Folder Title: EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments

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

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Portfolio Management - Draft report - Executive Summary
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Document Date	Document Type
10/27/1992	Board Record

Correspondents / Participants

Subject / Title
JAC92-55 Portfolio Management Task Force Report

Exception(s)

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

DATE: 21-Oct-1992 12:32pm

TO: See Distribution Below

FROM: Marie T. Zenni, EXC (MARIE T. ZENNI)

EXT.: 80122

SUBJECT: J~~a~~oint Audit Committee Meeting

This is to confirm that the next meeting of the Joint Audit Committee to discuss the Portfolio Management Task Force Report will take place on Wednesday, October 28 at 2:30pm, Room A-1100.

DISTRIBUTION:

TO:	Ian Scott	(IAN SCOTT)
TO:	Peter Richardson	(PETER RICHARDSON)
TO:	Prem C. Garg	(PREM C. GARG)
TO:	Samir K. Bhatia	(SAMIR K. BHATIA)
TO:	Michel Pommier	(MICHEL POMMIER)
TO:	Joanne Salop	(JOANNE SALOP)
TO:	Dominique Lallement	(DOMINIQUE LALLEMENT)
TO:	David M. Goldberg	(DAVID M. GOLDBERG)
TO:	Raghavan Srinivasan	(RAGHAVAN SRINIVASAN)
CC:	W. Wapenhans	(W. A. WAPENHANS)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: October 15, 1992

TO: Department Directors

FROM: Jane Armitage, Assistant to the Managing Directors

EXTENSION: 81114

SUBJECT: The Portfolio Management Task Force Report

Attached for your information is a copy of the report entitled "Portfolio Management Task Force Report - Effective Implementation: Key to Development Impact", together with a memorandum from Mr. Preston to Mr. Landau, Chairman of the Board's Joint Audit Committee. The report and memorandum have been distributed to the Executive Directors and to Senior Management. The report will be discussed by the Board's Joint Audit Committee on October 19 and subsequently by the full Board.

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

LEWIS T. PRESTON
President

TO: Mr. Jean-Pierre Landau, Chairman, JAC October 2, 1992

FROM: Lewis T. Preston, EXC LTP

SUBJECT: Portfolio Management Task Force Report

Attached is the report "Effective Implementation: Key to Development Impact" prepared by the Task Force on Portfolio Management, which was set up in February 1992, under the chairmanship of Mr. Wapenhans.

The Report focusses on the quality of the investments financed by the Bank and IDA. The performance of the projects and programs we finance, and their ultimate development impact, is a fundamental measure of the Bank's ability to assist our members effectively. While Mr. Wapenhans, in his memorandum to me, finds no cause for alarm in the state of the portfolio, the report validates my initial concerns that all is not well with the results of Bank-financed projects and with the processes and procedures which affect lending, supervision and implementation assistance. The basic conclusion of the report that we must change the institutional values which determine our approach to new operations and supervision of the existing portfolio, is one I share fully.

We have discussed the findings of the Report with the Bank's senior operations managers. It is very encouraging that there is broad support for the Report's principal recommendations. This support is fundamental if we are to effect the cultural shift towards a better balance between work on new commitments and the effective use of previously approved operations. The necessary changes will take time since they involve many aspects of the system---from policies on staff promotion and career development to the allocation of budgetary resources. It will also involve a rethinking of relations with our borrowers, with their full cooperation. We should, therefore, view the Report as a road map for the initial changes which should be undertaken rather than a blueprint of a definitive solution to our ever-changing problems. But we should also be prepared to start immediately on the measures necessary to strengthen our performance.

It is in this context that I particularly appreciate the willingness of the JAC to have an initial discussion of the Report, as a prelude to a discussion with all the Executive Directors. To facilitate the latter, I am sending copies of this memorandum and the Report, to all Executive Directors.

A strengthened system for project preparation and supervision also involves revisiting the role of OED. The JAC may wish to focus particularly on Recommendation E and Annex D, which deal with OED. We might then ask the Director- General, OED, to provide a separate commentary and any proposals he may have for future role of OED. We would be pleased to meet with you and your colleagues to consider such proposals.

Although I explicitly excluded organization and structural issues from the Task Force's responsibility, we will, as we consider the recommendations of the Report, keep in mind implications for the best use of our technical staff and the division of responsibility between central units, Technical Departments and Sector Operating Divisions.

Many of the specific details for implementing the recommendations must be worked out at the Country Department level, so that implementation is appropriately tailored to the particular country/sector context. Others involve such matters as criteria for promotion, factors in lending allocations and analysis of the state of the portfolio in country assistance strategies. But, before we proceed to that stage, there are some important institutional consequences of the recommendations which we should explore in detail.

Lending Volume

The Report rightly notes the tension which has always existed between the emphasis on new commitments and the attention to effective implementation. But we should recognize that the emphasis on lending is rooted as deeply in past as in current objectives; in the views of managers and staff as in the views of Executive Directors; in the views of our borrowers as in the expectations of the international community. Any trade-off between the amounts of new annual commitments and increased attention to implementation will, therefore, require not only changes in staff values, but also an understanding with and support from our shareholders and borrowers.

And such trade-offs are very likely to occur---possibly in aggregate but certainly at the country level. First, a fundamental premise of the report is that the country assistance strategy, including new lending, should be linked to country portfolio performance. For those countries where implementation is weak, our focus will be on providing more and better implementation assistance and additional support for local institution-building rather than on new lending. Second, improving the quality of projects at time of approval means that in project identification and preparation, we must rely more on borrower leadership and foster borrower commitment and strengthen participation by project agencies and, as appropriate, beneficiaries. This may mean longer preparation time. Yet, it is of fundamental importance that we link implementation performance to our lending strategies and that we redress the imbalance which seems to have developed on the "ownership" of the projects the Bank finances.

Bank Priorities

We frequently have discussed the increased complexity of our operations with their multiple objectives embodying our views of appropriate development strategies. But not in the context of the "ownership" issue. It should be a matter of grave concern that borrowers see our priorities, applied in individual operations, as being driven by our concerns rather than their realities. This is not, in our view, because borrowers do not share the basic objectives of growth, poverty reduction, or environmental sustainability. But many of the initiatives intended to support these grand purposes, although important in themselves, are applied too routinely, with too little regard for differing country circumstances, too little recognition of widely differing implementation capacity, and to all projects without due regard to relevance. If we are to be successful in restoring the borrower's belief in the ownership of Bank-supported projects, which the Report rightly states to be critical to success, staff, management, the Executive Directors, and Officials in capitals need to address how we can apply our policy framework---which is sound---more selectively and more flexibly. Greater flexibility in this area will also permit the simpler design of projects. Better implementation and sustainability of projects will require a willingness on our part to accept trade-offs between borrower ownership and implementation capacity on the one hand, and our own views about the priority to be given to particular programs of special emphasis on the other.

Budget

The Report notes that the current allocation of resources for supervision (an annual average of 12 staff weeks per operation, of which only 4 weeks are in the field) is insufficient. In particular, the report identifies the need for more intensive supervision in the field, more consultation with clients, and greater involvement of regional management teams in regular country portfolio performance reviews. Furthermore, the report calls for a one-time "house-cleaning" exercise to restructure or cancel poorly performing projects. This requires the cooperation of the central ministries, since individual project entities are unlikely to see advantage in cooperation.

In the medium-term, many of the Report's recommendations---for example, those relating to use of standard bidding documents, independent third party verification and certification and information technology---should lead to budget savings. In countries with reasonable institutional capacity, there should be scope to shift much of the responsibility for project identification and preparation back to the borrower where it always has been in theory. There may also be scope to free up staff resources through simplifying further our internal procedures including the overhaul of our overly prescriptive set of Operational Directives. This will enable Task Managers to exercise more judgement in applying agreed objectives to actual country circumstances. Although it is not possible to quantify the budget impact at this stage, implementation of the Task Force's recommendations is not likely to be completely budget-neutral in the short term. This will pose more choices about size of the budget and its relative priorities. To the extent resources cannot be freed up by increased efficiency and process simplification, more resources for portfolio performance management will mean fewer resources allocated to other activities, such as new lending, ESW, and research, or regional budget increases.

We have received a frank and exceedingly useful report for which we are grateful to Mr. Wapenhans and the members of the Task Force. It gives us a solid basis for improving the timeliness and utility of implementation assistance to our borrowers. I look forward to the discussion with the Executive Directors as the next stage in strengthening our effectiveness. The realignment of institutional behavior and staff attitudes that the Wapenhans Report urges will only come about if the Board and management are agreed that effective implementation is important and valued.

<u>Attachment</u>

cc: Executive Directors

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

DATE: October 14, 1992 02:59pm

TO: See Distribution Below

FROM: Marie T. Zenni, EXC (MARIE T. ZENNI)

EXT.: 80122

SUBJECT: Joint Audit Committee Meeting

This is to confirm that the Joint Audit Committee will meet to discuss the Portfolio Management Task Force Report on Monday, October 19 at 3:00 p.m. in the Board Room (A-1100).

DISTRIBUTION:

TO:	Ian Scott	(IAN SCOTT)
TO:	Peter Richardson	(PETER RICHARDSON)
TO:	Prem C. Garg	(PREM C. GARG)
TO:	Samir K. Bhatia	(SAMIR K. BHATIA)
TO:	Michel Pommier	(MICHEL POMMIER)
TO:	Joanne Salop	(JOANNE SALOP)
TO:	Dominique Lallement	(DOMINIQUE LALLEMENT)
TO:	David M. Goldberg	(DAVID M. GOLDBERG)
TO:	Raghavan Srinivasan	(RAGHAVAN SRINIVASAN)
CC:	W. Wapenhans	(W. A. WAPENHANS)
CC:	Institutional ISC Files	(INSTITUTIONAL ISC FILES)

cc: TF MEMBERS

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: October 1, 1992

TO: Mr. Attila Karaosmanoglu, Managing Director, EXC.

FROM: Koji Kashiwaya, Vice President, CFS

EXT.: 31188

SUBJECT: **Review of the Draft Paper of the Portfolio Management Task Force "Effective Implementation: Key to Development Impact," dated July 24, 1992**

1. As you suggested, we have reviewed the above-mentioned draft paper with a particular reference to sections relating to cofinancing. Our main comments and recommendations are summarized below.

Main Comments

2. While the background Working Paper L, Cofinancing and Portfolio Management, presents a relatively balanced view on the merits and disadvantages of cofinancing, the Main Report draws an extremely narrow, biased and negative conclusion on "cofinancing" purely from the perspective of project implementation statistics without deep analysis of underlying reasons in paras. 20 and 65. It is obvious without question that cofinancing adds to the complexity of project preparation and implementation. Without effective arrangements for cofinancing at the stage of project preparation, project implementation is bound to be affected adversely by cofinancing. In fact, the unduly negative treatment the Main Report on cofinancing was mainly due to the complete exclusion of benefits of cofinancing, even those discussed in Working Paper L. It seems to us that the author(s) of the report have preoccupation that cofinancing should be limited due to the additional complexities in project management and supervision regardless of any significant benefits that may be brought to the beneficiary developing countries. After all, the only complaint from the borrower (only one reference in the 14 pages of borrower commentary, in para. 46 of Annex B) does not relate to the concept of cofinancing, but the lack of standard procedures and formats.

3. The Working Paper L takes a well balanced view, reflecting closely the general wisdom on cofinancing among Task Managers and borrowers. While the Working Paper notes that cofinanced projects face more problems in implementation, it confirms that cofinancing is a part of the Bank's strong commitment to economic development. Para.9 of the paper states that "for the staff, the commitment to cofinancing ---, the Bank's own resources would need to be leveraged to the maximum extent through cooperation with cofinanciers." Para.1 concludes that the problems with cofinanced projects are rather insignificant in nature, but due to the lack of necessary staff resource allocation to deal with added complexities associated with project preparation and procurement.

4. Despite the apparent balanced view expressed in the Working Paper, some important aspects of cofinancing are not treated fairly or totally missing. For example, para. 35 made a premature, unconvincing, and dangerous conclusion on the long-debated"additionality" issue of cofinancing without suggesting any underlying background analysis or references . In fact, this conclusion is contrary to many statements made in the same paper on the critical role of the Bank in ensuring the success of projects by putting together cofinancing arrangements (para.30, etc.). One good example of additionality can be found in the area of private cofinancing. In FY92, about $ 1billion in private

cofinancing was secured for Bank-supported projects. We are certain that without the Bank's efforts, these funds could not have been channeled to developing countries. Additionality obtained through cofinancing with export credit agencies is also evident although it may not be so strong as that with private financiers. Even for official cofinancing, we can suggest cases where additionality is obvious. Taking the Nordic countries and the Netherlands (small countries with large aid budgets) for example, they have been able to move their aid programs more effectively and smoothly through cofinancing with the Bank, obviously resulting in the increased flow of funds to the developing world. We should argue that the same is true for Japan's recycling program and OCEF's expanded program.

5. In this context, we are of a strong view that this "additionality" issue be examined in a more systematic manner in the Bank. Para. 35 noted the question of some Executive Directors during the 1990 Board discussion. In fact, the same question was raised by several Executive Directors at the recent Board discussion on CFS activities. Particular attention should be given to the Bank's role in tapping private financiers, which are increasingly reluctant to increase exposures to developing countries after the World Debt Crisis and the downturn of many international capital markets. The Bank's cofinancing with commercial banks, for example, was so prevalent in the 1970s. In the 1980, it has almost dried up. In view of the ongoing trend of privatizing state-owned enterprises, particularly in the energy and infrastructure sectors, the Bank's role in mobilizing private capital to support privatization and large investments should be a main topic for comprehensive review.

