1	**262**
Uganda	25	1,064	17.2	74.3	**432**
East Asia					
China	83	9,696	100.0	98.8	**99**
Indonesia	83	9,885	85.3	99.0	**116**
Korea	19	1,310	98.4	100.0	**102**
Malaysia	20	1,024	77.9	95.3	**122**
Philippines	35	3,358	65.8	98.4	**150**
South Asia					
Bangladesh	46	2,824	66.0	94.2	**143**
India	109	21,070	76.6	93.9	**123**
Pakistan	59	5,248	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	**–**
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	2,690	96.5	99.4	**103**
Tunisia	30	1,122	94.6	100.0	**106**
LAC					
Argentina	21	2,832	67.4	79.2	**118**
Brazil	74	10,332	55.9	86.6	**155**
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/ Outstanding in FY91.
2/ All operations rated 1 or 2 in the Form 590 are scored as expected successes.
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.

Sources: OED and MIS Databases.

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 financing of 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."

Box 10. Country Portfolio Index — Constant Composition1/

Country Portfolio Index (CPI)
Net Change in Value-Weighted Development Impact Rating

If CPI > 100, portfolio ratings have improved.
If CPI < 100, portfolio ratings have deteriorated.
If CPI = 100, portfolio ratings have not changed.

	FY90/FY89	**FY91/FY90**
Africa		
Ghana	98.1	88.7
Kenya	97.2	96.1
Nigeria	97.4	73.5
Tanzania	87.5	86.0
Uganda	98.7	100.0
East Asia		
China	99.7	99.3
Indonesia	100.6	96.9
Korea	99.7	96.8
Malaysia	96.1	92.2
Philippines	94.7	98.4
South Asia		
Bangladesh	96.2	100.9
India	108.7	98.0
Pakistan	85.6	97.5
Sri Lanka	74.2	94.3
ECA		
Hungary	81.0	100.0
Poland	--	86.0
Turkey	93.4	103.7
Yugoslavia	97.7	104.9
MNA		
Algeria	93.7	95.3
Egypt	103.4	97.1
Morocco	99.3	95.0
Tunisia	102.6	89.5
LAC		
Argentina	83.5	103.5
Brazil	91.3	99.2
Chile	78.7	90.7
Colombia	102.4	88.0
Mexico	103.4	100.3
Venezuela	100.0	100.0

1/ The CPI for FY90/89 includes only the projects in the portfolio in both FY90 and FY89. Similarly, the CPI for FY91/FY90 includes on the project in the portfolio in both FY91 and FY90.

Source: MIS.

- 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.[21] 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.*

21/ 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.

Annex D

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[1]. The vision driving the early evolution of that Office embodied: i) self-evaluation of all Bank projects[2] by operational staff, ii) independent audits of the integrity of the evidence and analysis of project evaluations by operationsal 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.

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[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, expectated 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.

Annex E

Terms of Reference of Task Force

Portfolio Management Task Force

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

February 7, 1992

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.

Lew Preston

cc: Messrs. Wapenhans, Rovani

Attachment

Review of Portfolio Management

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.

Annex F

Task Force Membership

Portfolio Management Task Force

PORTFOLIO MANAGEMENT TASK FORCE

Task Force Members:*

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

Portfolio Management Steering Committee Members:

Yoshiaki Abe
F. J. Aguirre-Sacasa
M. G. Sri-Ram Aiyer
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

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* The Task Force also wishes to acknowledge the important contributions of Messrs. J. Chaffey, C. Ferreira, S. Hassan, T. Husain, J. Kearns, C. Martin, M. Mould, P. Naylor, L. Nurick, R. Srinivasan, D. Strombom, L. Tran, A. Uhlig, M. Weiner, N. Yucel.

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SECTOR POLICY & RESEARCH

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THE WORLD BANK

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Name	Room No.
Messrs. R. Picciotto	
V. Rajagopalan	
I. Rovani	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
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Remarks

From

W.A. Wapenhans

DRAFT

Oral Briefing of the JAC at its Meeting on June 22, 1992

on

The Portfolio Management Task Force

Notes

There is reason to be concerned! The share of Problem Projects in the Portfolio has increased from 10.0% on average over the period 79-81 to 17% over the period 89-91. The share of projects reported by OED as unsuccessful has increased over the same period from an average of 13.1% to a 3-year average of 35%. Over the last three fiscal years cancellations have increased by some 50%! Recently published systematic study of the behavior of some 1.015 investment projects suggests the presence of a systematic and growing bias in favor of optimistic rate of return expectations at appraisal.

There are a number of factors to explain these phenomena!

- Uncertainty - clearly increased over the last 10 years.
- Macro economic environment - locally and internationally with the consequent need for adjustment.
- Consequence of adjustment for the investment portfolio - Stabilization - fiscal constraints - across the board cuts - prolonged periods.
- Implementation capacity - as reflected in absorption rates and decision making in problem projects may have deteriorated.
- Shift in the portfolio /SAL - less measurable problems!

One can go on and add to this list -- but that does not add significantly to our already sufficient understanding that something is not quite right. It is easy to become alarmist about these trends. We must resolutely guard against that. Neither I nor you can say that a 20% share of Problem Projects in our portfolio is too much, too little, or just about right for a Development institution such as the Bank. What we do know is that this is not unique to the Bank -- other Funding Agencies report the same development. So -- it is not the absolute level, that is disturbing -- it is the trend: And that is what we need to reverse!! And we must expect significant shifts in the composition of our portfolios -- by sectors, by objectives and by areas of special emphasis as well as by countries and geographic regions. Human Resources Concerns and Environmental Challenges will be more pronounced as will be the presence of countries in transition. Clearly, uncertainty will be on the rise as will be the somewhat experimental nature of many of our operations. Classical institutional responses may turn out to be ineffective; much more continuous vigilance and a more agile response capability may well become essential. Most of all, however, we must be certain of local commitment, of local coalitions supporting the proposal, and thus enhancing the probability of timely execution and of sustainability. All these considerations need to be present as we set about shaping recommendations for the future conduct of what we presently call "Supervision"!

<u>What, however, is "Supervision"</u>? We in the T.F. asked ourselves what it is the Bank is doing when it "supervises" projects. This is indeed a very deficient definition of the complex and challenging relationship we find ourselves in after you have approved a loan or credit.

__Supervision__ connotes a parent/subsidiary relationship i.e. a managerial role -- and indeed we have such a mandate under the Articles, under the General Conditions and under our Loan Agreements to the extent we reserve 'rights of approval' onto ourselves. Beyond that we __monitor__ compliance of contract, we __facilitate__ implementation of the project or program, and we may provide substantive __implementation assistance__: These four functions make up what we presently call supervision. The first two are mandatory; the last two are discretionary; we undertake these latter ones in pursuit of our mission as a Development Institution -- not in our role as lender! There is, of course, no clear line of demarcation. And there is an ever present temptation to trespass unto the __owner's__ territory by extending supervisory functions, and thus acquire culpability! And, of course, there may be and often are other actors in the picture such as the __guarantor__ and/or the __executing agency__ on behalf of the owner and co-lenders. Their relative responsibilities and accountabilities must be understood and fully engaged in support of implementation.

__How then is "supervision" time spent?__ Today the Bank spends about 12 SW p.a. per Project or some 425 SYs. Perhaps as much as 150 SYs are devoted to procurement matters i.e. are mandatory; another 75 SYs, or thereabouts may be used for mandatory supervision of end use of resources and exercise of approval rights. The remainder of some 200 SYs is spent on discretionary activities of facilitation and rendering of implementation assistance; it is this area in which our staff is clamoring for additional resources, though it is not always clear what our role in this area should be and how much of a comparative advantage we really have! We must not confuse leverage with proficiency -- and that temptation, too, is always present!

We are not likely to suggest adding staff resources to the budget for supervision -- but we are likely to suggest that the resources provided at present be used differently. We can envisage some efficiency measures which should help reallocation of resources both between functions on the one hand and H.Q. and the field on the other.

What then do we have in mind?! It is clear that the nearly exclusive focus on new commitments can not be allowed to remain undisturbed! A new balance has to be established. Such a "cultural" change requires that all parties play their part -- including the Board --; I will come back to that later! This also means that the T.F. cannot ignore those activities that condition the quality at entry of a proposal into the portfolio; i.e. prior to Board approval -- nor can it be indifferent to the interface between "supervision" and "evaluation". As a footnote I should add that we do not regard loan/credit approval as a decisive event in the life of a project. We consider it a convenient point in the life cycle that changes our role -- but not that of the owner. Likewise, "completion of disbursement" has little meaning for the project, yet it plays an exaggerated role in our thinking which, if looked at closely, may not be very significant! Purely for convenience we in the T.F. divide the project cycle for analytical purposes into three phases: i) pre-Board, ii) implementation, and iii) operation. Let me briefly describe what we think might be done for "supervision" during these three phases to enhance portfolio performance:

i) **Pre-Board**: Revert to a supportive but not a dominant role in **preparation**; this is not intended to connote a reduction of effort but a change in role! Change **appraisal methodology** to focus on i) local support and commitment, ii) risk analysis and sensitivity tests, iii) identification of critical success variables and performance indicators, implementation capacity including organizational, administrative and managerial context. Conduct **negotiations** with a view of achieving genuine agreement to enhance 'ownership" on the part of the borrower; agree on implementation plan to be set out in a letter of implementation and a matrix of measures and accountabilities. The contract in its entirety should allow appropriate flexibility for means of attaining principal objectives especially of evolutionary-type projects but define objectives in an operationally meaningful manner and retain them as reasonably fixed and subject to change only with further approval. Disseminate content of -- and brief decision-makers in the borrower's hierarchy on -- the specific meaning of the agreements reached, the guidelines and other requirements of the lender. Establish reporting requirements for the host's hierarchy and tab these information flows for the Bank's supervision and surveillance purposes.

focus should not be exclusively on these !

ii) **Implementation**: introduce procurement planning and standardized bidding documents for ICB; accept Third-party certification of local procurement procedures, SOEs and audits. Introduce standard contract provisions relating to quality assurance management, swift dispute resolution, and incentive for timely completion. The Bank might also wish to explore further the eligibility of "management contracts" and "design and construct" contracts. We are likely to urge an increase of field presence for purposes of facilitation and the delegation of approval powers in circumstance in which standardized bidding documentation is introduced and third-party certification accepted. Local surveillance of implementation must, however, remain combined with H.Q. supervision. The CIR is an instrument of great potential and should be systematized for the identification of systemic deficiencies and country portfolio performance review.

Watch out — ownership will be in jeopardy!!

The PCR in its present format clearly is an unloved chore -- of little use to anyone. We are thinking of ways to refocus it onto being i) the authoritative account of inputs, ii) the record of the borrower's intention regarding start-up of operations, and iii) the staffs assessment of the shape of the curve under which benefits will reach steady-state. In that way the basis would be prepared for solid, non-speculative Impact Evaluation. In addition, the growing concern over "project sustainability" would be addressed and the "accountability" need met on a credible basis. Such findings could also usefully and reliably test the adequacy of appraisal and rating methodology along the lines of the recent study on the optimism gap I have referred to earlier. In addition, it would obviously become a major feedback cycle on (i) development effectiveness, (ii) sectoral policy reform, and (iii) performance in areas of special emphasis.

None of this is, however, in and by itself sufficient to change the institutional incentive systems in ways that produces the rebalancing I spoke about. For this we need to complete the country focus by introducing the concept of:

Country Portfolio Performance Management!

This does not replace individual project supervision -- it could become a keystone in the decision-making process within the Bank. For instance, the performance of a country portfolio would be measured on the basis of a composite index. The CD would have principal responsibilities and would be held accountable in the context of an annual CPPR. This Review would be linked to four critical business processes within the Bank:

?

usefulness ?

CD should not take over responsibility — shared responsibility with Country — a matter of balance

i) country assistance strategy formulation;

ii) business planning and budgeting;

iii) credit worthiness review and lending program allocation;

iv) CPP Reporting to the Board -- to replace ARIS.

But the Board too should contribute to a change in attitudes throughout the Bank! The relentless pursuit of quantitative targets such as reflected in (i) Schedule C of the President's Memorandum to the Board; (ii) frequent reporting on the prospective Annual Lending Volume; (iii) preoccupation with the number of PCRs issued (which are hardly read) etc. is not helpful to maintaining a climate for quality decision-making. Signals are important -- especially in an institution with a largely captive staff.

Finally -- staff itself matters greatly! While there is need to reflect new initiatives in the skills mix there is no indication that technical input or proficiency has declined markedly in supervision -- except for financial management expertise and experience. There is ground for concern on the question of suitable experience being fielded in appraisal on institutional capacity to implement and on implementation planning. And there is the overriding concern about insufficient management attention regarding the overall performance of the portfolio. In many parts of the Bank noteworthy initiatives are already underway. Many of these reflect staff concerns, and many point in similar directions. The time may just be right to channel these concerns and energies in the direction of improving and sustaining the health of the portfolio by introducing renewed attention to the management of its performance.

W.A. Wapenhans

6/22/92

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

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OFFICE OF THE OSPVP
SECTOR & OPERATION POL.

DATE: July 21, 1992

TO: Mr. E. Stern, EXC

FROM: Willi A. Wapenhans

EXTENSION: 80121

SUBJECT: Annual Review on Portfolio Performance

1. Further to our discussion on July 15, I attach a brief outline of the changes proposed in the current ARIS process. Since the ARIS cycle is to begin shortly, a decision is needed as to whether you will want to switch over to a new format before the Task Force report on Portfolio Management has been accepted. The obvious concern would be that the performance of country portfolios would come into focus rather than generalized sectoral performance and/or areas of special interest.

2. Obviously, OSP (Ms. Lallement) should continue to function as the secretariat for the process. Ms. Lallement is a member of the Task Force and very conversant with the proposed change and its principal objective. Any instruction you may want to give in the matter should go to OPS. If I can be of help please let me know.

cc: Messrs./Mmes. V. Rajagopalan, H. Wyss and D. Lallement

OUTLINE OF ANNUAL REVIEW ON PORTFOLIO PERFORMANCE (ARPP)

1. The executive report (8-10 pages) which would present the main highlights from the country portfolio performance reviews/reports, and the actions management intends to take on the portfolio.

2. The Regional Reports, which would constitute the main chapters of the report (instead of being annexes to the report as in the FY91 ARIS), and would focus on country portfolio performance, generic issues identified by the country Portfolio Performance Review (CPPR), and regional action plans.

3. A Statistical Annex on the overall portfolio, i.e. the main aggregate tables, and a summary analysis (2-3 pages) of the main trends.

4. A Sector Annex, which would provide the summary sectoral performance tables, and a summary analysis of the main trends and issues as presently done in the first section of the Annual Sector Reviews.

5. An Annex on the Programs of Special emphasis, bringing out some of the statistical information and salient features or issues.

Board discussion: The President would present the report to the Board, and the RVPs would be at the Table to respond to questions on their respective chapters.

Process. OSP/COD would continue to assume the responsibility for preparing the report, namely the Executive Report, and the Annexes. The Regional Chapters would be entirely the responsibility of the regions, except for editorial guidance from OSP/COD.