6. Another major benefit that is not mentioned at all in the paper is improved "efficiency" that could be achieved by the Bank coordinating and traffic controlling among official donors and cofinanciers. We have seen many occasions where the lack of coordination and overlapping led to problems in designing and implementing effective aid programs. The Bank should be able to continue playing an important role in this area.

Conclusions and Recommendations

7. For cofinancing to become an effective tool for the Bank to mobilize additional resources for borrowing member countries, a good strategy and planning should be in place in the context of country assistance strategy. At the operational, working level, Task Managers should have incentives to pursue cofinancing despite complexities involved. In the absence of clear indication of cofinancing as a part of country assistance strategy or incentives on the part of TMs to pursue cofinancing, "additional complexities" associated with cofinancing will continue to be regarded as an unnecessary extra burden to TMs and Country Departments. We therefore view that the problem of cofinancing is more institutional than intrinsic.

8. We suggest that the paragraphs in the Main Report referring to cofinancing be redrafted to reflect the more balanced view and the underlying analysis of the Working Paper, referring to both pros and cons of cofinancing objectively. The Working Paper should also revisit some controversial statements that were made without due regard to supporting analysis or debate. In particular, the "additionality" issue needs to be reviewed more cautiously as suggested above. If you agree, CFS is prepared to coordinate with the Task Force in carrying out a further review on cofinancing with a specific focus on the issues of "additionality" and "institutional constraints."

cc: Mmes./Messrs. Stern, Sandstrom, RVPs, Wapenhans, Sud, CFS Managers

KS/KK/pjw

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 23, 1992

TO: Steering Committee for the Portfolio Management Task Force

FROM: Willi A. Wapenhans

EXTENSION: 80121

SUBJECT: Final Report

The attached final report of the Portfolio Management Task Force has been sent to Mr. Preston. I would like to thank you again for your contributions to this important effort.

Steering Committee Members:

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

cc: Task Force Members:

Messrs./Mmes.: S. Bhatia, P. Garg, D. Lallement, M. Pommier, P. Richardson, J. Salop, I. Scott

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 21, 1992

CONFIDENTIAL

TO: Mr. Lewis T. Preston

FROM: Willi A. Wapenhans

EXTENSION: 80121

SUBJECT: **Portfolio Performance Management - Report of the Task Force**

1. I attach the report of the Task Force on Portfolio Management. Supporting working papers are contained in a separate volume available upon request. The report reflects the discussions with senior operational managers chaired by Mr. Stern and attended by Messrs. Karaosmanoglu and Sandstrom. While there appears to be a large measure of consensus, the report and its recommendations remain those of the Task Force.

2. The inquiry focusses on the quality of investment. It does not deal with the valuation of loans/credits as financial assets but with the performance of projects and their developmental impact. While there is no cause for alarm, there is evidence of weakening performance of the portfolio. Whatever its causes, early action is indicated along the lines of the major recommendations set forth in the report.

3. Our work met with great interest from all parts of the institution. These interactions suggest concern on the part of the staff regarding the effectiveness and quality of our lending. The momentum thus generated may offer a timely opportunity to rebalance the Bank's focus from lending to implementation. In our processes and practices, more than in our policies, staff perceive a greater interest on the part of Management and the Board in new lending rather than in development impact. The Bank's record is presently measured in commitments and not in developmental achievements!

4. The principal recommendations and the measures suggested for their implementation, aim at the initiation of basic changes in institutional values. Clearer accountabilities, stricter enforcement of policies and contracts, more consistent signals on priorities, objectives, and roles are the main qualitative instruments to be engaged. Efficiency measures and delegated powers for the redeployment of resources, should meet extra quantitative demands in the first instance. That may, however, not be enough, and the need for additional budgetary means should be kept under surveillance. Nothing, of course, is more important to staff than your personal commitment to change.

5. The report also contains suggestions regarding the interaction between Management and Board. The principal change would be to alter the reporting emphasis from sectors to countries. In this regard, OSP would function as a secretariat to you but regional managers would be answerable for the performance of country portfolios. Recent decisions to change Board procedures may not be entirely consistent with the specifics of some of the measures advanced by the Task Force. However, I see no major problems in this regard and fine-tuning should readily achieve sufficient congruence. Organizational architecture can support or impair progress in the desired direction. We did not evaluate the existing organizational structure and its consistency with the

proposed reorientation. By some this is considered a weakness. Though there is room for improvement, I would not overrate its importance. It should not, however, be attempted, solely from the perspective of portfolio performance management, important though that is.

6. Finally, I should like to thank you for the opportunity to lead this exercise. I sincerely hope that the work of the Task Force will help you to position the institution so as to retain its lead role in development in a world profoundly changed from that which conditioned the first forty-five years of the Bank's existence.

cc: Messrs. Karaosmanoglu, Sandstrom and Stern

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

File

DATE: September 18, 1992

TO: Mr. W. A. Wapenhans, EXC

FROM: Gautam S. Kaji, EAPVP

EXTENSION: 81270

SUBJECT: Draft Report of the Portfolio Management Task Force
Comments from the East Asia and Pacific Region

1. The draft report of the Portfolio Management Task Force addresses a very critical issue for the Bank and its borrowers, namely how to ensure that Bank-assisted operations are effectively implemented and thus achieve their desired development impact. The report proposes a wealth of recommendations and suggestions which have been the subject of wide-ranging discussions within the East Asia and Pacific Region.

2. The attached matrix summarizes the detailed reactions of EAP staff and management to each of the recommendations contained in the draft report. I am outlining below some of our major comments and suggestions.

General

3. I believe that the report would benefit substantially from a prioritization of the various recommendations to reflect their degree of importance and to suggest the order in which they should be implemented. It is clear that the two most critical recommendations -- namely, improving the quality of projects entering the portfolio and creating an internal environment supportive of better portfolio management -- deserve much greater prominence. Cleaning up the existing portfolio through restructuring comes close behind in terms of position on the agenda.

4. I also believe that the report could be strengthened in its analysis of the adequacy of the "regional management structure and practice of supervision, including the roles of TD, SOD and country teams." While organizational issues may be outside the purview of the Task Force, there are real staffing issues, beyond the number of financial analysts and institutional development specialists, which need to be raised and resolved, such as the fragmentation of technical staff, the size of SODs and the depth and breadth of their technical expertise, the multiplicity of tasks assigned to Task Managers, etc.

Recommendation A: Link Country Portfolio Performance to the Bank's Core Business Processes

5. We welcome the proposal to link country portfolio performance to the Bank's core business processes and to condition country assistance strategies, including proposed lending volume, on the lessons learned from portfolio performance. The Bank's internal assessment of a country's overall portfolio performance should, of course, be complemented by periodic reviews of portfolio performance with the country (e.g., through CIRs and/or SIRs).

6. We cannot endorse the proposed introduction of a country portfolio performance index for all countries as a basis for discussing the status of the country portfolio. Such an index would be too simplistic and mechanistic an approach to an issue which requires considerable judgment and differentiation between countries. The choice of weights used to calculate the country portfolio index implies wrongly that a project's development impact is directly proportional to the dollar value of the Bank loan/credit received to support its implementation.

<u>Recommendation B: Provide for Country Portfolio Restructuring in Adjusting Countries</u>

7. Portfolio restructuring should not be limited to adjusting countries: it should be undertaken wherever required, whether the country is adjusting or not. However, some limits should be set on the amount of discretion allowed in reallocating resources freed by cancelling the balances of loans and credits from sub-marginal projects in the course of restructuring exercises. Otherwise, we may be sending perverse signals to borrowers and staff. We should also not underestimate the potential benefits to be derived from restructuring selected non-performing projects.

<u>Recommendation C: Improve the Quality of Projects Entering the Portfolio</u>

8. This recommendation, if systematically implemented, would have the most beneficial impact on the quality of the portfolio. Fostering borrower commitment and beneficiary participation during project preparation is absolutely critical, but more practical guidance is needed on ways to go about this process. We should recognize, moreover, that governments are not monolithic and that borrowers and beneficiaries may not always be at one in the objectives they are seeking to achieve.

9. We strongly support the need for more rigorous analysis of project risks/sensitivities and recommend increased training for task managers and staff at large in this area.

10. The emphasis at appraisal on implementability is welcome. This underscores the importance of developing local institutional capacity. Recognizing fully that this is a long-term process which should be started as early as possible, we should use all available means to get it started even before project entry into the portfolio (including PPF, IDF, JGF). We support the proposal to prepare detailed implementation plans and to make the SAR a more practical document, keeping in mind the need for flexibility in the face of changing circumstances. In general, we should perhaps spend less time on internal report writing and polishing, and much more time on the ground talking and working with borrowers/beneficiaries.

11. Borrowers and task managers alike feel overwhelmed by our project requirements and frustrated that our agenda often exceeds capacity to deliver. Improving the quality of our portfolio ultimately depends on ensuring that projects are tailored to the implementation capacity of our borrowers. This would imply perhaps a larger number of smaller, simpler, better-focussed projects with greater realism, selectivity, and more stringent enforcement of legal covenants. In other cases, it would imply a closer fit between a Bank-assisted activity and a government's normal ongoing

operations. Both Management and the Board should be prepared to accept such a development.

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

12. The distinction between mandatory "core" supervision responsibilities and implementation assistance is a good one, but should not be carried to the extreme. In many low-income countries, the weakness of local institutions requires Bank staff to play a more proactive role in implementation.

13. Many of the recommendations and measures outlined in this area can be accepted and should be implemented, particularly those relating to project launch workshops, appropriate use of mid-term reviews, development of performance monitoring systems based on implementation plans and critical indicators, and mandatory use of standard bidding documents. We would especially like to highlight the recommendation that would put the onus on staff and managers to take decisive action or to justify inaction when projects have been in "problem" status for more than twelve months.

14. We do not support the proposal to establish a central advisory Bank Operations Procurement Review Committee with mandatory review and advisory functions. We already invariably consult CODPR on large, complex and controversial procurement issues, and not just on the 50 contracts covered by prior review which would be subject to Committee review. We believe that consistency and equity of treatment can be achieved through existing practices coupled with the introduction of standard bidding documents. Moreover, greater efforts should be made to enhance procurement skills of Task Managers and to strengthen the procurement capacity of borrowers. Creating yet another bureaucratic layer is unlikely to provide much value added and would only contribute to further delaying procurement decisions.

Recommendation E: Preserve OED's Credibility

15. We strongly endorse the recommendation that OED focus more on impact evaluation and sustainability. Where possible, evaluations should be clustered, rather than undertaken on a project-by-project basis, in order to better capture and disseminate lessons learned. To ensure that the evaluation process is internalized, impact evaluations should, in the first instance, be prepared by the operating Divisions concerned and reviewed by OED.

16. We believe that the proposed evaluation by OED of the President's Annual Report of Portfolio Performance would not yield much of benefit and that it contradicts the suggestion that OED abstain from any advisory or decision-making activity that may be subject to future OED evaluation. OED's focus should continue to be on evaluating completed operations, not internal management reports concerning the current portfolio.

Recommendation F: Create an Internal Environment Supportive of Better Portfolio Performance Management

17. A major issue mentioned by borrowers is the declining quality of

the Bank's appraisal process. "Quality at entry" is crucial for portfolio success, and yet borrowers and some cofinanciers perceive a deterioration in the Bank's professionalism and objectivity in project appraisal. The quality issue has three dimensions: staff quality, resource availability and methodology. Are we doing enough of the right thing with the right people? Several Task Force conclusions and recommendations on these points do not ring true, and warrant much closer analysis: specifically that the Bank is deficient in some skills (financial analysts, institution specialists) but not in the traditional hard technical skills (engineers, for example); that project problems are not technical; and that resources are, on the whole, adequate for the Bank to do its basic business.

18. We believe a further review of the current skill mix in the Bank would reveal deficiencies in the numbers and experience of technical staff. An increasing proportion of task managers are economists and other staff whose basic professional experience has been limited to the Bank. We see the need for professionals in water resource management, industrial pollution control, forestry, waste management as well as in institutional development, social development and financial analysis. Equally important is the need for professionals with actual hands-on experience in project implementation and project management.

19. We also believe that technical staff continue to be located in the wrong place; SODs are often too small to be effective; TDs are spread too thin; OSP is too remote. There is a consensus among technical staff that the Bank's fragmentation of professionals in technical fields is dysfunctional and contributes to inadequate project implementation support.

20. The incentive structure should also place greater emphasis on portfolio performance management. As the report rightly states, "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". Managers must also be as accountable for portfolio performance as for new lending.