Special Topics/Special Studies. The ARIS reporting on Special Topics would be discontinued in ARPP. From the Country Portfolio Performance Management Reviews, ad hoc studies would be identified (as Review of CIRs reported in the FY91 ARIS). The studies would be guided by OSP/COD, but would be executed in collaboration with the other OSP Departments and the Regions. The Reviews would be issued as self-contained documents and circulated to the Board. They could be discussed with the Board on request, either in ad hoc seminars or in the context of ARPP.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

VR OTP
LRA
6/30

RECEIVED
014
92 JUN 24 PM 4:46
OFFICE OF THE VICE PRESIDENT
SECTOR POLICY & RESEARCH

DATE: June 23, 1992

TO: Mr. W. Wapenhans, EXC

FROM: Hans Wyss, CODDR

EXTENSION: 82851/2

SUBJECT: OED Report "Bank Experience in Project Supervision." Comments on Recommendations.

1. Introduction. I am sending this memorandum on behalf of Mr. Rajagopalan. It is in response to your request of May 14, 1992 for comments on the specific recommendations and suggestions contained in the above report. As you are aware, we asked Ms. Lallement, who is a member of your Task Force on Portfolio Management, to coordinate the OSP comments on the OED report. I understand that in her work with your Task Force, she already has conveyed a number of the comments given below. The following comments on each of the recommendation and suggestions have been sorted by subject matters rather than by the OED report's numeric reference.

2. General. We agree with the OED report that there remain important deficiencies in the way the Bank has been managing the supervision of the portfolio in spite of major initiatives taken by management over the past decade. Against this background, we would have expected proposals for some major changes in the way the Bank conducts business, building on some of the current best practices. We agree with OED's broad assessment, that a change is needed simultaneously on the two main phases of the project cycle: "upstream," a better appraisal of borrowers' implementation capacity (recommendation 1), including with regard to procurement, accounting and auditing, inclusion of an implementation plan in appraisals (recommendation 10) and better risk analysis at appraisal (recommendation 11); and "downstream," a more rigourous supervision management, both in the field and internally (recommendation 7 on the recruitment of staff with hands-on experience, recommendation 8 on training, including on the job training, and recommendation 12 on mission management). Changes in procedural aspects alone such as the revision of OD13.05 (recommendation 4) would clearly be insufficient to bring about needed improvements in the quality of supervision, which would have a measurable impact on implementation results. However, we believe that the OD will have to reflect changes that would be introduced in the light of your Task Force recommendations. Moreover, this may also require revision and reissuance of the supervision handbook (recommendation 9).

3. Still at the general level of the OED report, we would have liked OED to analyze more thoroughly the critical distinction between implementation, the responsibility of the borrower, and supervision and implementation assistance, the responsibility of the Bank, and to formulate recommendations to help management in the definition of the respective responsibilities and the practical application of such principles. Moreover, while OED has drawn attention to managerial deficiencies in the supervision function (especially through references to the staff interviews), it has not elaborated on how to make managers more accountable for the performance of their portfolio.

4. Institutionalizing Borrower Capacity for Project Monitoring Independently of Project Management (Recommendation 2). We agree that strengthening borrowers' capacity for project implementation (including procurement, accounting and auditing, performance monitoring, and evaluation) is one of the most critical factors for successful project implementation. The specific reference made to projects implemented by force account, however, should not be interpreted that a project monitoring capacity independent of project management is not critical for all projects. We expected a more far reaching recommendation in this respect, including that the strengthening of a borrower's portfolio management capacity be addressed, inter alia, through improving capacities in broader public sector management[1].

5. Procurement (Recommendations 13 and 14). We agree with the thrust of recommendation 13 to facilitate procurement processes. However, item (a) recommending to "provide for independent review of documents before presentation to the Bank" appears somewhat misleading. What is apparently intended is "retention of procurement advisers or specialists to assist in the preparation of the bidding documents prior to submission to the Bank," as recommended in para. 11(b) of OD 11.02. With respect to recommendation 14, we do not think that simplification of the ICB process outlined in the Procurement Guidelines is warranted. We are, however, considering mandating the use of the Sample (model) Bidding Documents issued by the Bank, or other international forms of contract acceptable to the Bank, which would require a provision in para. 2.11 of the Procurement Guidelines. Such a step would reduce the time spent by the borrower in the preparation of bidding documents, improve the quality of the documents, and substantially reduce the time spent by Bank staff in the review process.

6. Accounts and Audits (Recommendations 15 and 16). We do not think that recommendation 15 -- to provide for a central review of project accounts in each Region -- is well conceived. Four Regions already have central units, and the other two Regions are considering this matter. The review of project accounts and audit reports is most effective when handled by the staff supervising the projects, as they have to recognize the relevance and materiality of any financial accountability issue raised. They are also better placed to ensure that borrowers take proper follow-up action. What OED could have recommended is a major strengthening of the availability of financial skills for supervision. Although staff training efforts have been quite substantial, they are still insufficient. Furthermore, Task Managers should have the resources to staff their missions with the required financial/accounting skill mix, which is too frequently not the case. As to recommendation 16, the Bank's revised policies already require that it ensure proper accounting, control systems and auditing arrangements are put in place by the borrower before the Bank would agree to the use of the SOE procedure. Also, the supervision of SOEs is being carried out on a limited basis with the help of local consultants and resident mission staff. We trust the Task Force will look at this issue closely.

7. Reliability of Supervision Rating (Recommendation 17). We agree with the proposal that a review system of project ratings be established to ensure the consistent application of performance ratings with Regions. We suggest to extend the recommendation across the Bank. Given the serious practical difficulties for achieving the objectives of this recommendation, it

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1 Incidentally, this would have been one of the interesting subjects for a consultation process by OED with borrowers on the report.

would have been helpful for OED to suggest some modalities for such a review system. In this context, we also agree with recommendation 5 that management continue to enhance the relevance of ARIS.

8. External Review of Remedial Actions (Recommendations 18 and 19). We disagree with the proposed mandatory review of problem projects by independent panels, and mandatory mid-term reviews. The use of independent panels or reviewers should be instruments available to Task Managers and, more broadly, to Management. Were they introduced through a trigger mechanism as proposed by OED, the risk would be to diminish the accountability for portfolio management of those we would like to make more accountable (and could even materially influence project ratings). Likewise, mid-term reviews are a very good idea and already widely used. However, their use should be at the discretion of Task Managers and line managers, responding to the specific circumstances of projects. In some cases, they should be built into the implementation plan; in other cases, the project managers should have the flexibility to call in a mid-term (or any other major review) mission at any time they consider it needed. Mandatory mid-term reviews would create the additional risk of postponing major decisions, which would defeat the purpose of improving the efficiency of decision-making processes in project implementation and supervision.

9. Staff Incentives (Recommendation 3). This is an important subject on which we want to expand in particular. We agree with the objectives of the recommendations. However, the same cannot be said on the specific elements of the recommendation. It errs on the same side as current practices which have put a premium both for recruitment and workprograms on conceptual abilities rather than implementation design abilities, and on lending rather than on supervision. What is needed in terms of staff incentives is the following:

(a) all tasks should be rewarded without discrimination whether they are for lending operations preparation, appraisal or supervision, or whether they are tasks of economic and sector work;

(b) processes for supervision should be fully transparent: staff returning from supervision mission should have the opportunity to report systematically to the managing division chief, and in case of disagreement on courses of action, the staff should have "their day in court" without any concern that possible professional disagreement with the manager will result in a negative PPR (this is particularly important for TD staff who undertake supervision for SOD division chiefs);

(c) staff should be provided systematic feedback on their supervision responsibilities, not only by the managing division chief, but also, periodically, by the managing Country Director;

(d) TD staff should be systematically integrated in the country teams; this is done in some departments, mainly in the Africa Region;

(e) staff should be provided with adequate resources to undertake supervision, (see also comments in para. 10). Inter alia TD staff time should be budgeted reasonably and not "squeezed" as is often the case at present. Task Managers should receive adequate budgetary and human resources to carry out their responsibilities, both in terms of budgets (consultant and travel), and in terms of the origin of the resources; the Trust Funds are often too restrictive to allow for the full market choice of the best available competence for the task; and

(f) Managing Division Chiefs and Country Directors have to be held accountable for the results in the implementation of the portfolio, and should be in a position to fully report on the results and on the processes adopted to achieve those results.

10. Resources for Supervision (Recommendation 6). This important subject is treated in a largely open-ended fashion and lacks the critical conceptual basis for what is the Bank's supervision responsibility versus its assistance to borrowers for project implementation (see para. 3 above). OED could have made an important contribution by a thorough analysis of this subject. The related suggestion 2 may be rather misleading. First, solid evidence has not been provided that more supervision inputs would result in better project performance. What is needed is adequate skill mix, and timely use of supervision resources. The use of local staff should not be considered primarily as a money saving device, but as a quality enhancing resource, in so far as local staff have pertinent understanding of, and access to, local institutions. (Incidentally, we hope, that the dollar budgeting system will eliminate the discounting approach of local staff resources).

11. Regarding the many other suggestions-hand-over, we note that quite a number of them are already part of the Bank's best practices, e.g., the use of CIRs (suggestion 1), specialized procurement staff in the Regions (suggestion 5), and supervision missions (suggestion 7). We agree with suggestions 8 and 9 which recommend improving staff guidance and methodologies to assess project costs and benefits, as well as with suggestion 10 on the identification of causes of slippages in PCRs. Suggestion 11 -- on filing -- could have been a recommendation linked to the accountability of managers for supervision (see para. 3 above). I trust the Task Force will address the issue of information management.

12. While suggestion 3, regarding the limitations on staff recruitment due to the current salary structure, appears appealing, it raises a major personnel policy issue which needs to be addressed by PAA.

13. Suggestion 6 related to accounts and audits is directed to improvements exclusively in the public sector. Although we agree with the suggestion, we also believe that for sound private sector developments, it is important that the Bank support improvements in accounting and auditing capabilities in the banking and enterprise sectors given the significance of financial markets for efficient resource mobilization and allocation decisions.

14. We disagree with the suggestions regarding changes in Form 590 (suggestions 4, 12 and 13): rating the desirability of continuing a project would not strengthen the supervision process, if managers do not improve the process as such. Sharing ratings with the borrowers might make it more difficult for staff to be as objective as required. The on-line availability of Form 590 as presently configurated would be of marginal value to the Bank, since the system does not keep the most relevant qualitative information on the diagnostic of the problems and proposed actions. As already noted in paragraph 10 (re suggestion 2) on the role of field offices, we disagree with a major expansion of field offices in supervision until we have solid evidence of the benefits of such a solution. This said, specific cases such as the Bangladesh one for the Population Program may well be appropriate (suggestion 14), and should be considered in the particular context of a country/sector/project.

15. I use the occasion to attach excerpts from a forthcoming Power Policy Paper to be discussed in the Board later this summer. It illustrates that from the OSP side, we are very much concerned with addressing, in our policy work, major implementation issues.

16. In the final analysis, what is needed for excellence in project supervision is to provide a climate of professionalism, wherein staff regain the pride of doing quality supervision as part of their contribution to assisting the borrowers' development efforts.

Attachment

cc: Messrs./Mmes. V. Rajagopalan (OSPVP); A. Churchill (IENDR); M. El-Ashry (ENVDR); A. Hamilton (PHRDR); M. Petit (AGRDR); L. Pouliquen (INUDR); J. Wijnand, R. Srinivasan, D. Lallement (COD).

Attachment

Proposed New Power Policy

The proposed changes are briefly:

1. Transparent Regulation - to reduce Government interference in day-to-day power company operations by establishing more transparent legal and regulatory frameworks.

2. Importation of Services - as a first step in power sector reform, priority is proposed to be given to providing international private sector management through contracting of services to foreign consultants, contractors and operating companies. This is expected to address poor power sector development and management issues.

3. Commercialization/Corporatization - encouraging power enterprises to operate on a fully commercial basis and compete with privately operated facilities on equal terms. In other cases, restructuring of the enterprises as companies is proposed to enable them to enventually tap private captial markets and attract private sector investors.

4. Commitment Lending - will focus Bank lending for electric power on those countries with a clear commitment to improving sector performance. This recommendation proposes that the Bank should not continue to finance power projects where poorly performing utilities and their governments are unwilling to carry out fundamental structural reforms.

5. Private investment - will encourage greater private investment in the power sector. It is proposed to seek new lending instruments which would lead to more financing for power sector expansion e.g. provision of financing by capital markets with Bank support.

VP - O/r
Mr Wyss is handling this matter
due 5/15/92

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

RECEIVED
008
92 MAY 14 PM 4:1

DATE: May 14, 1992

TO: Distribution Below

FROM: Willi A. Wapenhans, EXC

EXTENSION: 80121

SUBJECT: Task Force on Portfolio Management - Bank Experience in Project Supervision

1. At its meeting on May 12, 1992, the Steering Committee of the Task Force agreed that the Regions, the Legal Department, the Loan Administration Department, and the Central Operations Department should provide the Task Force with their considered views on the final Recommendations and Suggestions made in OED's report (10606) on the "Bank Experience in Project Supervision." This report was issued to the Board on May 4. The report has been subject to prior discussions between OED and the various policy and operating units in the Bank. However, I would much appreciate receiving your considered views on the final recommendations and suggestions. The Task Force will undoubtedly be expected to develop its appreciation of these recommendations and suggestions. I have asked the members of the Steering Committee to ensure that these comments would reach me in writing not later than c.o.b. May 22. Your support in making this possible would be greatly appreciated.

2. It would be helpful if you could key your reactions to the numbered recommendations, starting at page 42.

Distribution: RVP Africa
RVP E. Asia
RVP S. Asia
RVP ECA
RVP LAC
RVP MENA
VP & General Counsel
VP Sector & Operations Policy
Director Loan Administration

cc: Members, Steering Committee
Members, Task Force
Members, Advisory Council
Mr. Stern, EXC

VR-01r

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

RECEIVED
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92 MAY 15 AM 10: 0

DATE: May 14, 1992

TO: Members of the Portfolio Management Steering Committee

FROM: J. C. Peter Richardson JCPR

EXT: 84571

SUBJECT: **Meeting of May 12**

1. Mr. Wapenhans summarized progress to date. While there were numerous early impressions, no definitive conclusions had been reached as yet. Nor should they be before we have heard from borrowers at the workshop that is planned for the end of the month. Of the seventeen feeder studies commissioned, most were in hand, although some remained in rough form. These included papers on responsibilities and mandate, the supervision of adjustment lending, methodology for ratings and portfolio assessment (being tested in LAC), operations evaluation (Mr. Wiener's paper in hand; Mr. Rovani's expected), procurement, disbursement and other financial aspects, the role of field offices (survey results in hand, memoranda awaited), Borrower commitment as an aspect of quality at entry into the supervision stage, peer review (survey in hand), potential role for EDI, and the use of divergent approaches (depending on the sector) to the specificity of design.

2. Not yet in hand were feeder papers on five subjects. The Bank's management of country portfolios (including the use of country implementation reviews) was one area. The PCR process -- timing and function -- was another. Possibly, where appropriate, they should be more of a transitional document, a tool to help borrowers bridge from completion of implementation to the operational stage. Budget practices was a third; the fourth was cofinancing. Lastly, we anticipated a paper on information technology, including the creation of a covenant data bank -- including evaluative information -- which, inter alia would help ensure consistency of covenants across a country and comparison of covenants across a sector. The workshops of borrowers from twelve countries and assistance agencies, and the meeting with contractors, would provide additional vital input. After the workshops, we would expect to have a meeting of the steering committee to report and also to receive their informal reactions to emerging principal conclusions of the study.