21. Finally, we believe that resources are inadequate to fulfill the obligations placed on Task Managers and staff for both project development and implementation. The East Asia Departments have used programmed supervision resources fully and even supplemented these from consultant trust funds. We are preoccupied with cost; yet, compared to most commercial or merchant banks, our costs are exceptionally low (less than 0.5 percent of assets). Simplification of process and use of information technology will improve efficiency, but the fundamental problem remains that operational staff are often stretched beyond their capacity to deliver the quality output our clients deserve. Supervision remains a residual task, fitted in among other missions. If 70 percent of supervision time is spent in headquarters, each project gets only about four staffweeks of field supervision per year, little of which will probably be site visits. A decade ago, two-thirds of all staff time on a project was spent after appraisal; today, it is less than 50 percent. It is not enough to focus more management attention on implementation if resources do not follow and if other fundamental issues such as the above are not duly addressed.

cc: Mr. Sandstrom, RVPs, EAP Regional Management Group

EAP Comments on Recommendati... .. the Portfolio Management Task Force

	Recommendation	Comments
A.	Introduce the concept of country portfolio performance management linked to the Bank's core business process.	
1.	Introduce annual CPPR, linked to CIRs.	CPPRs should be shared with borrowers and supplemented by in-country CIRs, where appropriate. For large borrowers, implementation reviews at the sector or sub-sector level may be more appropriate.
2.	Reflect CPPR in CSPs.	Support, but focus on major cross-sector issues.
3.	Link CPPR to Business Plan and CAM.	Support.
4.	Link CPPR to creditworthiness review and lending allocations review.	REVISE - for the following reasons: (a) Implementation performance is not necessarily correlated to creditworthiness. (b) Recommendations A2 and A3 would adequately link implementation performance to lending allocations.
5.	Introduce Annual Report on Portfolio Performance (ARPP).	REVISE - Report should be country focussed and, therefore, the overview chapter should be eliminated as it will dilute the desired focus.
6.	Discontinue some existing reports.	Strongly support eliminating OSP Annual Sector Reviews and Semi-Annual Report on Projects in Execution. Strongly support restructuring and refocussing ARIS.
7.	Link ARPP to OSP work programs.	Support.
8.	Develop country portfolio performance indices.	DELETE - as the proposed indices would bias the ratings in the direction of hard sector projects such as infrastructure. Proposed indices are not methodologically superior to the rating system currently in use. In any case, indices are, and should continue to be, only <u>one</u> among many criteria used to assess country performance.
B.	Provide for country portfolio restructuring in adjusting countries including the reallocation of undisbursed balances of loans/credits.	REVISE - Projects should be restructured whenever project or country conditions so warrant, and not only in connection with structural adjustment. Limit reallocation of loan/credit proceeds to avoid creating perverse incentives to induce/exacerbate sub-marginal project performance.
C.	Improve the quality of projects entering the portfolio.	
1.	Ensure country commitment.	REVISE - Support collaborative approach recommended, but level of assessment mandated at IEPS stage is not practicable until later in project cycle. Difficulties of measuring commitment should not be underestimated.
2.	Foster broad-based participation in project preparation.	Support, but need more specific recommendations about what this entails and how to go about it.
3.	Introduce more rigorous analysis of project risks/sensitivities.	Strongly support.

4.	Emphasize implementability in design and appraisal.	Strongly support designing projects in light of agency capabilities, preparing and appraising detailed implementation plan, making the SAR a working documents, and limiting cofinancing to meet specific objectives.
5.	Ensure borrower understanding of objectives, implementation plans, procedures and responsibilities.	REVISE - Recommendation seems to be grounded in an assumed lack of project ownership by the borrower.
6.	Reflect priorities in loan documents.	Support greater discrimination between covenants on the basis of their importance. With respect to financial covenants, include only what is required and not "boiler-plate" covenants. For example, why include "project audits" if "borrower institutional audit" available.
7.	Strengthen role of Legal Department; create covenant database.	Unclear what this recommendation means and what issues it addresses.

D. Define the Bank's role in and improve its practice of project performance management.

1.	Clarify and adhere to the Bank's proper role.	Support.
2.	Pay special attention to start up.	Support. Regional experience with focussed project launch has been positive.
3.	Develop performance monitoring systems based on implementation and critical indicators.	Currently required under OD 13.05.
4.	Improve progress tracking, the Form 590 and filing practices.	Support.
5.	Use mid-term reviews only when necessary.	Strongly support.
6.	Monitor changes in borrower commitment.	Support, but difficulties in assessing changes in commitment should not be underestimated.
7.	Increase Bank's decisiveness in portfolio performance management.	Strongly support recommendation that responsible Division Chief take action when project has been in "problem" status for more than 12 months.
8.	Make standard bidding document mandatory to improve borrower procurement practices.	Strongly support.
9.	For ICB, revise guidelines and standard contracts.	Support.
10.	Create an Advisory Bank Operations Procurement Review Committee.	DELETE - proposed procedures would result in significant delays in providing Bank's clearance without commensurate quality improvement. No justification for adding further to the procurement bureaucracy.
11.	Introduce third party verification and certification.	Strongly support the position that Bank staff should not be expected to perform detailed documentation reviews in the field. REVISE - To substantiate SOE claims, reliance should be placed on independent audits carried out by qualified auditors acceptable to the Bank. Further third party verification should not be necessary. Strongly support simplified, effective procedures for certifying SAL/SECAL disbursements.

E.	Preserve OED's credibility as an instrument of independent accountability and refocus ex-post evaluation on sustainable development impact.	
1.	Increasingly emphasize development impact in OED's independent reviews.	
(a)	OED should produce an Annual Assessment of the President's ARPP.	DELETE - as this creates a conflict of interest with OED's role as an ex-post independent evaluator.
(b)	OED should undertake long-term impact evaluation assessment.	Strongly support, but impact evaluation should be carried out by regions, subsequently evaluated by OED.
(c)	OED should continue to produce special studies.	Support.
(d)	OED should continue to assist borrowers to build their capacities in ex-post evaluation.	Support.
2.	Replace the PCR with an "Implementation Completion Report."	Support.
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.	Support - practical implementation modalities should be identified.
2.	Hold line managers accountable for results in portfolio performance management.	Support.
3.	Recognize and reward portfolio performance management work.	Support.
4.	Embrace the skills required for portfolio performance management.	REVISE - The recommendation to place recruitment emphasis on financial managers and administrators does not accord with the experience in this region. More analysis of the Bank's actual and required skills mix needs to be undertaken before making a drastic change in our recruitment profile.
5.	Establish resident missions in/for all countries with significant programs and give them larger (but circumscribed) roles in portfolio performance management.	DELETE - The decision on whether to establish a resident mission in a particular country should be left to regional management who will weigh such factors as likely impact on the portfolio, cost-effectiveness, etc.
6.	Use information management and technology to better advantage.	REVISE - While we support full and appropriate use of information technology, given the many competing unmet needs, it is inappropriate to place priority on establishing a global communications network.

Mr. Richardson

Garg's comments just received. P.R.

Re: WTF Draft Report

Peter:

Per your request I have gone over the draft of Sept 10. It seems to be in good shape. Here are some comments and suggestions for improvements on the margin:

Ex. Summary With enforcement of "disbursement profiles,"

1. Para V. I believe the gap between actual and estimated completion times has narrowed over the past few years. Certainly it hasn't gotten any worse. I question therefore the second sentence as evidence of portfolio decline.

only because of SAL lending!

2. Para XIV Need to note that increasing borrower commitment/ownership may conflict with delivery of Board/management manadated PSE targets.

Main Report

3. Paras 4+5. In Ex. summary and para 64 we talk of six broad areas -- one bullet is missing here.

4. Para 8 As we discussed earlier, if 20% failure rate is considered acceptable, classifying portfolios with 25% problem projects as "poorly performing" is questionable. Suggest you consider a higher cut-off.

5. Para 9, Footnote 14 Insofar as project ratings deteriorate with the "age", I believe the effect of 1989 change in portfolio definition is to

improve the overall portfolio rating.

6. Para 14. The last sentence would seem to undercut the rationale for most recommendations in rest of the report. Can we somehow put this in perspective?

7 Para 15 The correlations in last sentence need to be stated more precisely. (e.g. real interest rates) The last clause on international inflation appears particularly opaque.

8. Para 24 I am unclear about the arithmetic linking 4.5 yrs of app estimate, 7.0 yrs of actual imp period and 30% disbursement shortfall, can you pl check these numbers again.

9. Box 1 The breakdown of 89-92 problem project portfolio in top 2 paras seems confusing and contradictory.

10. Para 31 Seems to underplay direct project preparation effort by Bank staff especially in new style/adjustment operations.

11. Box 2, Para 3 We seem to be underestimating the methodological problems in accounting explicitly for macro/institutional variables in ERR estimates.

12. Paras 36, 41 Can we say something about the sample size and composition of the TF survey. Would also help to provide reference to the source document

13. Para 39, footnote 33. TOs and Project Advisors also check, at least in EMENA, consistency of ratings during the ARIs

14. Para 44 Suggest also mention multiplicity of objectives and components linked, in part, to PSEs.

15. Para 50. It is a bit amusing to read that the Bank staff are deficient even in economic skills.

16. Para 53. With rapid improvements in communication technology, justification for selling field missions has to be stronger than just maintaining "continuous contact" with borrowers.

17. Para 66 I am not persuaded that developing portfolio indicies as per Annex C would be the most cost-effective way of addressing this issue. My preference would be to focus on improving the form 590 ratings and using them to generate country index. Given methodological softness we should consider downplaying Annex C at this stage. Perhaps we should include it among the working papers.

18. Para 67 Needs considerable editing

19. Para 68. First bullet needs to recognise that in some country/sector/institution context we have no alternative but to provide substantive preparation assistance at this stage.

20. Para 70 : Last bullet I am still sceptical of the value added from OED's yearly evaluation of Portfolio Performance Report. It is likely to ~~to~~ become duplicative and superficial. I would rather aim for a ~~besi~~ special study by OED every few years to take an in-depth look at the process.

21. Para 72 See comment under Para 2 above.

22. Acknowledgements Please remember to add Gert van Santen to the list of those who assisted significantly.

Hope these are helpful. Good luck!

Prem

File

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

DATE: 16-Sep-1992 03:17pm

TO: W. Wapenhans (W. A. WAPENHANS)
TO: Ian Scott (IAN SCOTT)

FROM: Peter Richardson, ORG (PETER RICHARDSON)

EXT.: 84571

SUBJECT: Comment

On reflection, in light of Pulgar-Vidal's comment, I think we need to put a handle in the report that will enable top mangement to tell the Board that they too must change. Then, sympathetic Board members can use it as a jumping off point to lecture their colleagues.

Specifically, I suggest:

(a) inserting after the word "Bank" in the second line of para. 71 "(including the Board)";

(b) inserting after "management" in the last line before the bullets: "as well as a willingness in the Board to give as much importance to lending results as to the lending volumes."

Peter

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

DATE: 16-Sep-1992 10:42am EST

TO: Peter Richardson (PETER RICHARDSON)

FROM: Max Pulgar-Vidal, AFRVP (MAX PULGAR-VIDAL)

EXT.: 34839

SUBJECT: Quality Network

I very much appreciated your presentation at the Quality Network yesterday afternoon.

Having been responsible for drafting the consolidated comments of the Africa Region on the Wapenhans Report, I have had the privilege of first-hand experience of staff reaction to it. Many Task Managers in this Region have greeted with some degree of enthusiasm the proposal to change the Bank's "culture" (and budgetary and personnel systems) away from the "approval culture" and the pressure to lend. At the same time, many Task Managers are very skeptical that the Bank can truly change without strong leadership and commitment from the top. For this reason I was very much encouraged by Matt's (?) report that, during the opening ceremony of the Staff Association Week, Mr. Preston had endorsed the need to change along the lines proposed by the report.

While there may be some room for improved portfolio performance within the existing budgetary/personnel systems, it would probably have to be in the shape of additional "quality controls." Many Task Managers feel these would be like "beating a dead horse." External quality controls cannot have a lasting impact unless they are transformed into a system of "internalized" incentives to excel. This is where the need for new budgetary/personnel systems arises, together with a new framework for incentives and rewards.

Therefore, it would be of the greatest importance that the final version of the Wapenhans report clearly indicate the need: (a) for full support from the President and the Board for a "cultural" change, and (b) for decisive leadership on the part of top management to openly realize (and frontally deal with the fact) that, at least in the short term, there will likely be a difficult choice between new lending and portfolio quality. Without this support and leadership we could miss a fantastic opportunity for change, one which may not happen again soon. If we miss the boat now, we will meet again in ten years' time and, just like yesterday afternoon, wonder how come nothing has changed since last time around, and how come we are still saying the same old things.

If I can help in any way please let me know. I will be pleased to do so.

CC: TASK FORCE MEMBERS

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

DATE: September 8, 1992 10:58am

TO: W. Wapenhans (W. A. WAPENHANS) D-1321

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 recommendations of 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)
CC: Stephen Denning (STEPHEN DENNING)
CC: Ismail Serageldin (ISMAIL SERAGELDIN)
CC: Dunstan Wai (DUNSTAN WAI)
CC: Miguel E. Martinez (MIGUEL E. MARTINEZ)
CC: Ishrat Husain (ISHRAT HUSAIN)
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/IFC/MIGA
OFFICE MEMORANDUM

DATE: August 31, 1992 02:36pm

TO: Chander Ohri, Acting SOA, AFRVP (CHANDER OHRI)

FROM: Dhan D. Singh, AF1DR (DHAN D. SINGH)

EXT.: 34508

SUBJECT: **AF1 Comments on the Wapenhans Task Force Report (WTF)**

1. This is a very important report which, together with the recently published OED Report on Bank Experience in Project Supervision (OED Pro-Sup), will focus increased attention on what has in the past been the Cinderella of the Bank's operational work: portfolio implementation. The Africa region should be reassured and flattered that most of the ideas and practices that we have been pursuing over the past three years through our "Implementation Culture" initiative have been adopted as key elements in the proposals made in these reports, both of which confirm that the broad directions of our road map on implementation are sound.

2. Turning, however, to what the next steps should be, the WTF regrettably is not too clear. The WTF proposes six main recommendations and 35 supporting measures; OED Pro-Sup makes 18 recommendations and 14 suggestions. Some of these proposals are very similar, others less so, and yet others move in opposite directions. What is puzzling is that they are like ships passing each other at night. Since the WTF is still in draft, could it not explicitly address the OED proposals? An Annex to WTF, indicating the OED proposals it endorses and those it rejects and why would help clarify where we go from here.

3. In addition, many of the OED proposals are quite specific and could be implemented fairly swiftly. On the other hand some of the WTF proposals are more in the nature of exhortations. We understand from the members of WTF that at least some of their proposals were not intended to be operationally implementable, but that further work on them is envisaged as a next step, if they are accepted in principle. Clearly some of WTF recommendations are specific and categoric, e.g. "the use of standard bidding documents should be mandatory for ICB". We suggest that it would be helpful if the WTF would separate out those of its own and OED Pro-Sup's recommendations that it proposes for immediate adoption and implementation and identify those that require further development or study, including budgetary and organisational implications, before being finally adopted. It would also be useful if a work program and schedule for this additional work were provided, indicating the priorities of the tasks involved, and who will be undertaking this work.