3. At present, the task force was not quite clear how it would deal with three areas. First, it felt that greater discrimination needed to be made among vital and other perhaps advisory or hortatory injunctions in the Bank's directives, so that staff would have a better understanding of requirements and degrees of latitude. The OD on supervision, for example, had 47 pages (including annexes). CODOP was apparently reviewing options, such as summary statements of purpose and policy. Second, there were questions about the staffing of supervision work. The Bank appeared to have fewer staff than it used to with past hands-on management experience. In addition, by one count there had been about 260 financial analysts in 1980 and were about 170 today, of which only 36 were experienced in accounting, financial management and auditing, and half of those were preoccupied as task managers. Meanwhile 75% of projects, based on sample reviews, were not in compliance with financial covenants. One recommendation that had been made was to rely more heavily on local capabilities

and certifications by Bank-approved auditors. Capacity building was, of course, another. It would be ironic if we emphasized governance in broad terms but did not help create locally the requisites of good governance, such as audit capability.

4. Third, the possibility of an "intensive care unit" for projects that had problem project status for a long period was discussed. It might be hung off the RVP's office or placed in the TD. Problem projects should not be allowed to drag on indefinitely, and a "cure or kill" approach was important. People outside the country department would be less reluctant to make the tough-minded decisions sometimes required than CD people who had to worry about maintaining good country relations. Speakers said that a problem with the intensive care approach could be that it might lessen the accountability of the division chiefs and department directors. Also, often it was more important to have a specialist in such circumstances than a generalist, and it would not be practical to staff the intensive care ward with the variety of specialists likely to be needed. Another speaker said that if the best people -- who would be needed for such a function -- were drawn out of "regular" supervision, its quality would decline further. Prevention was more efficient and effective than cure. All speakers agreed that quality at entry, defined to include borrower commitment as well as good and implementable design, was the first priority.

5. The discussion then focussed on the agenda for the Borrower workshop on project implementation and on its conduct. The draft agenda has been revised accordingly and is attached.

6. Mr. Wapenhans asked members of the Steering Committee to ensure that considered comments on the Final Recommendations and Suggestions of OED in their gray cover Report 10606 will reach him by c.o.b. May 22.

Distribution:

Steering Committee Members: Messrs. Y. Abe, S. Aiyer, F. Aguirre-Sacasa, C. Blanchi, P. Bottelier, A. El Maaroufi, S. Hassan, E. Grilli, H. Kohli, H. Kopp, M. Martinez, D. Ritchie, V. Raghavan, E. Segura, H. Wyss.

Other Attendees: Messrs. N. Yucel, P. Ludwig, H. Sethi

Task Force Members: Messrs. S. Bhatia, P. Garg, L. Nurick, M. Pommier, P. Richardson, I. Scott and Mss. D. Lallement and J. Salop

cc. Advisory Council: Messrs. R. Picciotto, V. Rajagopalan, Y. Rovani

cc. Mr. Wapenhans

minute C:minute pr 5/14/92 12:15pm

Draft: 5/13/92

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 1: 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?

<u>To be distributed separately for general background (but not directly discussed)</u>:

Report of the World Bank Operations Evaluation Department, "Bank Experience in Project Supervision" (April, 1992)

World Bank Central Operations Department, "Seventeenth Annual Report on Implementation and Supervision, Fiscal Year 1991"

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

① Mr. Rajagopalan
② File

RECEIVED
003
92 APR -2 PM 2: 0

DATE: April 1, 1992

TO: Mr. Hans Wyss (O/R)

FROM: R. Srinivasan

EXTENSION: 84090

SUBJECT: Task Force on "Portfolio Management" Meeting with Mr. Wapenhans on Procurement

1. Mr. Wapenhans met with me for about 30 minutes on March 30 to discuss procurement in Bank operations. Mr. Ian Scott joined in the discussion. I had earlier submitted a brief note to Mr. Wapenhans to facilitate our discussion. I attach a copy of the note as Annex A.

2. In the discussion Mr. Wapenhans mentioned Working Paper No. 2 prepared by OED which contained interviews with a number of staff members, who provided various views on 'procurement supervision' among other topics. In general, they were critical about lack of adequate procurement supervision, poor quality of documents, inconsistency in application, etc., though none of them were documented. I have not seen this paper. He also mentioned that he received a few calls from the business community complaining of lack of strict enforcement of Bank procurement procedures and, perhaps, suggesting a deeper involvement in supervision. Thereafter he questioned me on my own assessment on the quality of procurement supervision, ability to maintain consistency, quality of local procurement, abuse of procedures, incidences of malpractice, control of SOE, revolving funds and other such procedures.

3. In addition to what I have said in the earlier note (Annex A), I mentioned to him that generally procurement was proceeding satisfactorily without any major flare-up or complaint in the recent past; maintainance of consistency in application of rules across Regions proved difficult in the absence of a structured central review process; there was very little control over local procurement which was by and large subject to post review; and procurement and disbursements in adjustment operations were subject to little control. Also, lack of continuity of staff in supervision affected procurement supervision more than other aspects. I also mentioned that the Guidelines by themselves have stood the test of time for public procurement but was silent on private sector procurement, in the context of current emphasis on private sector.

4. After the discussion, Mr. Wapenhans asked me to prepare a paper (feeder study) by April 30, particularly addressing the following topics with my recommendations: (i) ensuring consistency in applications of rules; (ii) supervision over local procedures; (iii) specific illustrations where lack of continuity has affected procurement supervision; (iv) procurement review in SOE and Special Account; and (v) production of accurate contract award data (Form 384).

5. He also requested me to arrange a meeting for him with the delegation of European/US/Japanese contractors who are coming to Washington, on May 23, for discussions with me on their suggestions to modify Procurement Guidelines.

Attachment

cc: Messrs. V. Rajagopalan (OSPVP); I. Scott (ORGHD)

CODPR 1.6
RSrinivasan

Annex 1

THE WORLD BANK/IFC/M.I.G.A.

ROUTING SLIP	DATE: March 27, 1992

NAME	ROOM NO.
Mr. Willi Wapenhans, EXC	D 1321

X	**URGENT**, For mtg. 3/30		PER YOUR REQUEST
	FOR COMMENT	X	PER OUR CONVERSATION
	FOR ACTION		SEE MY EMAIL
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		LET'S DISCUSS
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: Procurement

REMARKS:

Pursuant to our telephone conversation, I have attached a brief note on Procurement to serve as a background paper for our discussion on Monday, March 30, at 3:00 p.m.

FROM:	ROOM NO.:	EXTENSION:
R. Srinivasan, Chief, CODPR	A11-033	84090

March 27, 1992

Procurement

General

1. Procurement is an important activity in all Bank operations, since the Bank can finance only goods and services (unlike the IMF/IFC). Procurement is the link between making a loan and its disbursement. Delays in procurement would delay the project benefits and increase the cost. Inefficient and bad procurement would affect the success of a project. Under its Articles, the Bank is required to ensure economy, efficiency, and a fair opportunity to all member country firms. To achieve this, the Bank has issued Procurement and Consultant Guidelines. The Bank is responsible to supervise procurement, and in this process, ensure fairness, equity, and a level playing field. Above all, the Bank has to ensure consistency in the application of procurement rules across sectors and regions. The volume of annual procurement exceeds US$20 billion, and is keenly competed by member country firms and, hence, ensuring the integrity of the process is vital for retaining the credibility of the system.

Policy and Guidelines

2. The Procurement and Consultant Guidelines outline Bank policies and procedures. These are incorporated in the Loan Agreement, and become legal obligation of the borrowers. These Guidelines also serve the needs of staff and the business community. ICB is the preferred method of procurement, and approximately 60 percent of Bank procurement is through ICB and selection through short lists is the preferred method for consultants, and 70 percent of selection follows this route. The rest are sole-source.

3. The Bank's Guidelines have stood the test of time, and have served as a model to regional banks -- IDB, ADB, AfDB, and, recently, EBRD. There has been no demand either from the borrowers or the business community for any substantiative change to the Guidelines. Some suggestions have recently been put forth by US/European/Japanese contractors' associations requesting some elaboration of the Guidelines, which would improve the quality of bidding documents and encourage more participation by them. We are reviewing these suggestions. Borrowers have periodically suggested a higher margin of local preference than the present 15 percent for goods and 7.5 percent for works.

4. The Guidelines address public procurement, as the Bank makes loans mainly to governments and the public sector. Our Guidelines do not address lending to the private sector directly (the EBRD guidelines do). Recent emphasis on privatization thus raises some difficulties to address procurement by private sector.

Implementation

5. In the present organization, the task manager is responsible for supervising procurement in his operations. He is supported by technical specialists/consultants, with advice, guidance and selective review of documents by the RPA and Legal Department. CODPR develops and interprets policy, issues guidelines, technical notes, and sample documents, organizes training for

staff and borrowers, and liaises with the outside business community. It also oversees procurement in the regions by maintaining close network with RPAs to ensure consistency in the application of rules.

6. Since reorganization, there is a perception in some quarters that "procurement" has been downgraded and receives less attention from management. Since the reorganization changed the emphasis from project to country focus, resulting in task management by economists and generalists, some of these perceptions are valid, but there is no concrete evidence to show that the quality of procurement in Bank operations has gone down. On the contrary, there has been comparatively fewer complaints in the recent past. The IAD Report on Procurement in Africa and Asia Regions in 1989 concluded that, by-and-large, procurement supervision takes place satisfactorily; however, there is room for improvement; also, that the reorganized set up makes it more difficult to ensure quality and consistency in procurement supervision. The IAD Report on "Consultants" in Africa/Asia Regions in 1991, identified the lack of discipline in following prescribed review procedures and a high number of sole-source without apparent justification.

Coordination with Business Community

7. Business Seminars. EXT, together with CODPR, holds monthly briefings for the business community in Headquarters. A Business Affairs Specialist in the Paris Office, under the supervision of CODPR conducts bi-monthly business briefings in Paris, and participates in business seminars in Europe. EXT and CODPR conduct 1- to 3-day business seminars around the world to inform the business community of procurement opportunities, Bank policies, procedures, and source of information.

8. Meetings. Structured meetings are held by the Bank annually with international consultants' and contractors' associations. The annual meeting with consultants is due to be held on April 2-3, and that of the contractors is scheduled for the end of the year. The other regional development banks (ADB, IDB, AfDB, EBRD) also participate in these meetings. Special meetings are being held with the US/Europeans/Japanese contractors' associations to discuss their recent proposal to modify the Procurement Guidelines. The next meeting is due to be held on May 23, 1992.

Staff Training

9. CODPR organizes and conducts staff training seminars, as well as training seminars for borrower and executing agency staff in collaboration with RPAs. Recently, staff training has been increased substantially.

Procurement Information

10. LOA publishes "source of supply" information in the Bank Annual Reports, which indicates member countries' share of disbursements. CODPR collects "contract award data" (Form 384) for all contracts, subject to prior review, which are furnished to the EDs. These reports are less

than satisfactory, since many TMs fail to report awards in the OPMIS system. There has been a recent complaint to the President from the US ED on this. OSP and LOA are working together to improve the reporting.

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CODPR: 2.1

1. VK
2. File

March 30, 1992

RECEIVED
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92 MAR 31 PM 4: !

Messrs. El-Ashry
Churchill
Ms. Hamilton
Messrs. Petit
Pouliquen
Stern

Re: **Portfolio Management Task Force**

As discussed this morning, please find attached the note which sets out the principal areas of inquiry.

Jan Wijnand

cc: Messrs. Rajagopalan
Bock
Meyers
Wyss (o/r)

Portfolio Management Task Force

3/23/92

Principal Areas of Inquiry

A. Responsibilities, Authorities and Mandate (Mr. Garg)

After loan negotiation, what are the respective responsibilities, authorities, and accountabilities of the Bank, borrowers and guarantors? If borrowers are responsible for implementation and the Bank for "supervision" of it, to what extent is implementation assistance a Bank obligation or at least a Bank imperative? During implementation, what are the Bank responsibilities with respect to end use supervision, disbursement, procurement monitoring, and contract compliance? What groundrules govern when the Bank needs to notify or seek approval of the Board for adaptations or changes in project design? What are the Bank's rights and remedies in case of noncompliance? What are the options for designing "calibrated sanctions" rather than relying on suspension or termination? What are the implications of the foregoing for portfolio management policies, processes and practices? Beyond supervision of specific operations, what are the needs and responsibilities for "country portfolio management," i.e. for viewing the entire active portfolio in a country -- including adjustment lending -- in relation to country assistance strategies and the Bank/country special partnership relationship? Are the means and processes available for ensuring compatability among covenants applied to operations in a given country? Should there be a covenant data bank amenable to sorting by country and sector, with evaluative information added as it becomes available? How is the supervision of adjustment lending a fundamendally different challenge from the supervision of other operations, and are there significant problems with respect to it?

B. The Portfolio Cycle (Mr. Pommier)

What is the nature of the Bank's responsibility prior to negotiation and how far should the Bank go -- and what means and processes might it use -- in building borrower commitment/ownership? What factors should govern the division of Bank labor between the appraisal and supervision stages? Specifically, what factors should determine where to draw the line between "blueprinting" (i.e. seeking to predetermine most aspects of a specific end-product) and "evolutionary design" (i.e. viewing approval as the start of a process which may be affected by beneficiary behavior or changed circumstances)? Similarly, in supervision work, how should the line be drawn between striving for compliance with the operation's design at appraisal and work needed to adapt the original design to changed circumstances? How should the line be drawn between redesign and termination or cancellation? How should staff deal with the problem that provision of too much -- or the wrong kind -- of implementation assistance might negate borrower "ownership" of the operation and also work against objectives of capability enhancement? How can project completion reporting and evaluation work be made more effective, timely, and influential as a source of feedback to future work? What are the comparative advantages of lodging responsibility in the field for various aspects of portfolio management? Could local staff or local consultants be used to better advantage? How, if at all, might EDI be better used to improve borrower implementatioin and supervision capabilities?

C. Portfolio Management and Supervision Policies, Practices and Procedures (Ms. Lallement)

What are the relevant current practices, policies and processes and what appear to be their principal weaknesses? Do the respective responsibilities and interactions among SODs, CDs, TDs and country teams need clarification or adjustment? Among others with a current or potential role in the process? Is peer review working well and, if not, what changes should be made to improve our ability to provide the benefits sought from peer review? Are the reporting procedures, formats and practices (including ARIS) what they should be? Are the needs of the Board, senior

management, OSP, line management and task managers being met adequately? Does the PCR system need improvement? Is supervision work well planned and supervised? Is the division of supervision stafftime spent among aspects of supervision and over the active life of the operation appropriate? Is the timing of supervision generally appropriate? Are the incentives to staff appropriate? Is the level of resources appropriate, and how might they be used more efficiently? What improvements should be made in our handling of disbursements and of procurement? Could information technology be used to better advantage? Is the staffing of supervision work qualitatively what it should be?