4. Taking the WTF proposals as a whole, they appear to focus excessively on the Bank's internal bureaucratic processes and paperwork and insufficiently on the conditions and practices in our borrowing countries which determine success on-the-ground. Moreover, a lot of attention is given to increased or improved monitoring of the health of our portfolio but relatively little is proposed to provide new incentives to motivate Task, Divisional and Department managers to engender greater developmental impact from our ongoing operations. Comments on specific proposals are given below.

5. CPPRs. The process being proposed is pretty much what Africa has been doing for the past two ARIS cycles when we have undertaken reviews of each country's portfolio by country teams, DMTs and RVP. This process has worked very well and we have all been pleased with the much more realistic, consistent and transparent rating of our portfolio, even though ratings declined as a result. We are concerned that if the outcome of this process, the Country Reports, are now to be the basis for the APPR, which is to be discussed with the Board by RVPs and Country Directors, that this is likely to inhibit the frank and open discussion and reporting on problems by the Country Teams. Would the Board really wish to discuss portfolio performance for each country in any detail rather than as an added element of the existing system of discussion on Country Strategies? Would not a regional aggregation of portfolio management issues be adequate? Incidentally, why change the name ARIS?

6. Links with Core processes. The nature of the proposed links between portfolio performances and Budgets, CAMs and Lending allocations are not clear. Moreover, no indication is given of the weight to be given to performance. The WTF proposals seem to suggest that more developed countries, with efficient institutions, better trained manpower, and good portfolios would receive more CAM/Lending resources from us than countries whose portfolios may be poor because they are less well-endowed. Is this what is intended? We would also suggest that consideration be given to devising a simple 3 or 4 category portfolio performance ranking system instead of the complex indices proposed in Annex C.

7. Restructuring. The WTF states "There would be no automatic country entitlement to funds freed by such restructuring or related cancellations." We would propose that, at least for IDA countries, a position on this issue not be taken until the Kavalsky Task Force has completed its work.

8. Cofinancing. In the interest of reducing complexity, the WTF proposes that cofinancing "should be used only where either additional funds for the project are needed, the risks need to be spread, or the confinanciers prefer to leave appraisal and implementation support to the Bank." This is too restrictive. We frequently encourage cofinancing as a means of developing a

consensus on sectoral policies amongst active donors in a country and should continue to do so despite the added complexity and cos To allow a return to a system of donor 'balkanisation' would be irresponsible.

9. Skill mix. While acknowledging the shortage of financial analysts and public administration and management skills, we feel that there is also an urgent need for additional technical expertise in some areas, particularly in Agriculture.

10. Areas not covered. The attachment to Mr. Preston's February 7, 1992 announcement on the WTF and its work spell out the areas to be covered by the review. Bullet 4 of this attachment mentions that the review should include "the Regional management structure...including roles of TD, SOD and country teams;...the role of SOAs and Project Advisors...". The report is regrettably silent on these topics.

CC: Miguel E. Martinez (MIGUEL E. MARTINEZ)
CC: Max Pulgar-Vidal (MAX PULGAR-VIDAL)
CC: Francis J. Lethem (FRANCIS J. LETHEM)
CC: Jerome Chevallier (JEROME CHEVALLIER)
CC: Surendra K. Agarwal (SURENDRA K. AGARWAL)
CC: Emmerich M. Schebeck (EMMERICH M. SCHEBECK)
CC: Judith Edstrom (JUDITH EDSTROM)
CC: Randolph A. Andersen (RANDOLPH A. ANDERSEN)
CC: Michael J. Gillette (MICHAEL GILLETTE)
CC: Lawrence E. Hinkle (LAWRENCE HINKLE)
CC: Dhan D. Singh (DHAN D. SINGH)
CC: Alberto Harth (ALBERTO HARTH)
CC: Luis E. Derbez (LUIS E. DERBEZ)
CC: Iain T. Christie (IAIN CHRISTIE)
CC: Robert Crown (ROBERT CROWN)
CC: Ted Nkodo (TED NKODO)
CC: Richard Westebbe (RICHARD WESTEBBE)
CC: Padmini K. Nair (PADMINI NAIR)

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

DATE: 31-Aug-1992 12:54pm

TO: See Distribution Below

FROM: Francis J. Lethem, AF2DR   (FRANCIS J. LETHEM)

EXT.: 34038

SUBJECT: **Comments on the Wapenhans Task Force Report on Portfolio management**

This report is timely, fascinating, and has rightly generated extensive debate within the Bank. It has also generated a hope that, finally, the Bank will rediscover that its raison d'etre is to achieve results on the ground.

To achieve this fundamental redirection will require a lot of analysis and soul searching, and we should not merely rush into the implementation of the report's most practical recommendations : we should also launch further work on broad managerial topics which will create the enabling environment for restoring an implementation culture within the Bank; as well as on narrower ones such as procurement which has become a Task Manager's nightmare.

First we will make a number of comments on the report's recommendations. Then we will expand on topics for further review.

I. THE RECOMMENDATIONS

In reviewing the recommendations of the Task Force's report we have followed two principles :

- support what will clearly achieve results on the ground;
- object to inward looking measures and increased bureaucratization of the Bank which would undermine the very purposes of the report.

A. Country Reviews, linkages to the Business plans etc.

Providing information to the Board on Country Implementation may be a useful tool to increase the Bank's focus on implementation at all levels. However, we should guard against introducing a new generation of internal reports (with the danger that emphasis will be mistakenly placed on good quality portfolio management reports rather than on resolution of substantive issues giving rise to real benefits on the ground). Also, any such reports should not duplicate the documentation to be prepared for Board discussion of Country Assistance strategies. Thus, we would like to make sure that the administrative implications of replacing

ARIS by the CPPR process have been worked out and that the proposal will not result in additional bureaucratization.

B. Portfolio adjustments, are appropriate as long as they do not originate from a unilateral Bank decision.

C. Improving the quality of projects

We wholeheartedly support greater emphasis on the implementability of projects as a key design feature. Task Managers' judgment should be trusted and they no longer should be pressured into adding components "of special emphasis" and promoting co-financing which often dramatically increase complexity.

Emphasis on Borrower commitment, participation of beneficiaries (under the Borrower's responsibility), presence of Executing Agency at Negotiations, and enforceability of conditionality is also welcome. But there is no need for another mandatory requirement (re: Borrower commitment) in the IEPS.

Furthermore we must recognize that, as long as implementers of Bank-financed projects will primarily be Government agencies, whose bottom line is political rather than financial, the likelyhood of sustained Borrower commitment to politically painful efficiency objectives will be minimal.

Rather than requiring (rapidly outdated) implementation plans as side-letters to loan agreements, and since SARs no longer help supervision, there is a need for staff to produce for each project an informal implementation volume, to be jointly prepared with the client. In addition, Task Managers might be asked to prepare an annual supervision strategy for every project in their portfolio.

Thinking about implementation should be an integral part of the design process, with an expanded PPF financing a larger share of the initial implementation steps, so as to avoid the 1-2 year implementation limbo which often follows project appraisal. For the same reason, we should no longer hesitate to finance a series of projects to the same agency, as seemed to have been frowned upon in recent years : capacity building requires our sustained interaction with particular agencies.

D. The Bank's vs the Borrower's role

The Task Force should differentiate between IDA vs IBRD countries, or more accurately between countries with good vs poor implementation capabilities as a basis for determining the Bank's role in implementation (as well as preparation). In the latter countries, the Bank's role should be to help develop not only project or sector, but also country-wide capabilities, for which unfortunately the Bank often lacks expertise. Indeed, implementation of Bank-financed projects cannot be better than overall country capabilities.

Other recommendations in this section are welcome, except that on procurement.

Our thinking on procurement has been dominated lately by a concern for ensuring a "level playing field", rather than by promotion of efficiency and domestic suppliers. While we are in favor of standard bidding documents, we object to the creation of another level of review. Rather than encouraging the packaging of small items to allow ICB, we would like much greater acceptance of local procurement, despite the risks entailed. Since it is best not to rush decisions in these delicate matters, and it is eg, unclear whether ICB is faster or slower than LCB, or whether TMs are satisfied or not of the help they receive from Regional procurement units, we recommend an urgent comprehensive review of Bank policies, experience and administrative arrangements in the procurement area.

E. Role of OED

We are uncomfortable with the proposed audit of ARPPs. While PCRs should look at sustainability, we should also look at project implementation patterns by sector or country, as well as sustainability over the longer run.

II. TOPICS FOR THE FUTURE.

F. A better environment supportive of implementation

This is the most fundamental part of the report, but also the one in need of much greater analysis.

For instance, how feasible is it to reward staff for implementation success, which should be primarily due to the Borrower's performance ? Would it be desirable to hold current managers accountable for project implementation performance, when they may have inherited unimplementable projects from their predecessors affected by "fiscalitis" ?

We therefore recommend a thorough examination of :

1. The Bank's organization, personnel policies, rewards, and culture, and the role of the Board, which are presently geared primarily towards the promotion of lending, rather than towards ensuring implementability of lending (and policy advice), and the facilitation of implementation. Thus implementation, which is presently perceived as a constraint to Bank operations, should become a fundamental common goal.

2. Measures to arrest and reverse the Bank's uncontrolled bureaucratization, which reduces the staff's time available for essential operational work.

3. The reasons why the Bank is such a poor listener of its clients' viewpoint and how to overcome this problem.

Such review should include :

- the impact on the Bank's implementation culture of the Board's decision no longer to review investment operations;

- a determination of which levels of management should focus on implementation --recognizing that different management levels need a different orientation;

- the role of Resident Missions in implementation, in particular the benefits of hiring experienced local staff to help expedite implementation at sector level;

- the appropriateness of our skills mix, including the soundness of our increased reliance on specialized consultants; and the need for staffing continuity to achieve results in the field vs the staff's career aspirations which encourage rotation;

- the impact of budgetary rules and norms, and whether the Task Force recommendations can be expected to be budgetarily neutral.

Needless to say, the Wapenhans Task Force was not mandated to solve these fundamental issues : these should be looked at as an essential ingredient of the overarching objectives of this institution, as an integral part of the vision we should have of our essence and our future, from which various policies, strategies, and organizational measures should flow. In this light, one of the report's principal merits might be that it is providing the Bank's management and staff with an opportunity to raise these issues and explore them further.

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THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: August 26, 1992

TO: Mr. Chander Ohri, Acting Senior Operations Adviser

FROM: Jerome Chevallier, Operations Adviser AF3 JC

EXTENSION: 34372

SUBJECT: AF3's Comments on Draft Report on Portfolio Management

1. We enthusiastically support the basic premises of the draft report, namely that (i) the Bank overarching objective is sustainable development impact; (ii) successful implementation requires commitment built on stakeholder participation and local ownership; (iii) quality at entry, including clear definition of development indicators, sensitivity analysis and implementation planning, is a critical determinant of success in project outcome; and (iv) portfolio performance should be a major factor in defining country assistance strategies. We also agree with the draft report's findings that the Bank's pervasive preoccupation with new lending, the so called "approval culture", does contribute to portfolio problems, or that there remains a bias for complexity in project design despite all the evidence that it may lead to unsatisfactory performance, or that the present rating system is far from perfect.

2. We are in broad agreement with the major recommendations of the draft report, but feel that some important issues have not been adequately addressed. Our comments have been prepared following consultations with a number of task managers and with the members of the DMT. In the presentation of our comments we have kept the headings used in the draft report, but rearranged them to reflect the priority order as we see it.

3. The single most important recommendation is to link the amount of new lending to a country to its performance in portfolio implementation. Appropriate indicators must be developed to assess performance and used consistently across countries and sectors. The challenge in doing so is to avoid getting into another bureaucratic exercise and to strike a balance between the conflicting needs of establishing objective criteria and relying on the judgment of the task managers and country teams. In due course, when appraisal reports will provide a set of indicators against which performance can be gauged, as is recommended in the Task Force report, this task should become easier. However, country ratings will remain a difficult undertaking. In any event, establishing portfolio ratings through weighing individual project ratings by their dollar value, as suggested by the draft report, is not a sensible thing to do. A small project in dollar value may, by design, have a much higher development impact than a large one. Its importance in the portfolio should not be discounted because it carries a low dollar tag.

4. Create an internal environment supportive of better portfolio management. The draft report indicates that a change in the Bank's culture is needed. We warmly applaud this statement, but feel that the recommendations fall short of what is really required. The Bank must first make it clear to everyone concerned that its intention is to concentrate its energies on its **basic business**, which is lending and supervision. It should establish **staff incentives** to recognize success (or failure) in the project implementation area. Task managers should be encouraged to deal aggressively with project issues. They should have adequate delegation, but with it, should come primary accountability for how the projects which they oversee are doing. Unit budgets and contracts should

focus as much on portfolio implementation as on new lending. Before opening new field offices, incentives should be in place to ensure that existing res-reps consider portfolio performance as a key element in their objectives. Finally, the Bank should design and offer serious **training** on project cycle/implementation issues. Attendance in this training should be made mandatory for line managers and staff. To underscore the importance of this activity, it should be entrusted to a vice president. A task manager handbook should be prepared. The Operational Directives Manual should be recast to make it a better tool for the daily work of the staff. Simplicity should be a key concern in carrying out this exercise.

5. Quality at entry. The recommendations under this heading are neither new nor controversial. We would expect the final report to be more specific on how to broaden local ownership and increase the number of people who have a stake in the project. We would also suggest that a working group be established to make recommendations on how to make the appraisal reports and the legal documents better tools for project implementation. We all agree that simplicity of project design (and in the design of adjustment operations, for that matter) contributes to reducing the risk of failure. However, this is not enough. We must also ensure that other donors active in the sector are not working at cross purposes. Our way of dealing with this issue is to get the donors on board as early as possible in the financing of sectoral operations and agree with the borrower on a set of principles for sectoral reform in a policy letter finalized during negotiations. Finally we fully support the recommendation that only those covenants that the Bank is willing to enforce should be included in the legal documents. However, experience shows a pervasive lack of compliance by borrowers, even of covenants which correspond to basic requirements under operational directives. Maybe it is time for the Bank to give a careful look as to whether some of these requirements are still necessary.

6. Role of the Bank in project performance management. We welcome the definition of what should be the role of the Bank in project supervision (or project performance management as suggested by the Task Force). Again, there is nothing new or controversial in the set of recommendations under this heading. However, we are puzzled to read in the draft report that 70% of the staff-weeks devoted to supervision is spent at Headquarters. If this is the case, it shows that the staff is more concerned with feeding the Bank's internal bureaucracy than helping borrowers implement their projects. Indeed, task managers complain that they spend too much time sending information to centralized systems, which they find useless, because not designed to help them do a better job. This is a serious problem which, unless corrected, will continue to breed cynicism.

7. Portfolio restructuring and management. The draft report recommends that the Bank should be prepared to restructure the portfolio in adjusting countries at the request of the borrower. Why only in adjusting countries? The Bank should always be prepared to restructure the portfolio. We have done it in the past, in the case of countries emerging from a civil war for instance. The restructuring should be done taking into account new priorities, which are best expressed in a public expenditure program satisfactory to the Bank. The Bank should consider including explicit conditionality in adjustment operations to deal with generic implementation issues that cut across sectors and projects.

8. OED's role. We agree that OED should abstain from any activity that could undermine its independence and credibility and should emphasize the contributions of Bank-financed operations to sustainable development as a matter of priority. The draft report recommends also that PCRs be replaced by "Implementation Completion Reports" (ICR), on the grounds that a project is not completed at the end of the investment period. Since PCRs do not serve as a useful tool to learn from past mistakes, it would be most useful to indicate how the proposed ICR would fulfill this role.

cc. Messrs. and Mesdames Martinez (o/r), Pulgar-Vidal, Singh, Lethem, Agarwala, Schebeck, Edstrom, Landell-Mills, Andersen and AF3 staff.

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: August 28, 1992

TO: Mr. Miguel E. Martinez, AFRVP

FROM: Surendra K. Agarwal, AF4DR SKA

EXTENSION: 34860

SUBJECT: Wapenhans Task Force Report on Portfolio Management

1. With reference to your EM of August 5, 1992, we have reviewed and discussed the above report in the Department -- divisional reviews, discussions between the Project Advisor and selected colleagues in the Department, and a departmental meeting to have a wider range of views on the report. Our main comments are given below.

Overall Comments

2. We feel that the report is an important initiative in assessing what we are doing and how we are doing it. In general, it provides a good analysis of what is wrong, what has not worked, and where future emphasis should be placed. The report's analysis of constraints to effective implementation is in line with our own findings in the Department(e.g., macroeconomic environment including global economic factors, institutional constraints, inadequate counterpart funds, poor project management, problems in procurement, and weak ownership and commitment of the borrowers). We also generally agree with the five main conclusions regarding successful implementation -- emphasis on benefits on the ground and not on loan approvals, importance of strong local commitment and ownership, good project design with adequate attention to implementability, country focus to solve generic implementation problems, and an increased emphasis on portfolio performance in formulating country assistance strategies. These conclusions again confirm the work of the Africa Region in recent years.

3. That said, the problem with the report is that it generalizes when it comes to future actions. It is also not clear how the recommendations will lead to the fundamental changes in the Bank's culture the Task Force is recommending. In some cases, the report's recommendations do not address in a practical manner the fundamental issues it has identified (e.g., how to shift the Bank's focus from lending to sustainable implementation and development impact). This will require major changes in thinking at all levels in the Bank, including strong signals from top management. We feel that this will not realistically happen as quickly as the report might infer, and certainly not as easily. The report's recommendations are also long on the process issues. Serious effort will be needed to translate the report's recommendations into an action program which has a reasonable probability of success on the ground, and which does not add to the bureaucratic work load rather than reduce it.

Specific Comments

4. Country Portfolio Performance Reviews. We endorse the proposal of country portfolio performance management linked to the Bank's core business procedures (CSPs, Business Plan, CAM, and Lending Allocation Reviews), though we believe this is already quite widely practiced in our Region. The Country Teams already have a major role in carrying out country performance reviews, addressing generic issues in portfolio management, and linking the portfolio performance to core business processes. Because of the pervasiveness of common problems in portfolio management (institutional constraints, borrower inertia, shortage of counterpart funds, poor project management and defective procurement), they are best handled on a country-wide level. Therefore, the linking of country portfolio performance reviews to core business processes does help focus the Bank's dialogue on the generic problems with the key decision makers in the country. In Nigeria, we have been frank in addressing the issue of implementation performance in our recent CSP, and we have reduced new lending accordingly. At the same time, we have also significantly increased resources allocated for portfolio management.

5. Portfolio Restructuring. We fully agree with the recommendation on country-wide portfolio restructuring in adjusting countries though we are not quite sure why this restructuring should not extend to all countries where appropriate. Restructuring both within and between projects can be needed when there are changes in government priorities due to sudden changes in the external and internal factors, and when implementation of the portfolio is generally poor due to lack of progress in solving generic problems (absence of counterpart funding, institutional weaknesses and weak project management, lack of progress in agreed policy reforms, and continued difficulties in procurement). Actions to weed out problem projects also need to be emphasized. However, such restructuring (reappraisal, renegotiation and amendments of the legal documents) can involve high costs. The recommendation of reallocating, under streamlined procedures, the loan funds freed from canceled projects to the projects remaining in the portfolio as a result of the portfolio restructuring in adjusting countries should also be applicable to portfolio restructuring in other situations (outside of adjustment). We also recommend that the approval authority for such reallocation should rest with the management without having to seek Board approval as long as the reallocation of freed funds to the projects remaining in the portfolio is within the agreed objectives of the project(s). We realize that this would amount to a fundamental change in the way we do business, but that is, after all, the underlying theme of the Task Force report.

6. Quality of Projects Entering the Portfolio. Borrower ownership and commitment are critical dimensions of project quality. But increased borrower ownership should not necessarily be equated with less Bank involvement in project preparation. The key issue is whether the Bank is involved in a collaborative or in a confrontational mode. The issue of project complexity also needs to be looked at in the context of country conditions and Bank assistance strategies. In the case of co-financing, for example, the Bank may have a very important role to play, in helping the government develop and implement a sound and consistent overall investment program especially in Africa where many countries are heavily dependent on support from many different donor agencies.

7. We also need to increase rather than decrease the degree of flexibility in implementation inherent in project design. Appraisal reports should be working documents to facilitate implementation and should include a good deal of flexibility allowing projects to be adapted to changing situations during implementation without too much paper work. Some of

the recommendations of the Task Force report especially on evaluation and rating methodology (Annex C) focus on improving documentation and rigorous quantification, and may lead to more paper work for the Bank's internal consumption and less flexibility in project design. We believe that more work is needed to develop practical ways to improve the evaluation methodology and portfolio monitoring.

8. Improvement in the quality of projects entering the portfolio will also mean that we will have to be prepared to accept a higher rejection rate during project preparation for projects which do not meet the tests of adequate government/beneficiary commitment and of implementability. This together with the need to "clean-up" the poor performing portfolios may mean that in the medium-term (3 to 5 years), managers should have the flexibility to reduce lending if they think it appropriate depending upon country situations. The cost implications for the Bank, related to approved projects, could be substantial.

9. Project Performance Management. The Task Force report acknowledges that 12 staff weeks allocated to project management are not adequate. The report's finding that only 30% of the supervision time (about 3.6 staff weeks) is spent in the field on portfolio management is very disturbing. This is a serious problem and needs to be looked into carefully as the report's recommendations have the potential to increase further the supervision time spent in Washington. Taking into account the need also to improve the quality of projects entering the portfolio, we recommend that serious efforts should be made to relieve the Task Managers from administrative aspects of their work and provide the necessary support and resources to do essential work.

10. The issues of skills mix, staff continuity and the critical mass in project teams (i.e., the size of the SODs) are important to good project designs and effective portfolio management, and require in-depth analysis.

11. We do not think that a central procurement review committee to vet large contracts will be a cost effective way to improve consistency in procurement on a Bank-wide basis. The report should focus more on ways of improving countries' procurement capacity and procurement skills of the Bank staff.

12. OED's Role. We support the proposal for OED to focus more on development impact in its independent reviews. However, for this to be meaningful, the impact studies, to the extent possible, should be clustered for several projects in the sector in a country. We do not believe that OED should evaluate the Bank's Annual Report on Portfolio Performance as this is internal to the Bank's management; OED should only focus on the evaluation of completed operations.

13. Internal Environment. Enhancement of skills for portfolio management is very important. We also think that the overall functions, size and staffing of divisions (including the country operations divisions) should be looked at in the context of an increased emphasis on country portfolio performance management. Changes in the Bank's procedures and reduction of paperwork for less important activities are also necessary to free up scarce resources to allow staff to spend more time on substantive portfolio management.

14. We feel that field offices have an especially important role to play in the discretionary (as contrasted with the mandatory) aspects of the Bank's portfolio management work, and therefore endorse the strengthening of the field offices, with more staff on a rotational basis from Headquarters as well as recruiting local hires. Strengthening field offices is especially important in Africa where capacity building is so critical.

cc: Messrs./Mmes.: Lim (o/r), Chhibber, Iskander (o/r), Joyce, J. Singh, Smith (o/r), Porter (o/r), Denton, Cordeiro, Fennell, Meesook, Najm, S. Singh, Bhandari, Domingo, Ohri, **Pulgar-Vidal**, Chevallier, D. Singh, Schebeck, Edstrom, Lethem, R. Anderson

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

DATE: August 27, 1992 08:49am

TO: Miguel E. Martinez (MIGUEL E. MARTINEZ)

FROM: Birger Fredriksen, AF5PH (BIRGER FREDRIKSEN)

EXT.: 35033

SUBJECT: **Wapenhans Task Force report - AF5's comments on draft report**

1. With reference to your EM of August 5, 1992, AF5 has reviewed the above draft report. Our comments are summarized below.

2. **General reaction:** We welcome the increased emphasis on project implementation conveyed by this report, and generally endorse its five main recommendations. Their main thrust corresponds well to the Africa Region's and AF5's ongoing efforts to develop a stronger implementation culture. The main constraints on effective project implementation identified by the report also correspond well to those found in the Sahel, i.e., difficult macroeconomic environment (including factors outside the direct control of the Governments), poor management, weak institutions, lack of counterpart funds, and defective procurement.

3. However, while applauding the frank analysis and good diagnosis, we find part of the treatment proposed to remedy the ills identified less convincing. In particular, as discussed further below, we would like to caution against some actions that, by diverting even more resources to internal report writing and controls, could result in even less attention to substantive portfolio management. Because of this danger, and because we believe the objectives and main conclusions of the report are crucial to the Bank's effectiveness as a development institution, our comments will focus on areas where we believe the present draft needs to be strengthened to achieve these objectives.

4. **Increased emphasis on internal processing:** We agree fully with the conclusion that "The Bank's success is determined by benefits "on-the-ground" ... not by loan approval, good reports or disbursements" (para. iii, page i). However, some of the report's key recommendations risk to further increase the bureaucratic aspects of loan processing and portfolio management through more time spent on internal processing and on writing reports for ourselves, thereby diverting already limited resources from the substantive work required to improve projects' "on-the-ground" benefits. We should be careful not to replace

the present "approval culture" with a "control culture", requiring even more internal reporting and reviews. For example, the call for increased focus on quality of entry through more "rigorous analysis of project risks" and use of the proposed "result oriented evaluation and rating methodology" could lead to even more time spent on the preparation of "slick" and "innovative" reports, giving a spurious impression of improved quality rather than improved "implementability".

5. Rather than devoting more resources to achieve more perfection at appraisal through more quasi-scientific analyses, in many sectors the positive impacts on "on-the-ground" benefits would be higher if more resources were spent on monitoring project implementation and more encouragement given to project staff for readjusting design as necessary during the life of the project. We frequently prepare projects in extreme detail to be implemented during a 5-8 year period during which, even if the most sophisticated assessment techniques were to be used, we really can say very little about how the macroeconomic and, especially in our countries, the political situation will develop. It would be naive to think that many of the key country factors affecting implementation (e.g., frequent change in government, impact of the present trend towards democratically elected governments, politically appointed managers, shortages of counterpart funds, drought, change in exchange rates) can be meaningfully factored into a formal statistical risk analysis at appraisal. Rather, it would seem more reasonable to adapt a methodology that outlines the broad objectives and thrusts of an operation for 5-8 years, but refrains from making detailed implementation plans beyond a 2-3 year period. The plans for the remaining period would be developed during annual and mid-term evaluations, drawing on the lessons learned along the way. In short, we are convinced that, for many projects, better monitoring of developments during project implementation would be a more effective means of improving project impact than more statistical risk analysis at appraisal. Naturally, there are many projects (e.g., in the infrastructure sector) where this more flexible approach may not apply.

6. Other things being equal, improved quality of entry is of course desirable. However, the highest returns in this area are likely to come from the report's recommendations concerning actions other than more sophisticated statistical risk analysis, i.e., increased borrower ownership (the report says little about how this is to be achieved, and about the often-felt conflict between Government/ beneficiary ownership), reduced complexity (also needs to be better analyzed, see para. 9 below), and increased attention to implementation plans and schedules (including procurement).