D. <u>Methodology</u> (Ms. Salop)

What, if any, methodology might be applied to develop an aggregate "bottom line," a crisp, cut and dried measure of the overall state of the portfolio? Might its net present value be estimated? How? How, if at all, would the less tangible benefits of policy and institutional improvement be taken into account? How might such a measure be used? Would it be auditable by OED? As it changed from year to year, could it provide early warning to the Bank of need for broad remedial action? Or would it have to be so approximate and the components of it so subjective that changes, unless dramatic, would not have clear significance? How would such a measure be related to reviews and judgments of development effectiveness? Could aggregate measures be usefully adduced by sector and country or CD? What, if any would be the implications for the current supervision rating system and for the completion ratings? How, if at all, might the ratings be made more reliable, objective?

E. <u>Operations Evaluation</u> (Mr. Wapenhans)

What, if any, changes in the role, practices and program emphases of OED should be recommended? Is the PCR and audit process working well? Is the balance of OED attention among PCR reviews, PCR audits, special studies, country reviews, impact evaluations, annual reviews, country development, and feedback/dissemination what it should be? Is 100% PCR coverage and 40% audit coverage really necessary? In considering the operation closed (for the Bank) six months after the last Bank-fiinanced disbursement, is the Bank neglecting vital dimensions (e.g. in institutional building and policy reform) which extend beyond disbursement? Should the regions do impact evaluations? Is the before-and-after ERR basis of comparison too narrow? Are the special emphases adequately covered in OED work?

<u>Consultation</u>

Borrower Representatives' Workshop -- perhaps 12 for two days, end of May

Assistance Agencies' Workshop -- selected bilaterals and multilaterals, early June

Consultants' and Contractors' Meeting -- one session with advisory group to hear input

Advisory Council -- ad hoc (often in advance of Steering Committee)

Steering Committee -- prior to and (perhaps immediately after) Borrower Representatives' Workshop;

After assistance agencies' workshop

Ad hoc, as issues papers and other inputs identify important broad areas of likely controversy and major recommendations meriting a separate meeting

Frequently during June, to review drafts of the report.

Attachment

Review of Portfolio Management

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.

2/7/92

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

February 7, 1992

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.

Lew Preston

cc: Messrs. Wapenhans, Rovani

1. VR
2. Files

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: March 30, 1992

TO: Members of the Portfolio Management Steering Committee (See Distribution)

FROM: J. C. Peter Richardson

EXT: 84571

SUBJECT: **Meeting of March 27**

1. Mr. Wapenhans welcomed the members and their substitutes to the first meeting of the Portfolio Management Task Force Steering Committee. He outlined the reasons for creation of the task force. Board concerns with regard to the portfolio's performance had risen partly in response to the ARIS and OED findings. Mr. Preston was concerned about developing better means of measuring the state of the portfolio (the Bank's principal asset) and ensuring that whatever was necessary to keep it healthy was being done. Proposals with regard to the role of OED were being pressed by some members of the Board's Joint Audit Committee. There were staff complaints about managerial inattention to portfolio management, relative to the attention paid to new lending. The task force did not intend to duplicate the extensive excellent work that had already been done (e.g. by OED and OSPCOD) on specific aspects of portfolio management. It would review, digest, synthesize and build on prior studies. Given the time limits, no other approach was possible.

2. The task force would seek to review the fundamental foundations underlying the Bank's portfolio management activities, as well as prevalent preoccupations, strengths and weaknesses. Three frames of reference would be useful. First, the beginning and end: portfolio management would, for these purposes, be seen as starting with negotiations and ending with impact evaluation. While design work preceded negotiations and was vital to successful portfolio management, at negotiations the concept and design were expected to have matured adequately, consensus and commitment were expected to be confirmed, and the respective rights and duties of the parties were agreed and embodied in conditions and covenants. Second, the four purposes of portfolio management: these comprised end-use supervision, compliance, implementation assistance (including, as necessary, adaptation and redesign), and accountability for achieving appropriate results. There was considerable overlap. Third, the responsibilities, authorities and mandates of those involved -- owners, guarantors, lender(s), executing agencies -- needed to be made clear. Especially important was the interface between supervision, narrowly defined, and implementation assistance. To what extent should implementation assistance be "piggy backed" onto other supervision work and financed from the Bank's administrative budget rather than other sources (such as, perhaps, the new Institutional Development Fund)? How much omplementation assistance was too much, given the need for Borrowers to remain committed and accountable?

3. The clusters indicated in the "Principal Areas of Inquiry" (attached) would be pursued in parallel. While there was considerable overlap, that was expected to be useful, as it would generate alternative perspectives. With respect to the last cluster -- Operations Evaluation -- it was recognized that development effectiveness extended well beyond the portfolio, to include, for example, economic analysis and dialogue and aid

coordination and cofinancing. The effectiveness of learning and feedback activities, as related to portfolio management, also were of relevance.

4. Fundamental would be the realization that while new lending is less than $25 billion per year, the Bank's active portfolio is $138 billion with a value of about $400 billion. The Bank's first priority obviously had to be the active portfolio, not new lending. Moreover, the trend towards viewing the portfolio in its broad country economic and institutional context -- rather than one operation at a time -- was healthy and should be more widely adopted. Country Implementation Reviews received a level of management attention in the Bank and in Borrower governments that was rarely achieved with respect to the supervision of individual operations. That level of attention within the Bank was essential if the incentives for effective portfolio management were to be what they should be. Overall portfolio performance should, moreover, be a factor in determining country assistance strategies.

5. Mr. Wapenhans then briefly described and indicated the status of various feeder studies that the task force was seeking to have conducted, with results available by the end of April. (These are noted in the attachment to this minute). He asked the Steering Committee members for help in obtaining the time of staff requested for these studies. The overall deadline of the task force was July 1, a date that would be unlikely to slip as Mr. Preston was postponing a number of decisions pending receipt of the task force's findings and recommendations.

6. In addition to the feeder studies, there would be two workshops -- one with borrowers and one with other assistance agencies. The design of the workshops, the countries to be involved and what profile the attendees might have were discussed. Mr. Wapenhans asked Steering Committee members to suggest suitable candidates by close of business Monday, March 30. (A separate memorandum will sent on the subject). The views of the consultant and contractor communities also would be solicited as input to the task force's work. For the assistance agencies workshop, invitees could include people from the multilateral development banks, the Arab fund, USAID, KFW, Caisse Centrale, FAC, Danida, CIDA, CDC, EIB, the EC, and the UN office of Project Execution.

7. Discussion ensued. A speaker suggested that it would be useful to obtain the views of a number of Bank staff members who had previously been Borrower task managers. Also the ADS experience might be reviewed. Another suggested soliciting the input of country-based NGOs. They could be useful vehicles of country commitment building and also, if vigilant to ensure effective implementation, could reduce the Bank's burdens in that regard. Building non-government sources of commitment and pressure could ease the problem of ensuring continuity when governments change. Questions were raised about whether the Bank had any proper role in stimulating or harnessing domestic pressure groups, although in preparation assistance and appraisal it could well strive to ensure government commitment and the to design means for maximizing and holding beneficiary and other commitment during implementation. Mr. Garg was asked to review the issues of participation, with particular attention to the outcome of the recent workshop on the subject.

8. A speaker said that to hold commitment (of governments, beneficiaries and others) it was often necessary to fine tune or modify project design during implementation and that there seemed to be some reluctance to do this, given the opposite tendency to stress the enforcement dimensions of supervision. Another said that even ten years ago, OED had estimated that 60% of projects had undergone major changes during implementation. Supervision practices were often modelled on the port

project paradigm -- relatively self-contained, engineering-intensive, susceptible to predetermination -- whereas many of today's operations had to be recognized as being far more fluid in concept. The danger, a speaker said, was that if fluidity and implementation assistance went too far, the operation would come to be seen as the Bank's and not the Borrower's -- in which case we might be thought to have some kind of contingent liability and the borrower's willingness to repay the loan could be reduced.

9. A speaker said that today's projects were like yesterday's program loans. Having a single model of procedures, policies and approach for all operations everywhere was probably counterproductive. For example, the 10% ERR threshold was not always appropriate. Moreover, the ERR that was appropriate would be affected by the riskiness of the undertaking -- a factor we did not address with much sophistication. A 20% failure rate was not necessarily bad in Africa, while it could be unacceptable in East Asia. We should not apply the same criteria in all countries to the success of portfolio management. What was significant, moreover, was the incidence of failures that could have been prevented.

Distribution:

Steering Committee Members: Messrs. S. Aiyer, F. Aguilrre-Sacasa, C. Blanchi, P. Bottelier, A. El Maaroufi, D. Goldberg, E. Grilli, H. Kohli, H. Kopp, M. Martinez, D. Ritchie, V. Raghavan, E. Segura, H. Wyss

Other Attendees: Messrs. S. Hassan, P. Ludwig, G. Smith, M. Pulgar-Vidal, J. Wijnand

Task Force Members: Messrs. S. Bhatia, P. Garg, M. Pommier, P. Richardson, I. Scott and Mss. D. Lallement and J. Salop

cc. Advisory Council: Messrs. R. Picciotto, V. Rajagopalan, Y. Rovani

cc. Mr. W. Wapenhans

Attachment

Revised 3/28/92

Portfolio Management Task Force

Prncipal Areas of Inquiry

A. **Responsibilities, Authorities and Mandate** (Mr. Garg)

After loan negotiation, what are the respective responsibilities, authorities, and accountabilities of the Bank, borrowers and guarantors? If borrowers are responsible for implementation and the Bank for "supervision" of it, to what extent is implementation assistance a Bank obligation or at least a Bank imperative? During implementation, what are the Bank responsibilities with respect to end use supervision, disbursement, procurement monitoring, and contract compliance? What groundrules govern when the Bank needs to notify or seek approval of the Board for adaptations or changes in project design? What are the Bank's rights and remedies in case of noncompliance? What are the options for designing "calibrated sanctions" rather than relying on suspension or termination? What are the implications of the foregoing for portfolio management policies, processes and practices? Beyond supervision of specific operations, what are the needs and responsibilities for "country portfolio management," i.e. for viewing the entire active portfolio in a country -- including adjustment lending -- in relation to country assistance strategies and the Bank/country special partnership relationship? Are the means and processes available for ensuring compatability among covenants applied to operations in a given country? Should there be a covenant data bank amenable to sorting by country and sector, with evaluative information added as it becomes available? How is the supervision of adjustment lending a fundamendally different challenge from the supervision of other operations, and are there significant problems with respect to it?

Feeder Studies: Legal Aspects -- Mr. Nurick, under aegis of Mr. Goldberg, to serve as a consultant April/May/June.

Sample review of covenants to determine intra-country compatibility. Mr. Arndt Uhlig to assist.

Supervision of adjustment lending -- Messrs. T. Husain to lead if it can be arranged; possible assistance from Messrs. Lerdau, Nooter, Selowsky, Shilling.

B. **The Portfolio Cycle** (Mr. Pommier)

What is the nature of the Bank's responsibility prior to negotiation and how far should the Bank go -- and what means and processes might it use -- in building borrower commitment/ownership? What factors should govern the division of Bank labor between the appraisal and supervision stages? Specifically, what factors should determine where to draw the line between "blueprinting" (i.e. seeking to predetermine most aspects of a specific end-product) and "evolutionary design" (i.e. viewing approval as the start of a process which may be affected by beneficiary behavior or changed circumstances)? Similarly, in supervision work, how should the line be drawn between striving for compliance with the operation's design at appraisal and work needed to adapt the original design to changed circumstances? How should the line be drawn between redesign and termination or cancellation? How should staff deal with the problem that provision of too much -- or the wrong kind -- of implementation assistance might negate borrower "ownership" of the operation and also work against objectives of capability enhancement? How can project completion reporting and operations evaluation work be made more effective, timely, and influential as a source of feedback to future work? Should there be a different approach? What are the comparative advantages of lodging responsibility in the field for various aspects of portfolio management? Could local staff or local consultants be used to better advantage? How, if at all, might EDI be better used to improve borrower implementatioin and supervision capabilities?

Feeder Studies: Mr. Lethem and possibly others to be asked to do "thinkpiece" on processes for assuring adequate attention to building borrower commitment/ownership, perhaps as basis of discussion by ORG-led quality group. Mr. Kearns, consultant, may be involved.

Mr. S. Bhatia to do a paper on the possiblity of different supervision models for different circumstances.

Field office dimension -- notes to be requested from Messrs. Kraske, Cheetham, Sonmez, Cleaver, Zincir and Messrs. Steckhan and Chaparro (re SALs); possibly a questionnaire and possibly a seminar to be coordinated by Mr. Scott.

Mr. Golan to provide a paper on EDI dimension (and possible role in project management training, especially between signature and effectiveness).

C. <u>Portfolio Management and Supervision Policies, Practices and Procedures</u>
(Ms. Lallement)

What are the relevant current practices, policies and processes and what appear to be their principal weaknesses? Do the respective responsibilities and interactions among SODs, CDs, TDs and country teams need clarification or adjustment? Among others with a current or potential role in the process? Is peer review working well and, if not, what changes should be made to improve our ability to provide the benefits sought from peer review? Are the reporting procedures, formats and practices (including ARIS) what they should be? Are the needs of the Board, senior management, OSP, line management and task managers being met adequately? How can better information be obtained on the substance of supervision -- e.g. re actual implementation of the special operational emphases? Does the PCR system need improvement? Is supervision work well planned and supervised? Is the division of supervision stafftime spent among aspects of supervision and over the active life of the operation appropriate? Is the timing of supervision generally appropriate? Are the incentives to staff appropriate? Is the level of resources appropriate, and how might they be used more efficiently? What improvements should be made in our handling of disbursements and of procurement? Could information technology be used to better advantage? Is the staffing of supervision work qualitatively what it should be?

Feeder Studies: Mr. Pommier will provide his questionnaire on peer review for use with a wider sample than was possible in the processing study. The recommendations of that study on peer review would be reviewed.

Disbursement policy, process, practice -- Messrs. Rhagavan, Mayer, Schneider; Mr. Maurice Mould has agreed to serve as a consultant from April 6 to May 1.

Procurement policy, process, practice -- Mr. Scott to approach Mr. van der Meer. COD unit to orchestrate Consultants' and Contractors' input session; perhaps use Charles Morse as a consultant, under aegis of Mr. Srinivasan.

Mr. S. Bhatia will prepare a paper re utilization, adequacy of resources budgeted for supervision by Region, country, sector, etc..

Information technology possibilities -- Messrs. Ferreira and Youcel to do paper; Messrs. Gregory and perhaps Kholi and Mss. Moore and Pratt to assist/advise.

The CIR system and country portfolio management -- there was an ARIS back-up paper on the subject, which would be circulated to the task force. A volunteer/conscript was needed.

The PCR process -- Mr. Kopp with Mr. I. Scott to review.

D. **Methodology** (Ms. Salop)

What, if any, methodology might be applied to develop an aggregate "bottom line," a crisp, cut and dried measure of the overall state of the portfolio? Might its net present value be estimated? How? How, if at all, would the less tangible benefits of policy and institutional improvement be taken into account? What would be the limitations of such a measure, how might it be linked to supervision, how might it encompass the special operational emphases, and how would it affect the need for and application of sensitivity analyses at appraisal? How might such a measure be used? Would it be auditable by OED? As it changed from year to year, could it provide early warning to the Bank of need for broad remedial action? Or would it have to be so approximate and the components of it so subjective that changes, unless dramatic, would not have clear significance? How would such a measure be related to reviews and judgments of development effectiveness? Could aggregate measures be usefully adduced by sector and country or CD? What, if any would be the implications for the current supervision rating system and for the completion ratings? How, if at all, might the ratings be made more reliable, objective?