7. **Bank's role in portfolio management:** While the task force finds that the "budgetary evidence" does not support the staff's notion that the resources for implementation assistance are inadequate (para. 42), it concludes that 12 staffweeks a year

"... simply does not allow enough time to meet all expectations placed, rightly or wrongly, on portfolio performance management" (para. 44). We fully support this conclusion. Yet the Report does not make strong recommendations for increasing resources for this task. The Report finds that only 30% of the time spent on portfolio management is in the field. Subtracting traveling time, and time spent on procurement, audits and the like, this may leave little more than one week per year for monitoring project impact in substantive areas and for conducting policy dialogue. As discussed above, some of the Report's recommendations (and other changes currently underway regarding operation of the loan committee and in the Bank's travel policy) may, in fact, reduce the time spent in the field as these changes may reduce the time available for portfolio management by increasing the emphasis on the appraisal process, and increase the proportion of this time spent on internal reporting on the portfolio. Again, the way to improve portfolio management, and thereby "on-the-ground" results, is to motivate staff to spend more time on substantive aspects of operations in the field; it is not to increase the number of internal controls and paper products to make the portfolio management more like the approval culture governing the appraisal process.

8. While we agree that "The direct provision by Bank staff of extended technical assistance ... should normally be avoided" (para.66), the extent to which Bank staff can limit their role in portfolio performance management to the Bank's mandatory "core" supervision responsibilities varies considerably among borrowers. Given the weak institutional capacity in Africa, we may have to accept that the Bank for the foreseeable future will need to provide considerable assistance beyond core supervision to facilitate implementation. In some cases, our advisory role may even be more important to sustained long-term development that our role as a lender. As a group, AF5 countries have, by far, the least developed human resources base of any country department. We believe that for the Bank to help facilitate project implementation in these countries is not only consistent with the Bank's role as a development institution, but also indispensable to achieving the desired "on-the-ground" success, and especially to ensure that our assistance reaches the priority target groups.

9. **Project complexity:** We fully agree with the Report's recommendation that we should strive for less complex projects, and with some of the factors identified as causing increased complexity. However, it is not clear how this would be achieved in practice. First, less complex projects would normally mean "unbundling" of larger projects into several smaller ones. This would mean increasing the number of slots in the lending program. Second, as pointed out in the Report, increased complexity often comes from within the Bank; comments received by task managers during processing tend to add things rather than simplify. It takes courage (and can be very unpleasant) to resist pressure from the various people or units whose main function is to ensure

that all projects include the particular area they are paid to watchdog. For example, recommendations such as while programs of special emphasis "... are vital priorities, there should be discretion to include only those directly pertinent to a project" (para. 65) are of little use in practice. Project complexity is a "complex" subject. We must guard against reduced complexity resulting in superficial treatment of difficult problems, and ensure that it makes sense to deal with a part of the problem rather than covering the whole field. Furthermore, at least in the Sahel, policy reform -- by nature complex -- is the key to sustainable improvements in practically all areas.

10. Relations with cofinanciers is, as pointed out in the Report, another factor that increases complexity and frequently causes delays in project implementation. However, we think the Report's recommendation that cofinancing "... should be used only when either additional funds for the project are needed, the risks need to be spread, or cofinanciers prefer to leave appraisal and implementation to the Bank" is a bit too simple. In many cases, we are striving hard to encourage Government to adopt consistent sectoral policies and to develop donor consensus on these policies. To ensure implementation of these policies and discipline among donors frequently implies including other donors' financing under the umbrella of a Bank project, even in cases where the funds are administered by these donors under their own procurement rules. To maximize the "on-the-ground" impact of all development assistance, we simply cannot forget about other donors involvement in the sector even if this necessitates cofinancing and, hence, more complex operations.

11. **Implementation of the Report's recommendations:** The Report is rather short on what it will take to implement its recommendations. As pointed out, the changes required are "evolutionary in nature" (para. 4), and implementation of many of the proposed actions are already well underway in the Africa Region. Therefore, we should avoid another short-term drive to achieve cosmetic changes. This being said, a more concrete plan is required, identifying more clearly which decisions Bank management should take at what time, what the resource implications would be, and which incentives would need to be put in place to ensure that staff devote sufficient attention and time to implementing the Report's recommendations. As regards the last point, how do we in practice ensure that good portfolio management is rewarded as highly as preparation of a well-written and "innovative" appraisal report?

CC:	Michael J. Gillette	(MICHAEL GILLETTE)
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CC: Salah Darghouth	(SALAH DARGHOUTH)
CC: Brigitta Mitchell	(BRIGITTA MITCHELL)
CC: Ignatius Menezes	(IGNATIUS MENEZES)

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: August 22, 1992 10:13am

TO: Chander Ohri (CHANDER OHRI)

FROM: Judith Edstrom, AF6DR (JUDITH EDSTROM)

EXT.: 34635

SUBJECT: **Report of the Task Force on Portfolio Management Comments of Southern Africa Department**

1. The conclusions of the Portfolio Management Task Force corroborate the Africa Region's work over the past several years on quality and implementation culture. We can heartily endorse the Report's five conclusions regarding implementation focus which underpin its recommendations, namely: (a) success is determined by benefits on the ground--sustainable development impact, not by loan approvals or good reports; (b) successful implementation requires commitment, built on stakeholder participation and local ownership; (c) quality at entry--good design addressing implementation constraints--is a prerequisite for successful implementation; (d) country focus is required to address generic implementation problems; and (e) country assistance strategies must take greater account of portfolio performance.

2. The Report also confirms constraints we have identified in the Africa portfolio as the primary causes of declining portfolio performance: macro-economic environment (including factors exogenous to country policy), institutional constraints, absence of counterpart financing, poor project management and defective procurement.

3. In addition, we commend the Task Force's involvement of clients (government officials) in its assessment of the Bank's portfolio performance. Their perceptions are critical for understanding where we need to become more responsive.

4. We do however have concerns about some of the Report's assumptions and the conclusions drawn from them. We also question whether some of the recommendations are consistent with the conclusions summarized in para. 1 above. These concerns are elaborated upon in the following paragraphs. In the annex we provide some observations on specific analyses and recommendations of the Report.

<u>Report's Assessment of Resource Constraint</u>

5. The Task Force notes that staff overwhelmingly believe that resources for implementation assistance (e.g. supervision, which we agree is a poor choice of terms) are inadequate. The Task Force however believes that "budgetary evidence does not support this

widespread perception and that in recent years, not all the resources budgeted for portfolio management have been spent" (para. 42). However, the Report makes subsequent statements which refute this point. Specifically, the Report states that 12 staff weeks do not allow enough time to meet all the demands of portfolio management. Yet the Report makes no direct recommendations for increasing resources. Moreover the Report is surprisingly silent on the amount of time we spend in the field on portfolio management, stating almost in passing that field work constitutes only 30% of supervision time. We believe the Report should envisage what this implies for substantive dialogue with borrowers: when travel time, procurement and audit work are removed from portfolio management field work, about 1 staff week remains per project per year for substantive, project-related field work. The Report's recommendations would in fact significantly increase Headquarters-based supervision time. Is this what the Task Force intended?

6. Moreover, while the Report states that "managers favor lending when allocating resources," it does not analyze why this is so and does not therefore address the problem. We believe that in addition to the machismo associated with new lending, the burgeoning procedures and internal "paper products" (primarily memos) related to the preparation and appraisal process not only induce but require the manager to allocate more resources to preparation and appraisal. Each of these statutory steps and papers is a very tangible milestone on which the task manager and everyone else up the line is judged. No step may be skipped. Nothing comparable exists during project implementation.

7. To increase the time devoted to portfolio management, we can increase the number of legislated procedures and paper products analogous to what is required at appraisal. There is risk that some of the Report's recommendations do just this. The result will be even less time on substantive portfolio management. Or we can reduce the strangle-hold that our procedures have put on the appraisal process. Here again, some of the Report's recommendations risk actually increasing the bureaucratic aspects of loan processing. The Report should forcefully recommend reduction of the unproductive activities which staff are now required to undertake if time is to be available for substantive portfolio management (recognizing of course that demands for implementation assistance are insatiable and we still provide a relatively limited amount).

Report Recommendations

8. We support the aim of the Report's recommendations. We are already implementing, and therefore wholeheartedly endorse, the broad recommendations to introduce country portfolio performance management into our core business processes, improve project design to factor in implementability, and create an internal environment supportive of better portfolio performance management.

9. Concrete means of implementing these broad orientations requires that we listen to clients and staff, which the Task Force has

done. In that regard, we were interested to learn that the Task Force found a "strong consensus among staff (93%) that the post-1987 quality review system is superior to the centralized pre-Reorganization system. . . because of close associations between project teams and Departmental Management Teams, Country Teams and peer review groups at an early stage of project processing" (para. 34, footnote 27). We were therefore disappointed that the Task Force's recommendations do not shore up these systems for quality enhancement in implementation. Indeed, some of the Report's recommendations tend to second-guess the above players by centralizing review processes and creating procedures and recipes for successful projects.

10. Recommendations for greater quantification. We support the goal of the proposed appraisal methodology to introduce more realistic assessments of the likely environment affecting implementation, including institutional capacity and macroeconomic framework. However, given the Bank's propensity to reward paper products, we fear that the mechanics of the proposed appraisal methodology, performance monitoring systems and indicator tracking procedures, which constitute an important "tangible" among the Report's recommendations, will end up providing black-and-white analyses of problems which require shades-of-gray solutions. While preconceived "triggers" can be introduced relatively easily for noncompliance related to rules governing procurement or audit, they are not so useful for other constraints to successful project implementation--institutional problems, shortage of counterpart financing and weak project management. It is not a formula for triggering dialogue with the Borrower which is required, but viable solutions to the problem. Depending upon when during the project's implementation the problem occurs and what the surrounding circumstances are, different responses are called for.

11. For example, what do we do when the borrower wants to appoint what we consider to be a weak appointee to a post which is key to implementation of the project? Does the law of borrower ownership or the law of strong project leadership apply? What do we do about shortage of counterpart funds, about a sudden ministerial shuffle, about decisions that need to be taken before planting season if they are to be of use? All of these require judgment and consultation; and all the indicator tracking in the world, sanctioned by sector panels of experts, will not, we believe, provide the answers.

12. In addition, a principal justification of the proposed approach is to "weed out unjustifiably risky components before negotiations," implying that projects consist of mix and match components which can be assembled or disassembled without affecting the logic of one another. Moreover, where there is greatest need (and pay-off) is where there is often greatest risk; components which put immediate project objectives at risk may be those which lead to later sustainability; "riskier" countries require a greater number of corrective actions in a larger number of areas, thereby increasing risk further, than do less risky countries. We believe that risk needs to be more frontally acknowledged as part of the development business, and that a balance will need to be taken between risk taking and risk avoidance.

13. <u>Recommendations requiring amplification</u>. While the Report provides very detailed recommendations regarding additional Headquarters-based work for task managers, it provides relatively cursory recommendations in areas which have been observed to be critical for successful implementation. The first is the need for <u>broad-based participation by borrowers</u> and intended beneficiaries in identification, preparation and implementation of operations. Yet the Report provides only one paragraph on the subject and gives no guidance as to how to encourage this participation. It concludes only that borrower commitment should be ascertained through numerous paper products (FEPS, draft SAR, written comments by peer reviewers). What would be more helpful is advice on use of local workshops or task forces, beneficiary assessments, and reassurance that it is alright to let time elapse as the borrower reaches its understanding of and conclusions on the issues.

14. The second recommendation which is notably lean is the recommendation to <u>hold line managers accountable</u> for results in portfolio management. The Report states simply that managers must play an active role and ensure adequate resources. If the Task Force is prepared to recommend a quantitative approach as to how task managers are to address portfolio management, should it not also recommend the same approach to manager accountability? How about: ten unsatisfactory projects and the trigger mechanism gets released!

15. In brief, we recommend that the Task Force revisit the guiding principles which are supposed to underpin it recommendations and take greater consideration of staff and client views. The recommendations should focus less on introduction of new procedures to respond to weaknesses and more on: (a) freeing up resources to allow staff to spend more time on substantive portfolio management; and (b) building on the quality assurance areas which staff believe are useful, including team and beneficiary inputs at early stages.

Annex

Comments on Specific Analyses/Recommendations

1. Cofinancing (para 20). While cofinancing may decrease the probability of satisfactory performance at the individual project level, a coordinated approach to development of a particular sector, is generally superior to a piecemeal "territorial" approach by donors which has in the past led to contractictory and unsustainable development, for example, in agriculture. This also highlights the methodological problem of assessing sustainability at the individual project level.

2. Characteristics of successful projects (para 22). The Task Force found that "satisfactory" projects (using OED criteria) share certain characteristics in terms of invested and elapsed staff resources and time--namely less of both. While we favor shortening the resource investment in loan processing where possible, we wonder whether the positive correlation between satisfactory projects and resources is more related to the Region concerned, type of project, level of development, etc.

3. Use of suspension (Box 1 page 10). The Report appears to rebuke the limited use of suspension as an early response to poor performance. While we agree that we need to be more assertive in urging resolution of problems, immediate resort to suspension smacks of coercion and is contrary to the need for dialogue and borrower ownership of solutions.

4. Restructuring in connection with adjustment (para 64). We favor restructuring where needed, both in connection with adjustment and outside of adjustment as necessary. However, given the reappraisal, renegotiation and changes in legal documents required under restructuring, the cost of restructuring a considerable number of investment projects in conjunction with adjustment should not be underestimated. Let's be prepared to accept those costs.

5. Improving the quality of projects entering the portfolio (para. 65 and Annex Section C). The recommendations tend to focus on improving our documentation, some of which is likely to be at the expense of true quality ("the IEPS should explain the roles and responsibilities of..." "the MOP should include an expanded Schedule to include..."). We recommend that these recommendations be re-examined to weed out those which lead to another paper product for internal consumption.