Feeder Studies: Mr. van der Tak will provide up to 10 days of advice and assistance before May 15.

E. **Operations Evaluation** (Mr. Wapenhans)

What, if any, changes in the role, practices and program emphases of OED should be recommended? Is the PCR and audit process working well? Is the balance of OED attention among PCR reviews, PCR audits, special studies, country reviews, impact evaluations, annual reviews, country development, and feedback/dissemination what it should be? Is 100% PCR coverage and 40% audit coverage really necessary? In considering the operation closed (for the Bank) six months after the last Bank-fiinanced disbursement, is the Bank neglecting vital dimensions (e.g. in institutional building and policy reform) which extend beyond disbursement? Should the regions do impact evaluations? Is the before-and-after ERR basis of comparison too narrow? Are the special emphases adequately covered in OED work?

Feeder Studies: Mr. Guerrero to advise and assist; OED possibly also to do empirical work re the frequency/importance of covenants which extend beyond PCR preparation.

Consultation

Borrower Representatives' Workshop -- perhaps 12 for two days, end of May

Assistance Agencies' Workshop -- selected bilaterals and multilaterals, early June

Consultants' and Contractors' Meeting -- one session with advisory group to hear input

Advisory Council -- ad hoc (often in advance of Steering Committee)

Steering Committee -- prior to and (perhaps immediately after) Borrower Representatives' Workshop;

After assistance agencies' workshop

Ad hoc, as issues papers and other inputs identify important broad areas of likely controversy and major recommendations meriting a separate meeting

Frequently during June, to review drafts of the report.

A L L - I N - 1   N O T E

DATE: 25-Mar-1992 05:14pm

TO: W. Wapenhans (W. A. WAPENHANS)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: **Portfolio Management Task Force**

Thank you very much for sending over the notes on PMTF's principal "areas of inquiry". They are well put together and should provide "food for thought" when available. Implementation roles; the project cycle; the supervision policy framework; appraisal methodologies and the evaluation function all need to be examined systematically.

But these building blocks should fit together. Therefore, a broader conceptual scheme may be needed -- one which meets the fundamental goals of PMTF. Therefore, I suggest that the "commanding heights" of the exercise should be the focus of our first advisory meeting.

The mandate of the task force is clear. The President views the succesful implementation of approved operations as the key indicator of the Bank's development effectiveness. He has repeatedly stressed the importance which he places on implementation. And he wishes to see improved project outcomes.

To this end, he has asked PMTF for judgments about (i) the respective roles of the owner; the guarantor and the lender under existing arrangements; (ii) the reliability of the current supervision feedback mechanism; (iii) the relevance of available performance tests; (iv) the quality of implementation assistance offered by the Bank; (v) the treatment of "sick" projects; (vi) the effectiveness of internal review and evaluation processes; (vii) the link to skills and staff training, etc.

One way or the other all of these instrumentalities are covered in the five bundles of topics listed under the principal areas of inquiry. But, before focussing on the means, I would suggest that the following questions be carefully considered at the outset :

* How do we/should we assess the development impact of Bank financed operations ?

* What do we know about the status and the trends of the operational portfolio ?

* What is the relevance of these trends for the Bank of today and tomorrow taking account of the characteristics of the current portfolio and of current lending plans ?

* Can we identify the major performance gaps requiring attention ?

* What are the constraints to filling these gaps ?

* How can they be removed ?

To be sure, a great deal is known about all these questions and, over the years, many studies have been carried out on one or more of them. PMTF's job is precisely one of synthesis and validation. In other words, a sound, balanced, credible, truthful diagnostic is required before the task force recommends a specific set of remedies.

But, in addition, PMTF should be prepared to put on the table fundamental issues which, for a variety of reasons, have not been seriously tackled. Some of them transcend the proximate topic of portfolio management.

Of crucial importance, PMTF must make a judgment about the "front end" of portfolio management -- policy formation and project/program design. Unless this part of the system is sound, catchup at portfolio management stage is bound to be costly and frustrating. Indeed, the very concept of a learning function implies that the lessons of supervision and evaluation influence the front end of the cycle.

Equally important are the issues related to the multiple clientele of the Bank's product. In considering roles and responsibilities, it is not enough to consider the Bank, the borrower and the guarantor. One must also bring in the global clientele of Bank services and the ultimate beneficiaries of Bank assistance. In practice, the question is less whether this should be done but the extent to which it can be and how. Tough questions related to the appropriate scope and modalities of participation must be addressed by PMTF.

The degree of adaptation of the Bank's product and of its operational policies to recent changes in the market for development assistance must also be factored in. How can portfolio management facilitate a more effective interface between diverse borrowers' needs and the existing range of Bank instruments ? How can it accelerate the development of more flexible and adapted lending instruments ?

Finally, there is a wide range of issues involved in changing the business processes associated with the delivery of services to our borrowers. How can internal structure and processes become better adapted to support Bank managers and staff (especially the task managers) in meeting an increasingly complex set of demands in an increasingly demanding operational environment ? What is the appropriate balance between integration and specialization ? How can modern quality management and technological advances be harnessed to improve the responsiveness of Bank services ?

I am not suggesting that PMTF should attempt to solve all the problems of our organization. But a broad context for what we are after is needed to avoid the centrifugal pull of too many partial analyses. An inventory of relevant studies and a discussion of their recommendations would be useful at an early stage. If many of these studies were not implemented we must ask ourselves why and try to frame an apprach which will initiate an irreversible commitment to change.

CC: Yves Rovani (YVES ROVANI)
CC: Visvanathan Rajagopalan (VISVANATHAN RAJAGOPALAN)
CC: Ian Scott (IAN SCOTT)
CC: Peter Richardson (PETER RICHARDSON)

II FUNCTIONS

- End Use Comparison — Eng projects - Guaranteed obligation relating to specifications
- Surveillance of Compliance — contract, surveillance — Quasi monopoly over multilateral ...
- Implementation assistance — assistance in implementation — proxy for
- Accountability — (Bank's accountability on failed projects)

Def^n of Cycle - Area of enquiry: I Starting from Negotiations

III Who is responsible for what? Owner, guarantor, Lender

Operations: work will be done in parallel
Commissioning a dozen feeder studies - Completion by end April

- David Goldberg / Nesrick — Spaper on f^n, mandate, responsibility, accountability; Legal - procurement, disbursement
- Group on disbursement, documentation; Raghavan / [illegible]
- Procurement - Concept paper from Srinivasan by 8/27 (Documents at beginning not well done?)
- Should there be an interface with lobby group? May
- Information management - 1 day workshop; data Banks
- Salop / VDT - performance evaluation, rating, development effectiveness, sustainability
- Separate piece on evaluation

Missing — Special paper on Supⁿ of SAL & SECAL
" " " Country portfolio management - (CIRs)

PCR guidelines being revised? O.D? Letting Govts off the hook?

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

RECEIVED
010
92 MAR 24 AM 11: 3

DATE: March 23, 1992

TO: See Distribution

FROM: Ian Scott, ORG

EXTENSION: 82330

SUBJECT: Portfolio Management Task Force

There will be a meeting of the Steering Committee at 3:30 p.m. on Friday, March 27, 1992 in Room D-1321. The attached paper will be discussed.

Distribution:

Messrs. W. Wapenhans, EXC, H. Wyss, CODDR, H. Kopp, OEDDR, D. Goldberg, LEGOP, V. Raghavan, LOADR, E. Grilli, DPGDR, H. Kohli, EMTDR, C. Blanchi, ECAVP, E. Segura, LATDR, S. Aiyer, LACVP, P. Bottelier, MN1DR, A El Maaroufi, EAPVP, F. Aguirre-Sacasa, AF3DR, M. Martinez, AFRVP, D. Ritchie, ASTDR

cc: Messrs. Y. Rovani, DGO, R. Picciotto, CPBVP, V. Rajagopalan, OSPVP, S. Bhatia, PBDPR, P. Garg, EMTAG, D. Lallement, CODMO, M. Pommier, CODOP, P. Richardson, CPBVP, Ms. J. Salop, CODOP

Attachment

Portfolio Management Task Force 3/23/92

Principal Areas of Inquiry

A. **Responsibilities, Authorities and Mandate** (Mr. Garg)

After loan negotiation, what are the respective responsibilities, authorities, and accountabilities of the Bank, borrowers and guarantors? If borrowers are responsible for implementation and the Bank for "supervision" of it, to what extent is implementation assistance a Bank obligation or at least a Bank imperative? During implementation, what are the Bank responsibilities with respect to end use supervision, disbursement, procurement monitoring, and contract compliance? What groundrules govern when the Bank needs to notify or seek approval of the Board for adaptations or changes in project design? What are the Bank's rights and remedies in case of noncompliance? What are the options for designing "calibrated sanctions" rather than relying on suspension or termination? What are the implications of the foregoing for portfolio management policies, processes and practices? Beyond supervision of specific operations, what are the needs and responsibilities for "country portfolio management," i.e. for viewing the entire active portfolio in a country -- including adjustment lending -- in relation to country assistance strategies and the Bank/country special partnership relationship? Are the means and processes available for ensuring compatability among covenants applied to operations in a given country? Should there be a covenant data bank amenable to sorting by country and sector, with evaluative information added as it becomes available? How is the supervision of adjustment lending a fundamendally different challenge from the supervision of other operations, and are there significant problems with respect to it?

B. **The Portfolio Cycle** (Mr. Pommier)

What is the nature of the Bank's responsibility prior to negotiation and how far should the Bank go -- and what means and processes might it use -- in building borrower commitment/ownership? What factors should govern the division of Bank labor between the appraisal and supervision stages? Specifically, what factors should determine where to draw the line between "blueprinting" (i.e. seeking to predetermine most aspects of a specific end-product) and "evolutionary design" (i.e. viewing approval as the start of a process which may be affected by beneficiary behavior or changed circumstances)? Similarly, in supervision work, how should the line be drawn between striving for compliance with the operation's design at appraisal and work needed to adapt the original design to changed circumstances? How should the line be drawn between redesign and termination or cancellation? How should staff deal with the problem that provision of too much -- or the wrong kind -- of implementation assistance might negate borrower "ownership" of the operation and also work against objectives of capability enhancement? How can project completion reporting and evaluation work be made more effective, timely, and influential as a source of feedback to future work? What are the comparative advantages of lodging responsibility in the field for various aspects of portfolio management? Could local staff or local consultants be used to better advantage? How, if at all, might EDI be better used to improve borrower implementatioin and supervision capabilities?

C. **Portfolio Management and Supervision Policies, Practices and Procedures** (Ms. Lallement)

What are the relevant current practices, policies and processes and what appear to be their principal weaknesses? Do the respective responsibilities and interactions among SODs, CDs, TDs and country teams need clarification or adjustment? Among others with a current or potential role in the process? Is peer review working well and, if not, what changes should be made to improve our ability to provide the benefits sought from peer review? Are the reporting procedures, formats and practices (including ARIS) what they should be? Are the needs of the Board, senior

management, OSP, line management and task managers being met adequately? Does the PCR system need improvement? Is supervision work well planned and supervised? Is the division of supervision stafftime spent among aspects of supervision and over the active life of the operation appropriate? Is the timing of supervision generally appropriate? Are the incentives to staff appropriate? Is the level of resources appropriate, and how might they be used more efficiently? What improvements should be made in our handling of disbursements and of procurement? Could information technology be used to better advantage? Is the staffing of supervision work qualitatively what it should be?

D. <u>Methodology</u> (Ms. Salop)

What, if any, methodology might be applied to develop an aggregate "bottom line," a crisp, cut and dried measure of the overall state of the portfolio? Might its net present value be estimated? How? How, if at all, would the less tangible benefits of policy and institutional improvement be taken into account? How might such a measure be used? Would it be auditable by OED? As it changed from year to year, could it provide early warning to the Bank of need for broad remedial action? Or would it have to be so approximate and the components of it so subjective that changes, unless dramatic, would not have clear significance? How would such a measure be related to reviews and judgments of development effectiveness? Could aggregate measures be usefully adduced by sector and country or CD? What, if any would be the implications for the current supervision rating system and for the completion ratings? How, if at all, might the ratings be made more reliable, objective?

E. <u>Operations Evaluation</u> (Mr. Wapenhans)

What, if any, changes in the role, practices and program emphases of OED should be recommended? Is the PCR and audit process working well? Is the balance of OED attention among PCR reviews, PCR audits, special studies, country reviews, impact evaluations, annual reviews, country development, and feedback/dissemination what it should be? Is 100% PCR coverage and 40% audit coverage really necessary? In considering the operation closed (for the Bank) six months after the last Bank-fiinanced disbursement, is the Bank neglecting vital dimensions (e.g. in institutional building and policy reform) which extend beyond disbursement? Should the regions do impact evaluations? Is the before-and-after ERR basis of comparison too narrow? Are the special emphases adequately covered in OED work?

Consultation

Borrower Representatives' Workshop -- perhaps 12 for two days, end of May — big borrowers

Assistance Agencies' Workshop -- selected bilaterals and multilaterals, early June

Consultants' and Contractors' Meeting -- one session with advisory group to hear input

Advisory Council -- ad hoc (often in advance of Steering Committee)

Steering Committee -- prior to and (perhaps immediately after) Borrower Representatives' Workshop;

After assistance agencies' workshop

Ad hoc, as issues papers and other inputs identify important broad areas of likely controversy and major recommendations meriting a separate meeting

Frequently during June, to review drafts of the report.

Attachment

Review of Portfolio Management

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.

2/7/92

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

February 7, 1992

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.

Lew Preston

cc: Messrs. Wapenhans, Rovani

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

RECEIVED
004
92 MAR 17 AM 10: 1

DATE: March 16, 1992

TO: Mr. W. Wapenhans & Members of the Task Force on Portfolio Management

FROM: Yves Rovani, DGO

EXTENSION: 31720

SUBJECT: Task Force on Portfolio Management

Please find attached, for your information, copy of the draft of the OED study on Bank Experience in Project Supervision, currently circulated to Bank staff for comments.

Attachment

Task Force Members:

Messrs. Picciotto
Rajagopalan
Richardson
Scott

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
EXC - Portfolio Management - Wapenhans Task Force - Executive Directors Statements, Recommendations	1210035

Document Date	Document Type
3/12/1992	Report

Correspondents / Participants

Subject / Title
Bank Experience in Project Supervision

Exception(s)
Information Restricted Under Separate Disclosure Regimes and Other Investigative Information: Independent Evaluation Group (IEG)

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Bertha F. Wilson	August 21, 2017

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03-24-1992 10:23 202 477 1212 WB-CPBVP 202-477-1212 P.01

Pl. keep

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3/30

FORM NO. 26
THE WORLD BANK/IFC

ROUTING SLIP	DATE: 3/23/92

NAME	ROOM NO.
Messrs. Picciotto	
Rajagopalan	
Rovani	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

These are [illegible] principal issues as of now. I wou[illegible] to hear your reactions a[illegible]venience.

FROM:	ROOM NO.	EXTENSION
W. Wapenhans	D-1321	80121

Portfolio Management Task Force 3/23/92

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Steering Committee -- prior to and (perhaps immediately after) Borrower Representatives' Workshop

After assistance agencies' workshop

Ad hoc, as issues papers and other inputs identify important broad areas of likely controversy and major recommendations meriting a separate meeting

Frequently during June, to review drafts of the report.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

① Mr. Mayers
② File

RECEIVED
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92 MAR 13 AM 10: 1

3/13

DATE: March 11, 1992

TO: Mr. Lewis T. Preston, EXC

FROM: Bilsel Alisbah, PAAVP

EXTENSION: 80161

SUBJECT: Task Force on Portfolio Management

1. Willi Wapenhans has approached me to secure the release of Ian Scott to serve as Executive Secretary to the Task Force on Portfolio Management. I have also been approached by the three members of the Advisory Committee (Robert Picciotto, Visvanathan Rajagopalan and Yves Rovani) in support of that proposal.

2. There may be an adverse impact on the work of ORG. It is, as you know, a small organization and Ian customarily does a substantial part of its work himself. He believes however, that provided he is given additional funds with which to hire consultants for ORG, and provided Peter Richardson from Picciotto's office is available to work with him on the Task Force, he would be able to devote half his time to that and half to ORG for the duration of the Task Force and could manage both tasks satisfactorily.

3. In practice however, it is difficult to predict how much time will be needed to attend to both jobs simultaneously without sacrificing quality. Therefore, I want you to be aware that if we proceed with this arrangement, there could be some delays in the completion of ORG products between now and the summer. Provided that is acceptable, and provided the other conditions noted above are met, I am informing Mr. Wapenhans that I will release Ian.

cc: Messrs. W. Wapenhans, EXC, R. Picciotto, CPBVP, V. Rajagopalan, OSPVP, Y. Rovani, DGO

Received from Mr. Wapenhans
3/5/92

CONFIDENTIAL
DRAFT 2/11/92

Task Force

on

Portfolio Management

Chairman: W.A. Wapenhans

Advisory Council: R. Picciotto
V. Rajagopalan
I. Rovani

Executive
Secretary: [Jane Loos] ?
Ian Scott

Steering Committee

	Principal/Alternate
Hans Wyss	Harinder Kholi/Claude Blanchi
Eberhard Kopp	Edilberto Segura/Sriram Aiyer
David Goldberg	~~Heinz Vergin~~/Abdallah El Maaroufi
V.S. Raghavan	F. Aguirre-Sacasa/Miguel Martinez
Enzo Grilli	Daniel Ritchie/Inder Sud
	Kemal Dervis
	Pieter Bottelier

Working Groups

Group I: Leader: Michel Pommier
Prem Garg

Portfolio Management Objectives and Functions

End-use and Compliance Objectives; Implementation Responsibilities and Mandate; Measurement of Performance: Methodology, Criteria and Application; Impact and Effectiveness Evaluation; Public Accountability, Dissemination of Lessons learned.

Staffing: + 2 (& Y.P.)

Part-time: Legal: C. Walser
A. Rigo

SHL/SECAL Impact work: A. Ray

Group II: Leader: Dominique Lallement
Samir Bhatia

Portfolio Management Procedures and Practices

End-use and Compliance Supervision; Project/Program Completion reporting, Evaluation and Impact Assessment Staffing Practices; H.Q. & Field Office Roles; Rating Practices: relevance and accuracy; Progress and Results Reporting; Information Technology Application; Handling of unsatisfactory Performers; Practices and Procedures for Project/Program Reformulation; Preparation for Transition to Operational Phase; ~~Aclimation~~ Delimitation of Organizational Accountabilities.

Staffing: + 2 (S. Sigurdsson & Y.P.)

Part-time: E. Henirod, Provisional Matters
F. Choudhury, Loan Accounting & Borrower Services

Ferreira/Yusel

3/5

Pantime: I would like to talk to Mr. Wapenhans about this

2/19

will meet on March 2 or 3

RECEIVED
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92 FEB 11 AM 10: 0

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

February 7, 1992

To: Vice Presidents and Department Directors

Subject: <u>Portfolio Management</u>

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.

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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.

Lew Preston

cc: Messrs. Wapenhans, Rovani

Attachment

Review of Portfolio Management

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.

2/7/92

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

February 7, 1992

Mr. Wapenhans

Bob told me of the extremely important and timely exercise you are undertaking--namely the revitalization and refocussing of supervision efforts, in order to render them more responsive and effective. As you may know, this subject matter is very close to my heart! In fact, I wrote a short note on this subject a while back. It was used in the old EMENA Region and produced some positive result. I thought you might be interested in seeing it. I believe it is still relevant.

With best regards.

Samir

Samir Bhatia

Attachment

P-1852

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 5, 1988

TO: Division Chiefs, EM3

FROM: Ardy Stoutjesdijk, Director, EM3DR AS

EXT: 3-2707

SUBJECT: Project Supervision Work - An Effective Check-list

1. In the present economic environment where the Borrower is faced with serious economic and financial problems, the efficient and timely utilization of resources becomes of paramount importance. Our supervision work is a major means of assisting the Borrower towards this goal. However, as we all recognize, it is an area that needs substantial strengthening.

2. To this end, I am enclosing a check-list, prepared by Samir Bhatia, to assist in rendering supervision work more effective and responsive. It is not intended to be exhaustive nor to replace OMS 3.50. It is, instead, a guide listing basic steps that should be followed in order to ensure effective supervision. The steps are neither new nor complex, but are sometimes overlooked or omitted. The list should not prohibit either innovative approaches or improvements.

3. In view of the growing importance of the subject matter, the list should be brought to the attention of the staff in your Division. In addition, you may also wish to take the opportunity, during Division meetings, to re-emphasize the importance of carrying out action and result-oriented supervision.

Enclosure

cc: Messrs./Mmes. Thalwitz, El Maaroufi, Stichenwirth, (EMNVP), Bouhaouala (EMTDR), R. Harris (CODOP), Bhatia, Wall, O'Donnell (EM3DR)

:rr

0914Y

Project Supervision Work – An Effective Checklist 1/

I. Introduction

1. The importance of project supervision work in the development process cannot be overemphasized. It is the impetus that ensures the efficient and timely utilization of committed funds and serves to foster effective technical, institutional, financial, and economic growth.

2. Over the past few years, however, supervision work in the Bank has lost some of its momentum. There has been a tendency for supervision to become a mere mechanical exercise. Missions are generally undertaken at six-monthly intervals, and reports are routinely prepared; this frequently means a mere repetition of the same problems, with little innovation or focus on resolving issues. In many cases, the lack of a clear, result-oriented supervision approach has led to a near standstill in project implementation, resulting in discouragement for the Borrower as well as the Bank staff.

3. Within the Bank, the lack of funds and/or lack of importance placed on supervision work are often given as reasons for its reduced effectiveness. These claims may have a degree of validity to them, but more often, they are merely excuses. Instead it is the attitude and approach toward supervision that is at fault, and it is here that revitalization and refocussing are urgently needed. The question is how can this be achieved? This note attempts to provide a checklist to help render supervision work more effective and responsive to the Borrowers' needs as well as more economic for the Bank. The checklist is neither intended to be revolutionary nor to replace OMS 3.50, but rather to restate and reemphasize the cardinal principles of supervision which, in the past, made the Bank the best in its field.

4. Objectives: The objective of effective supervision should be to ensure (a) that the project is implemented on time and managed efficiently in achieving its stated objectives, within the changing economic environment of the country, and (b) that an institutional capability is created within the country to sustain the project's achievements after the Bank has ceased its involvement.

II. Pre-Mission Preparation

5. The success of a supervision mission depends to a large extent upon how well pre-mission preparation has been undertaken; sufficient time

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1/ In the preparation of this document, I have benefitted greatly from comments made by many both within and outside the Region.

must be allowed for this purpose. In this context, a number of preparatory steps must be completed by the Task Manager (TM):

(a) <u>Composition of the Mission</u>: All efforts should be made to ensure the continuity of staff members working on the project. Frequent changes in the project management are undesirable and uneconomic for both the Borrower and the Bank. Similarly, great care should be given to the selection of consultants.

(b) <u>Review and Check of Documents</u>: Previous supervision documents, including Form 590, the PII file, legal documents, correspondence, staff appraisal reports and recent country economic reports should be carefully reviewed. Updated disbursement figures should be prepared as well as the status of compliance of covenants.

(c) <u>Identification of Issues/Consultation:</u> Based on a review of the documents, issues should be identified. In this process, consultation with the previous Task Manager(s) should be undertaken in those cases where there has been a change in mission leadership. Discussions with legal, disbursement, country officers and Technical Department (TD) staff should take place. The Division Chief concerned should hold a pre-mission departure meeting focussing on the measures/strategy to be followed in resolving implementation problems.

(d) <u>Terms of Reference (TOR) and/or Issues Paper</u>: Based on the above, detailed TOR should be prepared, outlining the problems and setting out a recommended course of action as well as clearly indicating what the Bank hopes will be achieved during the mission. The responsibility and duties of the mission members should be clearly designated. The TOR should be not merely a list of items to be covered during the mission, but rather an action/result-oriented blueprint for determining whether or not the mission achieves its goals.

In those projects where issues are very complex and far-reaching, requiring a change in project design and/or in legal documents, etc., a pre-mission issues paper should be prepared. In the paper the Task Manager should set out project implementation issues, with a suggested action program. If necessary, after consultation with the Division Chief, a Department meeting should be held. During this meeting, a Bank position should be established for the Task Manager to discuss and finalize with the Borrower during the mission. This position should be clearly reflected in the TOR. Such careful preparation would enhance the effectiveness of the supervision mission and would prevent possible mixed signals. The Borrower would receive the Bank's decision in the field, and follow-up costs and time would be substantially reduced.

(e) Communication with the Borrower: After the Terms of Reference have been finalized, a detailed telex should be sent to the Borrower stating the mission's objectives, the issues to be discussed, and meetings and field visits to be scheduled, etc. Requests for counterpart(s) to participate in the mission, information, analyses, reports, etc. should also be communicated so that the documents will be available to the mission upon arrival. If any relevant documents have been prepared or would assist in achieving the mission's objectives, these should be sent to the Borrower in advance.

III. In the Field

(a) Meetings: Upon arrival the Task Manager, together with the mission members, should hold an initial meeting with the Chief Executive Officer (CEO) of the project implementing agency and/or relevant government officials. During this meeting, the objective(s) of the mission and the goals to be achieved should be restated. An agenda covering the issues, field visits and meetings should be finalized. The Task Manager should emphasize to the CEO that the mission is not being undertaken for the Bank's purposes alone. It is an exercise designed primarily to assist the agency in achieving the objectives of the project, and in turn, the economy as a whole. The counterpart(s), should participate in all meetings and field visits. 1/ Their participation is extremely useful, both in liaising with the Borrower and in helping to present the Bank's rationale and the benefits to be gained from its recommendations. After the departure of the mission, a good counterpart may become a continuing Bank representative/spokesperson within the Government.

(b) Project Status Review: The mission should undertake a review of the status of project implementation with the counterpart(s), specifically focussing on physical implementation, management, procurement, disbursement, financial aspects, including statement of expenditure (SOE), and the development impact to date, etc. The macro-economic and sectoral policy issues, particularly those affecting the project, should be identified. Such an examination, in some cases, may lead to the restructuring of the project to address the policy/institutional constraints as well as to reflect changed economic realities. During these meetings, mission members should try to listen to Borrower/Government officials with an open mind and attempt to understand their constraints, without

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1/ In those countries where there is a Resident Mission, representative(s) from that office should be invited to participate in the meetings and other parts of the mission.

downgrading or compromising the Bank's own principles or guidelines. In this process, it is extremely important that we maintain our technical and professional integrity, while adopting an empathetic approach. Merely agreeing with the Borrowers in all their claims and assertions serves very little purpose.

After the review meetings, the mission members should meet again with the CEO and establish a final list of issues, with possible solutions, before the mission leaves for field visits. Such an exchange would enable the CEO to establish the Borrower's own position, perhaps after meeting with the Government officials concerned, so that he/she may be prepared to start serious discussions when the mission returns from field visits. During these discussions, the mission should also explore the possibility of developing new projects.

(c) Field Visits: These constitute the heart of supervision work. They are the vehicle through which the Bank really transfers its technical expertise to the Borrower. They also provide an opportunity for the Bank to understand the problems and potential of the project. It is, therefore, essential that a majority of the mission's time be spent in field visits. It is also vital that they be selected with great care and with specific objectives. The presence of the counterpart(s) from the implementing agency/Borrower on field visits is essential.

(d) Finalization of an Action Program/Aide-Memoire: After completion of the field visits, the mission, along with the counterpart(s), should hold meetings with the CEO and other government officials to finalize an action program in order to resolve any project implementation problems. In designing the action program, the mission should not only list the actions required, but also detail how they should be undertaken, by whom, by what date, and what results are expected.

An aide-memoire should be prepared recording the status of project implementation, the achievements to date, issues, actions recommended/agreed, and expected results. In the preparation of this document, the counterpart should be involved to the extent possible. The aide-memoire should also contain a list of places visited and people met. Copies should be made available to all officials and agencies concerned.

(e) Wrap-Up Meeting: The wrap-up meeting is an extremely important part of the mission. The Task Manager should ensure that key officials of all relevant agencies participate. It should generally be chaired by the CEO, a senior official of the Ministry, or the Minister, if necessary.[1/] In this meeting, a clear presentation should be made of the status of implementation, issues, and actions agreed. The meeting also serves the important purpose of bringing together the officials of the different agencies concerned, who may otherwise rarely have the opportunity to meet and discuss project matters. If there is a need for the aide-memoire to be amended to reflect any changes, these should be introduced before it is signed by the Task Manager and the implementing agency.

IV. Follow-Up

6. The success of the supervision mission depends to a great extent upon an effective follow-up, both by the Bank and the Borrower. To this end, the following steps should be taken:

(a) BTO/Form 590: The Back-to-Office Report (BTO) and Form 590 should be prepared within the specified time limit and sent to the Division Management. If the Task Manager and/or the Division Chief believes that there is a need for a post-mission meeting to discuss issues and recommendations, it should be organized as soon as possible. The Project Advisor, Country Officer, Lawyer, Procurement Advisor, Disbursement Officer, and Lead Economist may be invited, as appropriate.

(b) Feedback: The Department Director and the Project Advisor should provide prompt feedback to the Task Manager on his/her report.

(c) Follow-up Letter: This is a very important instrument in the supervision cycle. The Bank's outgoing letter, enclosing a copy of the aide-memoire, should be clear, concise, and instructive. It should underscore the main issues, the actions agreed/to be agreed, and should state briefly by whom and by what date the actions should be taken. The benefits anticipated from the measures should be indicated. The letter should generally be addressed to the CEO of the implementing agency, with copies to the Minister concerned and the agency responsible for coordinating the Bank's operations in the country.

1/ Meetings with Ministers should not be considered routine; caution should be taken to avoid misutilization of the Minister's time, in view of the frequency of Bank missions.

(d) Telex/Telephone Contacts: After the letter has been dispatched, the Task Manager should, at frequent intervals, contact the CEO/representative of the implementing agency by telephone/telex and continue to monitor progress. If any adjustment or assistance is needed, the Task Manager should deal with it in consultation with Division management. Where there is a Resident Mission in the country concerned, the Task Manager should keep the resident representative informed and use its good offices to further the project objectives/implementation.