6. Midterm Reviews (Annex A, page 11). Since more systematic use of midterm reviews is fairly recent and relatively few have been undertaken, we question to what extent the recommendation to limit their use is based on a reasonably large sample of borrowers. We agree that problems should be tackled as they occur, but it is unrealistic to expect a recalculation of all costs and benefits during every mission (another contributing factor to the near impossibility of maintaining the tracking system proposed in the Report). Moreover,

some facets of the project don't "come together" until a couple of years into implementation (e.g., policy study outcomes, pilot efforts, arrival of goods, etc.). We recommend that the Report not judge midterm reviews at this early stage.

7. Procurement (para. 66). We question whether a central procurement review committee will be a cost effective way to improve "consistency in the Bank's interpretations" of the procurement guidelines. We recommend that the report focus more on ways of improving countries' procurement capacity.

8. OED's Role (para. 67). We have no objections to the proposal for OED to focus more on impact evaluation and sustainability, bearing in mind the limitatations of linking impact and sustainability to any one project. In addition, the "project" phase and "operations" phase are not necessarily distinct phases. Furthermore, projects for which institutional development is a primary objective (which includes most operations in Africa) normally do not attain a "stand-alone" status after just one project. We therefore believe that evaluations should be clustered, rather than undertaken on a project-by-project basis, to better distill and disseminate lessons learnt. In addition, since impact evaluations would only be taken considerably after project completion in most cases, the evaluations will need to keep in perspective the fact that Bank practices may have changed since the evaluated projects were carried out. Finally , we are not convinced that greater focus of OED's work on evaluation would require additional resources. Nor do we believe that OED evaluation of the Bank's Annual Report on Portfolio Performance would yield much; let's keep OED's focus on evaluation of operations, not evaluation of our internal paper products.

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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: August 21, 1992 08:05pm

TO: Miguel E. Martinez (MIGUEL E. MARTINEZ)

FROM: Miguel Schloss, AFTIE (MIGUEL SCHLOSS)

EXT.: 34289

SUBJECT: **Wapenhans Task Force Report**

With reference to your EM dated August 5, 1992, the Technical Department has reviewed and discussed the above draft report in two meetings. The following are our main comments. More detailed observations are appended herewith.

Overall Reaction

Broadly speaking, we agree with the diagnosis of the report. It is difficult to see, however, how the recommendations will bring about the kinds of changes that have been recommended. As it stands, the report appears to sit on the fence on a number of key issues, although it identifies them very effectively. Much will turn on the manner and approach that will be devised to address the three pivotal areas mentioned below. Beyond that, the recommendations have been cast in such general terms that a serious effort is still needed to turn them into a workable and operational concept.

Comments on the Report's Thrust

A central, though not properly elaborated, premise of the report is that projects tend to be successful in successful countries and, conversely, problem projects are concentrated in poorly performing countries. The implication is that there are binding limits as to what we can do through project design and supervision, and that in fact a lot of resources go to waste by trying to make projects work in unfavorable conditions. Accordingly, we need to find non-rhetorical ways of "giving teeth" to the report's implicit intention of putting the burden of proof on proposals in non-performing countries, and the benefit of doubt in well-run places. By the same token, we would need to make an effort to start producing differentiated appraisal reports for different groups of countries--with accents reflecting the particular problems they face.

However, at the other end of the spectrum we would want to sound a word of caution against a radicalization of country assistance strategies whereby some countries with poor implementation records may be shut out of Bank operations. In cases of countries going through transition, the Bank should be ready to sustain its support to key agencies with relative good implementation performance and recognized overall institutional strengths. The alternative of rebuilding the institutions from a much weakened basis later would generally be much less effective. This argues for the Bank to be attentive to the need to preserve core institutional capabilities in countries in transition or in crisis. In this connection, by focusing on country portfolio restructuring, the report has lost sight of sector- and micro-dimensions that underlie many of the problems, and has in the process overlooked the budgetary implications of undertaking a serious portfolio review at the country level. These issues need to be properly addressed before proceeding with implementation.

The report might have benefited from some regional discussion of respective problems, solutions and initiatives or actions already being taken (such as the memoranda issued in the Africa Region, which should be sent to the Task Force). Similarly, it would be helpful if the report could define some of the important concepts used frequently in the text, such as sustainable benefits, sustainable development impact, accountability, portfolio performance, acceptable performance, borrower commitment, success rate, satisfactory rating, sustainability of projects, full development, etc. When and under what conditions can a project be considered successful? What are the necessary conditions for sustainability of projects?

By the same token, the paper does not sufficiently recognize the need to pay more attention to understanding the process of policy reform. Successive ARIS and Annual Reviews have noted the fact that the objective of projects in most sectors have been broadened to deal with key sector policy issues. In many countries policy reform is the key to sustainable improvements in sector performance. Although we have had limited success in policy reform, we cannot walk away from it. A recurrent difficulty arises from the fact that the timing of the project cycle rarely corresponds to the pace of reform which typically cannot proceed with a fixed timetable. Improvements should be sought through more systematic attention to the process of policy reform and its facilitation: assessing whether needed leadership is available, devising specific actions to identify constituencies and engage them in the definition of changes, etc. The objective is to form a realistic assessment of how policy reform will be conducted and how it can best be supported by successive operations.

It is refreshing to see the concept of "implementability" placed squarely in the context of project appraisal. It does put the whole issue of project evaluation in a different light. The concept suggests that appraisers should value projects along with due consideration for their feasibility or costs of getting them implemented. The question of course is: How does one assess or measure implementability? Should one just add to project costs the additional "consultant" safety net to ensure that enough manpower is available to guide the project safely into sound implementation or should we be prepared to make the hard appraisal decision that certain projects, given the institutional environment, may just plainly be "unimplementable". As we begin to practice our "implementation culture" in the region, we must ponder on this issue. The suggestion might be advanced that a rating of implementability be required as part of appraisal.

In this connection, it should be recognized that the proposal of a "results oriented evaluation and rating methodology" (Annex C) borders the sophomoric, and thus should be regarded as illustrative of the Bank's intention to measure project impact, rather than an implementable blueprint.

We need to mount a serious effort to develop practical indicators that are relevant, of use to implementing agencies, and reasonably feasible to be collected. To be borrower friendly, and meet the above criteria, they have to rely on physical and financial milestones, rather than abstract and speculative indicators.

The Three Pivotal Areas

Of all the points covered in the report, much of the impact will hang on the following areas.

(i) Bank Culture - Broadly speaking, introducing a fundamental change in "organizational culture" as proposed is not the kind of process that can be solely handled through country performance management arrangements, enhancements of project analysis and appraisal methodologies, etc. A pivotal omission from the report is the responsibility of management and how many of the sectoral and implementation problems stem from a preoccupation with a false and shallow concept of the professional manager--an individual having no special expertise in any particular field or technology, who nevertheless can step into an unfamiliar sectoral setting and run it successfully through application of guidelines, economic criteria, and CAM or client/market-driven strategy. Neither technical nor sector experience or even hands-on technological expertise count for very much. The report seems to perpetuate these notions by concentrating its recommendations on questions of process rather than people. We should, however, revamp our criteria for selecting retaining and promoting managers, at all levels, and put first and foremost experience, technical understanding, and, quality of judgment. (This equally applies to selection of Task Managers who should "know the business", and be able to influence actions through first-hand experience). All else is subsidiary, and should be treated as differentiating criteria for selecting among equally good people. More specifically, the Bank can provide conditions for awareness and/or behavior modification, but it is managerial and skill mix changes, combined with results-focused evaluation of staff, which will make for the Report's successful implementation.

(ii) Commitment - Attention to local commitment and ownership is emphasized by the TF-this is an important aspect of borrower responsibility. Does the TF have some suggestions on how staff might increase commitment, ownership and accountability of the Borrower? Stakeholder analysis and meetings during preparation (often repeated because of changes in key officials and Ministers) as well as Project Launch Workshops, mid-term reviews and Country Implementation Reviews are now becoming routine relationships. Beyond that, the TD has prototyped, with remarkably positive results, a few efforts by developing project concepts, by putting key stakeholders in the pilot's seat, so to speak -- thereby responding to their specific needs. The mainstreaming of these initiatives remains however rather limited, given the present instruments the Bank uses for its operational involvement in countries. In addition, implementation depends on competent people, which all too often are not associated with Bank projects. However, the Bank will rarely, if ever, insist on changing the people involved. Accordingly, a serious effort needs to be mounted to: (i) re-thinking the basics of our business in the light of the changes taking place worldwide, with particular attention to the areas noted in the Conclusions/Recommendations section of the attachment; (ii) relying less on detailed planning, whether at the state or enterprise level, and more on market signals and competition to provide the discipline that covenants alone cannot provide; (iii) emphasizing quality of management, and a more assertive Bank posture on this count in lending conditionality; and (iv) sharpening the distinctions between the Governments and the beneficiaries, and their respective commitments.

(iii) The Bank's System - At the heart of many of the problems identified by the TF is: (i) an excessive faith in a system of decision-making that consist of sending issues up the managerial hierarchy by progressively distilling them into short and easy (quite often quantifiable) terms; and (ii) an excessive emphasis on the banking, as against the development aspect of the Bank's mandate. The former results in senior management levels becoming progressively isolated from the the realities, in sharp contrast with the more deliberate and fine-grinding decision-making apparatus of successful enterprises. The latter, results in a quest for lending, whereby annual lending and report targets, and associated rigid timetables, rather than evaluation of results and performance, drive CAM and associated dollar allocation and the Bank's ensuing emphasis on upstream rather than downstream attention. The TF Report is concerned about complexity, but the Bank does also put emphasis on the size of the operation. The Bank has a tendency to support large projects with high loan/credit amounts. If we want to encourage simple projects, then we must be prepared to accept a larger number of operations with smaller lending amounts. Delegation of lending decisions below certain thresholds to the Regions would help in this regard to improve processing time. Countries are often fearful that they may not get a Board lending slot for the sector for another five years or more. The report is concerned about lengthy implementation periods, as are most of us - and the consistency between grace and execution periods needs to be reconsidered in many revenue earning projects in SSA.

We do not need to await management's position on the TF's report, and the Region could start in a number of areas, including the introduction of sharper thresholds at loan entry, greater emphasis on implementation and sustainability to permit disbursement to catch up with lending commitments, better selection of Task Managers and provision of administrative support for them, a proper review of Trust Fund usage to improve synchronization with the needs of many projects.

cc:
AFTDMT

ATTACHMENT

Draft Report On Portfolio Management
(iWapenhans Task Force)

Ch I. <u>Context</u>

p.1 para 2 - In the last sentence, mention of a return to diagnostic sector work prior to project preparation should be emphasized.

p.1 para 3 - While there is universal acceptance that the word "supervision" is inappropriate as something that the Bank does to the Borrower, the word "management" is not much better, as it is something expected of the Borrower by the Bank. A more appropriate word is project or portfolio performance "review".

Ch II. <u>The Condition of the Portfolio</u>

p.3 para 6 - Makes reference to a meeting with development agencies, but there is no report of the meeting. The diversity of donor procedures is a very real complicating factor for borrowers. Efforts are being made to condense and rationalize some of these procedures in the 24 SPA countries in Africa through periodic donor meetings. More needs to be done in this area.

p.3 para 9 - Notwithstanding that there is a worsening trend in portfolio performance, much of it in the last three years is due to (i) a much more realistic assessment being made of projects by country teams, and, (ii) the emerging struggle for democracy and pluralism which has destabilized many African countries. Neither of these points has been mentioned.

p.4 para 10- Environmental portfolio projects at 30% have the worst performance. This is thought to be related to the current "frenzy" of developing environmental lending without having clear strategies; hence the need for very solid sector work, particularly in-country NEAPs with Bank backstopping (re OD 4.02). This would require substantial resources which the report should highlight.

Ch. III <u>The Causes of Declining Portfolio Performance</u>

p.7 para 19- The report outlines four common types of problems: institutional constraints, shortages of counterpart funding, poor project management, and inadequate procurement practices. These are perennial problems plaguing projects in most sectors. These problems were highlighted in early 1970s and in subsequent years. Why have we, together with the recipient countries, failed to resolve these problems? More specifically, how can each of these problems be tackled more effectively? Shouldn't we be giving priority to developing institutions and country capacity to implementing investment programs more efficiently? Can we help countries to develop their institutions? What are our comparative advantages and what lessons can we draw from our experience to date? We need to build and develop our human resources to provide quality advice and support to borrowers implementing projects. Without such in-house capacity the Bank will be hard pressed to manage its portfolio of ongoing projects effectively.

p.8 para 21- According to the Task Force, complex projects make implementation difficult. The report focuses on the problem but does not provide any solutions. What constitutes a simple project? How can the staff design simple projects while adhering to the Bank's key development objectives: poverty alleviation, privatization, women in development, and environmental management. To achieve this goal, we need to be selective in supporting various development objectives. The problem is not only one of complexity but also the size of the operation as well. The Bank has a tendency to support large projects with high loan credit amounts. If we want to encourage simple projects, then we must be prepared to accept a larger number of operations with smaller lending amounts. Delegation of lending decisions below certain thresholds to the Regions would help in this regard.