V. Conclusions

7. The above checklist, or any other, is not an end in itself. The success of supervision depends to a great extent on the attitude and approach of the Task Manager and the Divisional management concerned. Their determination in this effort is pivotal in converting a routine exercise into result-oriented supervision. In the end, of course, the Bank's efforts must also be accompanied by a real commitment by the Borrower.

SBhatia:rr
Project Advisor, EM3DR
May 5, 1988

0962Y

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

February 10, 1992

Mr. Wapenhans
EXC, Room D-1321

Project Supervision Work

Further to my note of February 7, I am enclosing a copy of another note, prepared in my Division, on the above subject. I hope this will provide you with some additional information from a budgetary point of view.

Samir Bhatia

Attachment

JL

February 22, 1991

Mr. C.L. Robless

Supervision Budgeting Methodology

Robby,

As agreed, I am pleased to enclose a technical note analyzing the above-mentioned issue. Perhaps we could meet early next week to discuss it. I am hoping that the issue of the portfolio estimate can be put to bed before the FY92 budget construction begins, and that this technical note will serve this end.

Samir

Samir

cc: Messrs. Bock, Smucker
Messrs. Picciotto, Lynn, Murli, West
Operations Team

Supervision Budgeting Methodology

A. Background

1. One issue outstanding between Operations and PBD is the amount of resources to be budgeted for supervision in FY92. Resources for supervision are currently estimated by Operations on the basis of (i) average supervision intensity (staffweeks per project), multiplied by (ii) the number of projects under active supervision (portfolio) as estimated by line managers. While agreement has been reached on the intensity of supervision, the projected size of the portfolio for the purpose of budgeting resources has been a matter of debate.

2. PBD proposed that the supervision portfolio be estimated on the basis of an eight-year life for investment operations, and a four-year life for adjustment operations (the 8/4 proposal). In fact, this is a refinement of the pre-FY89 budget criterion based on a single eight-year project life span for all projects, which was discontinued because of the growing number of adjustment operations in the supervision portfolio. The 8/4 proposal, in PBD's view, would provide a strong budgetary incentive to speed up project completion, while still being equitable. However, Operations questioned the validity of the proposal in view of the lack of supporting data and analysis.

3. A detailed examination has now been carried out. Specifically, the purpose of this note is to:

- analyze the actual experience of projects closed between FY85-90 so as to establish the validity of the 8/4 year proposal (Section B); and
- examine the adequacy of the resources provided for supervision for FY92 in the Medium-Term Framework (Section C).

4. The primary source of information used in the analysis was the ARIS database in the Operations' MIS. In addition, information was also obtained from the FY86-91 Budget documents; the FY90 ARIS Report; the time-recording files; the disbursement profiles; and the Operations Business Plans.

B. Analysis

5. *Life of Projects*: Table 1 shows that the ~~weighted~~ average life of investment projects has decreased from 7.6 years (90.7 months) in FY85 to 7.3 years (87.6 months) in FY90. On the other hand, it has increased for adjustment operations from 2 years (24 months) to 2.6 years (30.6 months) during the corresponding period (see Annex 1 for further details). This clearly demonstrates that the proposed 8/4 year proposal for estimating the supervision portfolio provides a liberal time frame.

Table 1: Average Life of Projects Closed in FY85-90
(in months)

	FY85	FY86	FY87	FY88	FY89	FY90
Adjustment	24.0	44.9	28.0	27.1	30.5	30.6
Investment	90.7	89.2	101.7	88.2	88.2	87.6
Weighted Average	86.1	87.8	98.7	83.0	84.4	82.4

Source: OPS-MIS Data

6. ***Disbursement Profiles***: Well-established sectoral disbursement profiles confirm that all projects in all sectors could be accommodated within an 8/4 year time frame (Annex 2). Projects in agriculture, education, population, power, and urban projects require 7-8 years to disburse fully, while all other sectors disburse over much shorter periods (5-6 years).

7. ***Performance of Projects Over the 8/4 Year Norm***: An age analysis of the projects active in FY90 (Table 2 and Annex 3) indicates that 260 projects (13.8% of the FY90 supervision portfolio of 1890) were over the 8/4 year norm. A total of about 23 staffyears (5.2% of the supervision resources of 446 staffyears) were spent on these projects in FY90—a significant amount under the current tight budgetary environment. Despite a high level of supervision intensity for the 260 projects (11.4 staffweeks per project), their implementation performance was not improved (Annex 4). A project-by-project review indicates, in fact, that the performance rating remained unchanged for 56% of projects and deteriorated in 25% of cases; in only 19% of the projects did the performance rating improve. Given the high amount of supervision resources allocated and the fact that 81% of the projects showed no improvement, management may wish to decide whether more attention should be paid to screening projects before closing dates are extended. It might be useful to close many of the old and poorly performing projects and to redeploy the resources to improve the performance of the projects with better potential.

Table 2: Age Analysis of the FY90 Portfolio

No. of Projects	>8/4 Years (a)	<8/4 Years (b)	Total Portfolio (c)	(%) (a/c)
Investment	233	1516	1749	13.3
Adjustment	27	114	141	19.2
TOTAL	260	1630	1890	13.8

C. Budgetary Implications

8. Calculations based on the *actual* life expectancy of projects by sector (Annex 1) would yield a portfolio estimate of 1585 projects for FY92. At the supervision intensity of 12.6 staffweeks per project proposed for the Framework, this would correspond to a resource requirement of 384 staffyears ($52.6 million) for FY92. The 8/4 year life expectancy is more liberal than actual experience generally requires, and would yield a portfolio estimate of 1727 projects for FY92 corresponding to a resource requirement of 418 staffyears ($57.3 million). Moreover, the Framework assumption for the portfolio is even more liberal than the 8/4 formula: it assumes a portfolio of 1817 projects, and carries a resource provision of 440 staffyears ($60.2 million). Thus, the resources provided in the Framework for FY92 imply a cushion of $2.9-7.6 million, depending on the methodology selected for projecting the supervision portfolio. Detailed calculations for the portfolio estimates under different assumptions are given in Annex 5, and results are summarized below.

Table 4: Portfolio Estimates for FY92 and Resource Requirements

	No. of Projects	Intensity SW/Proj.	Resources SYs	Resources $m
	(a)	(b)	(c=a*b)	
Basis of Portfolio Estimate:				
(i) Actual FY85-90 Experience	1585	12.6	384	52.6
(ii) 8/4 Norm	1727	12.6	418	57.3
(iii) FY92 Framework Assumptions	1817	12.6	440	60.2
(iv) Operations proposal	1889	12.6	457	62.6
Memo Items: Cushion in the Framework Assumption				
	SYs	$m		
Based on Actual Experience (iii-i)	56	7.6		
Based on 8/4 Norm (ii-i)	22	2.9		

D. Conclusions

9. The following conclusions emerge from the above analysis:

- An eight-year life for an investment project and four-year life for an adjustment operation is a sound basis for budgeting resources for supervision; and

- The resources provided for supervision for FY92 in the Medium-Term Framework should be sufficient to achieve Operations' supervision objectives.

10. On the basis of this analysis and the conclusions reached, it should be possible to decide upon the size of the portfolio for constructing the budget.

Average Life of Projects Closed in FY85-90 a/

(in months)

	FY85	FY86	FY87	FY88	FY89	FY90
By Sector:						
Agriculture & Rural Development	94.25	92.58	97.37	91.95	91.10	89.92
Telecommunications	120.73	82.67	77.67	73.67	86.00	57.00
Industrial Dev/Finance	77.54	70.65	83.59	75.33	82.81	73.04
Education	101.52	89.95	118.64	90.38	94.15	93.45
Energy	46.17	66.43	68.64	78.67	71.00	73.50
Industry	66.08	81.83	98.58	77.22	77.76	59.71
Program Lending/SAL	23.00	51.17	24.86	26.62	24.00	33.67
Population	90.00	87.00	93.50		110.67	90.75
Power	79.93	85.45	128.22	80.94	92.15	98.17
Transportation	93.09	95.38	113.82	97.10	83.59	85.85
Urbanization	74.14	89.30	78.71	92.11	73.69	69.20
Water Supply & Sewerage	90.36	93.11	102.52	80.41	102.56	78.86
Technical Assistance	108.50	86.00	61.89	74.20	75.18	74.00
By Instrument:						
Investment	90.69	89.21	101.67	88.16	88.18	87.42
SAL & SECAL	24.00	44.88	28.00	27.11	30.53	30.58
By Region:						
VP-Africa	97.40	90.48	93.77	82.67	81.45	81.16
VP-Asia	83.84	88.54	94.08	90.02	88.08	79.92
VP-EMENA	78.96	87.64	98.05	74.89	88.00	80.70
VP-LAC	77.10	84.32	110.65	80.70	78.71	89.20
WEIGHTED AVERAGE	**86.09**	**87.83**	**98.65**	**82.96**	**84.37**	**82.42**

a/ Based on OPS-MIS Supervision and Lending files, with adjustments made for errors and missing data.

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Standard Disbursement Profiles of Projects By Sector a/

(disbursed % of original balance)

	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8
	(PY = Project Year)							
Agriculture & Rural Development	3	14	26	46	62	82	94	100
Telecommunications	6	22	46	70	89	98	100	..
DFC	3	22	46	74	90	100	..	..
Education	3	10	22	46	62	82	96	100
Energy	3	18	42	66	86	96	100	..
Industry	3	18	46	70	90	100	..	..
Population, Health & Nutrition	3	10	22	38	58	74	90	100
Power	3	14	30	58	78	90	98	100
Transportation	3	18	38	62	82	94	100	..
Urbanization	3	14	26	42	66	86	98	100
Environment	3	10	26	50	70	90	100	..
Technical Assistance	3	14	34	54	78	90	100	..

a/ Based on historical experience.

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Annex 3

Age Analysis of Active FY90 Projects Over 8/4 Norm
(by sector and instrument)

	Age (years)				Memo Item:	
	>12	>10<12	>10<8	Total (a)	Total Portfolio (b)	(%) (a/b)
A. Investment						
Agriculture & Rural Development	4	35	76	115	534	21.5
Telecommunications	-	-	2	2	32	6.2
DFC/Industry/Tourism	-	4	17	21	197	10.7
Education	2	1	18	21	159	13.2
Energy	-	-	4	4	59	6.8
Population, Health & Nutrition	-	1	3	4	79	5.1
Power	2	4	13	19	155	12.3
Transportation	-	6	18	24	224	10.7
Urbanization	-	1	5	6	110	5.4
Water Supply & Sewerage	-	3	8	11	107	10.3
Technical Assistance & Other	-	1	5	6	94	6.4
Subtotal	8	56	169	233	1749	13.3
	Age (years)					
	>6	>5<6	4<			
B. Adjustment	5	10	12	27	141	19.2
TOTAL				260	1890	13.8

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Annex 4A

Supervision Intensity for 260 Projects 1/

(staffweeks per project)

	FY85	FY86	FY87	FY88	FY89	FY90	Average
Investment Projects > 8 Years	14.2	13.9	12.7	10.1	8.1	6.7	10.9
Adjustment Operations > 4 Years	13.4	18.5	28.2	16.1	9.5	5.3	15.2
Weighted Average	**14.2**	**14.4**	**14.3**	**10.8**	**8.2**	**6.6**	**11.4**

1/ Source: ARIS Reports

Annex 4B

Analysis of ARIS Ratings of Over-Age Portfolio 1/

	FY85	FY86	FY87	FY88	FY89	FY90
Investment Projects > 8 Years						
Over 12 Years Old Portfolio	2.1	2.1	2.1	1.9	2.1	2.4
Over 11 Years Old Portfolio	2.1	2.2	2.2	2.3	2.4	2.4
Over 10 Years Old Portfolio	2.0	2.3	2.1	2.1	2.0	2.1
Over 9 Years Old Portfolio	2.1	2.3	2.2	2.1	2.1	2.2
Over 8 Years Old Portfolio	2.1	2.2	2.1	2.1	2.0	2.1
Average Rating	**2.1**	**2.3**	**2.2**	**2.1**	**2.1**	**2.1**
Adjustment Operations > 4 Years	1.9	1.6	1.8	1.7	1.9	1.9

Source: ARIS Data

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Number of Projects Approved By Fiscal Year

Lending Instrument	Sector	ACTUAL FY84	FY85	FY86	FY87	FY88	FY89	FY90	Est. FY91	Framework Period FY92	FY93	FY94	Portfolio Proj FY92	FY93	FY94	FY90 Avg Yr	Assumed Avg Yr
Investment	Agri. & Rural Devt.	56	66	52	57	52	47	49	42	52	45	57	417	396	401	7.5	8
	Telecommunications	3	5	3	7	1	7	4	3	2	3	7	17	19	19	4.8	5
	DFC	10	9	11	9	7	12	7	13	10	10	11	69	68	69	6.1	7
	Education	19	19	16	13	19	18	18	19	19	27	19	141	149	152	7.8	8
	Energy	16	14	5	8	2	6	1	11	11	10	11	43	49	51	6.1	7
	Industry	14	14	13	13	16	17	13	14	12	12	11	72	68	63	5.0	5
	Population	6	7	11	6	8	12	18	20	17	21	19	99	113	121	7.6	8
	Power	22	18	26	23	16	15	16	13	15	12	12	164	154	148	8.2	9
	Transportation	29	27	24	24	34	21	22	23	16	25	25	191	189	191	7.2	8
	Urbanization	15	10	14	13	18	12	16	15	21	11	20	96	94	96	5.8	6
	Water Supply & Sew.	13	13	14	16	5	10	13	11	12	12	11	81	79	75	6.6	7
	TA & other	15	15	11	12	9	14	13	11	10	11	6	79	80	74	6.2	7
	Total	218	217	200	201	187	191	190	195	196	202	210					
	Applying Avg. Age by Sector												1469	1459	1461	7.3	
	8-Year Portfolio												1577	1562	1572		8
Adjustment		17	19	28	34	30	34	32	35	49	47	44				2.6	3
	Applying Avg. Age												116	130	139		
	4-Year Portfolio												150	162	174		4
TOTAL		235	236	228	235	217	225	222	230	245	248	254					
	Actual Historical Life Expectancy												1585	1589	1600		
	8/4-Year Portfolio												1727	1724	1746		
	Framework Assumption												1817	1785	1731		
	OPN's Submission												1889	1908	1923		

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The World Bank
Washington, D.C. 20433
U.S.A.

ROBERT PICCIOTTO
Vice President
Corporate Planning & Budgeting

Pandimi, Portfolio Management file - VR 5/5

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February 5, 1992

Mr. Wapenhans

Willi:

Attached is a memorandum which you may find of interest. It was prepared by Samir Bhatia who has a wealth of operational experience and very strong views about the Bank's role in project supervision.

Bob

cc: Messrs. Stern, Rajagopalan, Wyss

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 5, 1988

TO: Division Chiefs, EM3

FROM: Ardy Stoutjesdijk, Director, EM3DR AS

EXT: 3-2707

SUBJECT: Project Supervision Work - An Effective Check-list

1. In the present economic environment where the Borrower is faced with serious economic and financial problems, the efficient and timely utilization of resources becomes of paramount importance. Our supervision work is a major means of assisting the Borrower towards this goal. However, as we all recognize, it is an area that needs substantial strengthening.

2. To this end, I am enclosing a check-list, prepared by Samir Bhatia, to assist in rendering supervision work more effective and responsive. It is not intended to be exhaustive nor to replace OMS 3.50. It is, instead, a guide listing basic steps that should be followed in order to ensure effective supervision. The steps are neither new nor complex, but are sometimes overlooked or omitted. The list should not prohibit either innovative approaches or improvements.

3. In view of the growing importance of the subject matter, the list should be brought to the attention of the staff in your Division. In addition, you may also wish to take the opportunity, during Division meetings, to re-emphasize the importance of carrying out action and result-oriented supervision.

Enclosure

cc: Messrs./Mmes. Thalwitz, El Maaroufi, Stichenwirth, (EMNVP), Bouhaouala (EMTDR), R. Harris (CODOP), Bhatia, Wall, O'Donnell (EM3DR)

:rr

0914Y

Project Supervision Work - An Effective Checklist 1/

I. Introduction

1. The importance of project supervision work in the development process cannot be overemphasized. It is the impetus that ensures the efficient and timely utilization of committed funds and serves to foster effective technical, institutional, financial, and economic growth.

2. Over the past few years, however, supervision work in the Bank has lost some of its momentum. There has been a tendency for supervision to become a mere mechanical exercise. Missions are generally undertaken at six-monthly intervals, and reports are routinely prepared; this frequently means a mere repetition of the same problems, with little innovation or focus on resolving issues. In many cases, the lack of a clear, result-oriented supervision approach has led to a near standstill in project implementation, resulting in discouragement for the Borrower as well as the Bank staff.

3. Within the Bank, the lack of funds and/or lack of importance placed on supervision work are often given as reasons for its reduced effectiveness. These claims may have a degree of validity to them, but more often, they are merely excuses. Instead it is the attitude and approach toward supervision that is at fault, and it is here that revitalization and refocussing are urgently needed. The question is how can this be achieved? This note attempts to provide a checklist to help render supervision work more effective and responsive to the Borrowers' needs as well as more economic for the Bank. The checklist is neither intended to be revolutionary nor to replace OMS 3.50, but rather to restate and reemphasize the cardinal principles of supervision which, in the past, made the Bank the best in its field.

4. Objectives: The objective of effective supervision should be to ensure (a) that the project is implemented on time and managed efficiently in achieving its stated objectives, within the changing economic environment of the country, and (b) that an institutional capability is created within the country to sustain the project's achievements after the Bank has ceased its involvement.

II. Pre-Mission Preparation

5. The success of a supervision mission depends to a large extent upon how well pre-mission preparation has been undertaken; sufficient time

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1/ In the preparation of this document, I have benefitted greatly from comments made by many both within and outside the Region.

must be allowed for this purpose. In this context, a number of preparatory steps must be completed by the Task Manager (TM):

(a) Composition of the Mission: All efforts should be made to ensure the continuity of staff members working on the project. Frequent changes in the project management are undesirable and uneconomic for both the Borrower and the Bank. Similarly, great care should be given to the selection of consultants.

(b) Review and Check of Documents: Previous supervision documents, including Form 590, the PII file, legal documents, correspondence, staff appraisal reports and recent country economic reports should be carefully reviewed. Updated disbursement figures should be prepared as well as the status of compliance of covenants.

(c) Identification of Issues/Consultation: Based on a review of the documents, issues should be identified. In this process, consultation with the previous Task Manager(s) should be undertaken in those cases where there has been a change in mission leadership. Discussions with legal, disbursement, country officers and Technical Department (TD) staff should take place. The Division Chief concerned should hold a pre-mission departure meeting focussing on the measures/strategy to be followed in resolving implementation problems.

(d) Terms of Reference (TOR) and/or Issues Paper: Based on the above, detailed TOR should be prepared, outlining the problems and setting out a recommended course of action as well as clearly indicating what the Bank hopes will be achieved during the mission. The responsibility and duties of the mission members should be clearly designated. The TOR should be not merely a list of items to be covered during the mission, but rather an action/result-oriented blueprint for determining whether or not the mission achieves its goals.

In those projects where issues are very complex and far-reaching, requiring a change in project design and/or in legal documents, etc., a pre-mission issues paper should be prepared. In the paper the Task Manager should set out project implementation issues, with a suggested action program. If necessary, after consultation with the Division Chief, a Department meeting should be held. During this meeting, a Bank position should be established for the Task Manager to discuss and finalize with the Borrower during the mission. This position should be clearly reflected in the TOR. Such careful preparation would enhance the effectiveness of the supervision mission and would prevent possible mixed signals. The Borrower would receive the Bank's decision in the field, and follow-up costs and time would be substantially reduced.

(e) Communication with the Borrower: After the Terms of Reference have been finalized, a detailed telex should be sent to the Borrower stating the mission's objectives, the issues to be discussed, and meetings and field visits to be scheduled, etc. Requests for counterpart(s) to participate in the mission, information, analyses, reports, etc. should also be communicated so that the documents will be available to the mission upon arrival. If any relevant documents have been prepared or would assist in achieving the mission's objectives, these should be sent to the Borrower in advance.

III. In the Field

(a) Meetings: Upon arrival the Task Manager, together with the mission members, should hold an initial meeting with the Chief Executive Officer (CEO) of the project implementing agency and/or relevant government officials. During this meeting, the objective(s) of the mission and the goals to be achieved should be restated. An agenda covering the issues, field visits and meetings should be finalized. The Task Manager should emphasize to the CEO that the mission is not being undertaken for the Bank's purposes alone. It is an exercise designed primarily to assist the agency in achieving the objectives of the project, and in turn, the economy as a whole. The counterpart(s), should participate in all meetings and field visits. 1/ Their participation is extremely useful, both in liaising with the Borrower and in helping to present the Bank's rationale and the benefits to be gained from its recommendations. After the departure of the mission, a good counterpart may become a continuing Bank representative/spokesperson within the Government.

(b) Project Status Review: The mission should undertake a review of the status of project implementation with the counterpart(s), specifically focussing on physical implementation, management, procurement, disbursement, financial aspects, including statement of expenditure (SOE), and the development impact to date, etc. The macro-economic and sectoral policy issues, particularly those affecting the project, should be identified. Such an examination, in some cases, may lead to the restructuring of the project to address the policy/institutional constraints as well as to reflect changed economic realities. During these meetings, mission members should try to listen to Borrower/Government officials with an open mind and attempt to understand their constraints, without

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1/ In those countries where there is a Resident Mission, representative(s) from that office should be invited to participate in the meetings and other parts of the mission.

downgrading or compromising the Bank's own principles or guidelines. In this process, it is extremely important that we maintain our technical and professional integrity, while adopting an empathetic approach. Merely agreeing with the Borrowers in all their claims and assertions serves very little purpose.

After the review meetings, the mission members should meet again with the CEO and establish a final list of issues, with possible solutions, before the mission leaves for field visits. Such an exchange would enable the CEO to establish the Borrower's own position, perhaps after meeting with the Government officials concerned, so that he/she may be prepared to start serious discussions when the mission returns from field visits. During these discussions, the mission should also explore the possibility of developing new projects.

(c) Field Visits: These constitute the heart of supervision work. They are the vehicle through which the Bank really transfers its technical expertise to the Borrower. They also provide an opportunity for the Bank to understand the problems and potential of the project. It is, therefore, essential that a majority of the mission's time be spent in field visits. It is also vital that they be selected with great care and with specific objectives. The presence of the counterpart(s) from the implementing agency/Borrower on field visits is essential.

(d) Finalization of an Action Program/Aide-Memoire: After completion of the field visits, the mission, along with the counterpart(s), should hold meetings with the CEO and other government officials to finalize an action program in order to resolve any project implementation problems. In designing the action program, the mission should not only list the actions required, but also detail how they should be undertaken, by whom, by what date, and what results are expected.

An aide-memoire should be prepared recording the status of project implementation, the achievements to date, issues, actions recommended/agreed, and expected results. In the preparation of this document, the counterpart should be involved to the extent possible. The aide-memoire should also contain a list of places visited and people met. Copies should be made available to all officials and agencies concerned.

(e) Wrap-Up Meeting: The wrap-up meeting is an extremely important part of the mission. The Task Manager should ensure that key officials of all relevant agencies participate. It should generally be chaired by the CEO, a senior official of the Ministry, or the Minister, if necessary.[1/] In this meeting, a clear presentation should be made of the status of implementation, issues, and actions agreed. The meeting also serves the important purpose of bringing together the officials of the different agencies concerned, who may otherwise rarely have the opportunity to meet and discuss project matters. If there is a need for the aide-memoire to be amended to reflect any changes, these should be introduced before it is signed by the Task Manager and the implementing agency.

IV. Follow-Up

6. The success of the supervision mission depends to a great extent upon an effective follow-up, both by the Bank and the Borrower. To this end, the following steps should be taken:

(a) BTO/Form 590: The Back-to-Office Report (BTO) and Form 590 should be prepared within the specified time limit and sent to the Division Management. If the Task Manager and/or the Division Chief believes that there is a need for a post-mission meeting to discuss issues and recommendations, it should be organized as soon as possible. The Project Advisor, Country Officer, Lawyer, Procurement Advisor, Disbursement Officer, and Lead Economist may be invited, as appropriate.

(b) Feedback: The Department Director and the Project Advisor should provide prompt feedback to the Task Manager on his/her report.

(c) Follow-up Letter: This is a very important instrument in the supervision cycle. The Bank's outgoing letter, enclosing a copy of the aide-memoire, should be clear, concise, and instructive. It should underscore the main issues, the actions agreed/to be agreed, and should state briefly by whom and by what date the actions should be taken. The benefits anticipated from the measures should be indicated. The letter should generally be addressed to the CEO of the implementing agency, with copies to the Minister concerned and the agency responsible for coordinating the Bank's operations in the country.

1/ Meetings with Ministers should not be considered routine; caution should be taken to avoid misutilization of the Minister's time, in view of the frequency of Bank missions.

(d) Telex/Telephone Contacts: After the letter has been dispatched, the Task Manager should, at frequent intervals, contact the CEO/representative of the implementing agency by telephone/telex and continue to monitor progress. If any adjustment or assistance is needed, the Task Manager should deal with it in consultation with Division management. Where there is a Resident Mission in the country concerned, the Task Manager should keep the resident representative informed and use its good offices to further the project objectives/implementation.

V. Conclusions

7. The above checklist, or any other, is not an end in itself. The success of supervision depends to a great extent on the attitude and approach of the Task Manager and the Divisional management concerned. Their determination in this effort is pivotal in converting a routine exercise into result-oriented supervision. In the end, of course, the Bank's efforts must also be accompanied by a real commitment by the Borrower.

SBhatia:rr
Project Advisor, EM3DR
May 5, 1988

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The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: January 22, 1992 06:03pm

TO: Sven Sandstrom (SVEN SANDSTROM)

FROM: Visvanathan Rajagopalan, OSPVP (VISVANATHAN RAJAGOPALAN)

EXT.: 33419

SUBJECT: **Portfolio Management**

Further to my conversation, here are suggestions from Hans Wyss for inclusion in the attachment to the Portfolio Management paper:

1. the effectiveness of loan documents agreed with borrowers in project implementation and supervision, in particular in the application of financial and economic policy covenants;

2. integrating project implementation with lending, economic and sector work, and country strategy development so as to ensure that project implementation is a central part of the overall Bank/Governments' relations.

As I mentioned to you, I had already informed Mr. Stern's secretary that I would like the following to be added to the attachment:

"mechanisms to make the tradeoffs between portfolio management and other aspects of the work program transparent."

The World Bank

ERNEST STERN
Managing Director

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January 21, 1992

Mr. Picciotto
Mr. Rajagopalan

Could you please look this over and give me your comments as soon as convenient. Thank you.

Comments given.

1/22/92

DRAFT ES:n
January 21, 1992

Subject: **Portfolio Management**

The Bank and IDA have USD ___ billion in outstanding loans and credits, representing about USD ___ billion in investment projects. The effective implementation of this portfolio is vital to the growth prospects of our member countries. The assistance the Bank can render through its supervision is one of the most important forms of technical assistance. Successful project implementation far outweighs new annual commitments as an indicator of the Bank's development effectiveness and deserves the commensurate management attention.

The Bank's ability to provide effective assistance depends on our ability to draw lessons from our lending operations at various stages of implementation and to disseminate this knowledge to staff expeditiously. The learning cycle starts once the project has been approved 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, 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 role assigned to the various units; the methodologies employed to assess success and failure; and the system for extracting and disseminating implementation experience. Our project implementation management and evaluation systems should be fully responsive to shareholders' needs for information and enable managers to have a regular and realistic assessment of the development impact of the Bank's activities along with practical recommendations for improvements in operating policies and practices.

In order to conduct the review of our basic portfolio management and evaluation process, I have asked Mr. Wapenhans to chair a Task Force which will include experienced staff from the Regions, OSP and OED. The areas I would like them to include are described in the attachment. The recommendations of the Task Force will, of course, take fully into account OED's basic mandate and its special reporting relationship to the Executive Directors. This, however, should not deprive us from utilizing OED's experience in the review nor prevent OED from subsequently drawing on the Task Force's results in its own activities. The Task Force will be supported by COD and OED, and Mr. Wapenhans will consult closely with Messrs. Rovani and Picciotto, the current and prospective Director-General for Operations Evaluation, and Mr. Rajagopalan, VP, Sector and Operations Policy.

Once the Task Force has been organized and has defined its work program, Mr. Wapenhans will advise me of a suitable completion date. The complexity and scope of the subject requires that we devote adequate time and thought to it, although the work will be facilitated by the considerable amount of prior analysis in the Bank, the experience of other organizations, and the extensive literature on evaluation and assessment of effectiveness. I, therefore, expect that the Task Force should be able to report by July 1, 1992.

Lewis T. Preston

Attachment

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 the borrowers, EDs, staff and other organizations, as appropriate; and engage consultants, when necessary to supplement internal capabilities. The Task Force review should include:

- The technical quality and scope of the Bank's 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 borrower headquarter; supervision work at Headquarters, including procurement; non-regional (Legal, OSP) support for supervision.

- The regional management structure for supervision, including the roles of TD, SOD and country teams; the internal review mechanisms; the role of the SOAs and Project Advisors; the effectiveness of the rating system and its accuracy; the effectiveness of supervision in relation to project conditionality; the allocation of staff to supervision in relation to the technical complexity of the project and the institutional needs of the borrower; the extent to which project reformulation takes place during implementation; the internal processes for collating and disseminating experiences.

- The use of field office staff (headquarters or local) in supervision and the efficiency of the current balance in countries with different size lending programs.

- The learning and dissemination process; the adequacy of sectoral analysis of experience and its dissemination; and the efficacy of training provided to staff in supervision objectives; the link between supervision and evaluation and project selection and design.

- The quality and utility of the Annual Review of Implementation (ARIS); the proposals for a more regular and explicit treatment of development effectiveness; the PCR system and its management; the management of projects with protracted implementation periods.
- The post-completion evaluation concepts and methodology, audit coverages and practices; the respective accountabilities of borrowers and the Bank in project evaluation; the scope and quality of OED project, country sector evaluations, and the link between this work and staff training and project design.
- Proposals for longer-term impact studies and the evaluation of borrower institutional capacity and service levels beyond the confines of the project objectives.