Attention to local commitment and ownership is emphasized by the TF - this is an important aspect of borrower responsibility. Does the TF have some suggestions on how staff might increase commitment, ownership and accountability of the Borrower? Stakeholder analysis and meetings during preparation (often repeated because of changes in key officials and Ministers) as well as Project Launch Workshops, mid term reviews and Country Implementation Reviews are now becoming routine relationships. Associated with this aspect is the fudging in the report of the difference between the Government as borrower and the true beneficiaries share-holders who will really implement investment loans. The report is highly superficial on the terribly difficult issue of binding "ownership" by the beneficiaries. Ultimately, implementation depends on competent people and many of the people that the Bank deals with are not competent - but the Bank will rarely, if ever, insist on changing the people involved. The first issue that investors look at is the quality of management and if they are not satisfied, they change the people or do not invest - will/should the Bank be more assertive in the future?

p.9 para 24- Results show that the project implementation takes longer than the target set at appraisal, averaging 7 years. In some sectors, such as agriculture, the implementation period is longer. These results have been consistent during the last two decades, yet we continue to be ambitious in determining the implementation period of projects. Although we should take into account the country's capacity and commitment, the Bank should be flexible in considering implementation periods longer than the norm (4 - 5 years). What would the financial implications be for the borrowers if the Bank were to consider longer implementation periods ranging from 5 to 8 years? Would project performance improve substantially if more time were allocated to complete a project? Furthermore, the Bank should re-examine grace periods to make them more consistent with implementation periods.

Ch IV. The Bank's Role in Support of Portfolio Performance

p.15 para 40 A singular omission from this paragraph (and the report) is the responsibility of management and how many of the sectoral and implementation problems stem from a preoccupation with a false and shallow concept of the professional manager--an individual having no special expertise in any particular field or technology, who nevertheless can step into an unfamiliar sectoral setting and run it successfully through application of guidelines, economic criteria, and CAM or client/market-driven strategy. Neither technical nor sector experience or even hands-on technological expertise count for very much. At one level of course, this doctrine helps to salve the conscience of those who lack them. At another more disturbing level, it encourages the faithful to make decisions about fairly technical matters simply as if they were something else--no matter how comfortable one is--is deception. The report seems to perpetuate these notions by concentrating its recommendations on questions of process rather than people. We should, however, revamp our criteria for selecting and retaining managers, especially at the SOD level and put first and foremost experience, technical understanding, quality of judgment. All else is subsidiary, and should be treated as differentiating criteria for selecting among equally good people.

p.17 para 45 Recognizing the skill constraints in the Bank's work force, the Africa Region created AFTOS in 1991 to provide professional assistance to staff in the areas of procurement and accounting and auditing.

p.18 para 48 The lack of experienced financial analysts since the 1987 reorganization is well known. Those that are available are invariably deployed on activities for which they were not recruited. There is felt to be a strong correlation, not discussed in the report, between the lack/misuse of financial professionals and deteriorating compliance with financial covenants (ref. para 23). A Bankwide skill mix analysis (para 49) and changed recruitment focus (Annex A p.18) would be welcomed.

p.18 para 51 The recommendation to strengthen Field Offices has received a very mixed reaction as it could blur responsibilities between F.O.s and Task Managers. It needs very careful evaluation and resource analysis before being processed further. However, cross sectoral professional strengthening for procurement and accounting/auditing monitoring, as has been done in RMS Lagos, is supported.

p.20 para 56 The apparent summary dismissal of "whether (non complied) covenants should have been included in the first place "is akin to letting out the baby with the bath water. There are a whole series of problems associated with Borrower and Bank staff understanding and training, lack of Bank staff (financial) skills, appropriateness of covenants, etc. that need to be explored. In the meanwhile, the assertion that "non compliance undermines the Bank's credibility" is very true and embarrassing.

p.21 para 59 Some thoughts on how to exploit the implementation experience might be helpful.

Ch V. <u>Conclusions and Principal Recommendations</u>

p.21 para 61 The report outlines six important recommendations. The Task Force considers all these recommendations to be important. The recommendations would be more meaningful if there were some order of priority. What are the two most important recommendations on which the Bank should act quickly? We would suggest that the Bank should focus on items C and F concerning the quality of projects entering the portfolio and creating a supportive internal environment. These two areas will allow the Bank to concentrate on the upstream phase of the project cycle, quality control, incentives, and resources. The Bank needs to assess the "filters" created to review projects since reorganization. Are the current set-up practices adequate? Is too much responsibility placed on the manager of SOD to ensure the quality and suitability of projects? How effective are the regional loan committees in screening projects and ensuring that past lessons are reflected in the project design? What role does the TF envisage for the Technical Departments as none is spelt out?

p.22 para 63 — The proposed CPPRs build on what has already been started in this Region as CIRs and country team emphasis; this is supported, however, greater emphasis should be given to the Borrower's role. Similarly, the Region's FY91 ARIS comes close to the PAPPR now proposed to replace the ARIS.

p.23 para 64 — It would be helpful to have some idea of the flexibility that freed-up funds from restructuring the investment portfolio might have. Would we have to go back to the Board for approval? Why not let the Regions have absolute discretion within specified thresholds or on a revolving fund basis?

p.24 par 65 — We agree that the appraisal and the SAR should give greater attention to implementability. Further we would suggest that the SAR should embrace an implementation manual enabling both new Task Managers and Borrower's staff to fully understand how to implement the projects as well as making the performance indicators more explicit. While agreeing with the setting up of a data bank (p.25), we would question its locus in the Legal Department when consistency is being sought across country programs. Setting up such a data bank is a complex affair, especially if it is to be used for monitoring implementation, as we have found out this year, with the setting up of the Regional Financial Covenants Database in AFTOS.

p.25 para 66 — Some clarification should be made of how and to what extent the Bank should rely on "others to verify and certify aspects of compliance." On progress tracking (para 26 and Annex C p.10), we would welcome greater flexibility in parts of the Form 590 to accommodate the unique sectoral aspects such as performance criteria/milestones - a T.A. project is quite different from an agricultural or infrastructure one. Similarly some small changes are needed to the Form 590 to facilitate their use for monitoring the large number of Bank executed and UNDP or Trust Fund financed activities. While we agree with the mandatory use of bid documents (p. 26) we see no advantage in having yet another layer in the procurement process, through the proposed Bank Operations Procurement Committee. The majority of problems are not concerned with contract size, Task Managers themselves need to be better educated and trained in procurement along with our Borrowers. The proposed solution does not tackle the fundamental problem.

p.28 para 68

We agree entirely with the view of the Task Force that "the changes will not work properly unless the Bank is pervaded with the necessary values and incentives." No aspect of the report has attracted greater skepticism than this statement. At one end of the scale are those who feel that this report may go the way of many other internal review reports - unimplemented because of a lack of management commitment to change. At the other end is excitement at the prospect of change in the balance of rewards and incentives away from the "slick" "sexy", "innovative" report writers to those who can solidly bring about development change through sound implementation of projects and support the shift in resources that this implies. Lending targets will need to be set aside for about 3 years to enable borrower and Bank staff capacity to be built up to meet the challenges of the report.

p.29 para 71

This paper correctly stresses the need for increased country focus in public investment reviews (N.B. We thought the process had moved forward so that through PERRs we cover not just investment but recurrent expenditures and revenues). In this context, it would have been important to stress for better linkages between PERRs and sector-funding requirements. The post-ARIS review conducted in March 1992, focused on the issues of road maintenance funding shows that PERRs have so far been of little help in ensuring that agreed funding commitments are met. The problem is not that funding is insufficient but that whatever level of funding gets allocated in PERRs and the coordination with sectoral programs will require more attention. It is particularly important for the Africa Region which has been said to "control the cash flow" in countries under adjustment.

p.29 (new 72)

In light of continuing change in the Bank's business, particularly stemming from the transfer of economic activity from public sectors (with which the Bank normally works) to the private sector, the Bank should, among other things, consider:
(i) new instruments and approaches to work more directly with the private sector, including support systems for them, guarantee (as against lending) arrangements to help mobilize know-how and financial resources to productive activities, strengthening of stakeholders for social sector activities, etc.;
(ii) revamp process arrangements to incorporate beneficiaries

(as against borrowers) as an integral part of project preparation, monitoring and evaluation;
(iii) develop better and more appropriate definitions of how and where to draw the line between advice and problem-solving, to avoid "taking over" project formulation, and shifting emphasis from upstream to execution phases;
(iv) sharpen attention on management of projects, to establish clear accountabilities, and insist wherever necessary on changes of people to assure competent execution of initiatives;
(v) shift emphasis towards institutional, regulatory and associated actions - as against legal covenants that are poor substitutes for incentives and the self-discipline stemming from competition and/or contestability.

<u>The Annexes</u>

ANNEX C

While there is support for the introduction of results oriented evaluation and performance indices the discussion on the Country Portfolio index and the Development Impact Index is not convincing and needs much more work and discussion before promulgation.

Similarly, there are also serious reservations about the proposed "results-oriented evaluation and rating methodology". Some TD Divisions are already well-advanced in their work on performance indicators being undertaken as part of the follow-up to the FY92 ARIS report; this has raised a number of issues which appear to be in conflict with the Task Force recommendations. First we believe that the monitoring system (particularly when it relies on borrowers to provide most of the data) must produce information relevant to managers in our executing agencies. We cannot expect them to invest time and effort collecting information which they cannot which they cannot be persuaded is relevant to the discharge of their responsibilities. Second, the indicators need to be generic sector indicators, rather than project-specific ones. In other words, we may define 15 sectoral indicators, of which 5 may relate specifically to the impact of a particular project, while the remaining 10 will what is happening to the sector as a whole. Third, the indicators cannot be confined to narrow economic measures of performance (e.g., EIRRs). They need to be broad enough to capture what is happening to community welfare as a whole. Finally, once a start is made to collect performance indicators, something has to be done about them. This implies establishment of a series of regional data bases and analysis of the data entered into them. There is no point in collecting data for its own sake. This has significant resource implications.

Our suggestion is to allow the various sectors to first define their own performance indicators. These should then be discussed with borrowers to ensure that the indicators are considered relevant and can be feasibly collected within existing resource constraints. The process of collection could then start as part of the regular 590 process and the Bank should set up its regional (fully funded) data bases to record the data. In due course (perhaps once every six months), the data could then be analyzed to identify trends, do cross-country comparisons, etc.

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)
CC:	Stephen Denning	(STEPHEN DENNING)
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CC:	Pierre Landell-Mills	(PIERRE LANDELL-MILLS)
CC:	Max Pulgar-Vidal	(MAX PULGAR-VIDAL)
CC:	Africa ISC Files	(AFRICA ISC FILES)

FROM:WB PMDSD 202 477 1833   TO:WB ORG 202-477-1276   SEP 14, 1992 2:31PM #839 P.03

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

RECEIVED
SASVP Sep 10

DATE: September 4, 1992

TO: Messrs. Gautam S. Kaji (EAPVP) and D. Joseph Wood (SASVP)

FROM: Daniel Ritchie (ASTDR) DR

EXTENSION: 81312

SUBJECT: Portfolio Management Task Force Report

1. The Wapenhans Task Force Report has addressed a very serious issue for the Bank. While its prescriptions may be somewhat too modest and process-oriented, I think we can use this opportunity to put forward substantive proposals of our own to address the problem of portfolio quality.

2. The attached matrix summarizes the reactions of Asia TD staff to the recommendations of the Report. Many suggest changes well beyond those proposed. They recognize that building the competence and capacity of borrowers is the major challenge for improving project implementation performance.

3. If we accept that project preparation and execution is primarily the borrower's responsibility, we need to listen to the borrower's perspective on how they believe we can help build capacity and conditions for project success. From the statements of borrowers summarized in the Task Force Report (Annex B), three areas stand out where I believe we can make substantive improvements: collaboration, simplicity, technical quality.

Collaboration

4. We all accept at the conceptual level the Task Force's exhortation that borrower "ownership" and "commitment" are essential to project success. But what are the practical consequences of this assertion? Where the borrower lacks capacity, what should be the Bank's role in project preparation and implementation? How is "commitment" and "ownership" demonstrated? How do we test continued commitment as recommended by the Task Force? I can think of several practical steps to build and sustain commitment.

(a) Joint Program Development. The debate about commitment usually revolves around the Bank "gaining" or "ensuring" Borrower ownership of projects, while, in reality, it should be borrowers gaining our commitment to their programs and projects. I would be surprised if more than 10 percent of the projects in the Bank's three-year lending program were proposed by borrowers. And yet, in China, where the lending program is worked out jointly, the portfolio performance is among the best in the Bank. Most Asian countries have articulated development strategies and investment programs. Why can't the Bank adopt an approach to business planning, lending program design and country strategies in greater collaboration with the borrower? We might need to accept some projects which are of lower priority to us (but not to the client), less elegant technically (but still feasible) and less laden with policy conditionality (but still more than hardware). It would mean we react and respond rather than always lead and control. The consequences would be to support, rather than to define, a country's development agenda. If we cannot do this in Asia, where governments are generally activist and development oriented, where can it be done? It does not imply that we will do whatever the borrower wants, for the Bank's role as "change agent" will often create tensions, but the resulting debate should generate a program mutually acceptable to the Bank and the borrower.

(b) Expanded methodology of participatory development. At the micro-level, "ownership" and " commitment" by beneficiaries in project design and implementation are no less important to sustainable development. Evidence is growing that people affected by projects are more likely to support them if they have been consulted in their design. The Bank has started a modest (20 project) learning effort, but we need to expand participatory development methodology into project preparation more generally. The Social Development Unit in the Asia TD will make this a priority activity.

(c) Build local capacity. The capacity of borrowing countries to prepare (and implement) projects has declined in some areas, particularly in South Asia. EDI no longer teaches project analysis; the Bank's efforts to strengthen local civil services and consulting industries have been ineffective; Trust Funds have proliferated to finance international consultants who prepare projects for the borrowers--the latest form of "dependency allowance." If the Bank is serious about building ownership, its major responsibility should be to build or rebuild domestic project preparation and implementation capacity. The new Institutional Development Fund (IDF) ought to be used to finance programs for improving public and private sector project analysis and design capability.

(d) Projects vs. Programs. Finally, the closer the fit between a Bank-financed effort and a government's normal, on-going responsibilities (especially in the programmatic areas like the social sectors), the greater the likelihood of sustainability and ownership. Discrete, self-contained "projects" often require major organizational and behavioral changes; they can create an enclave of development privilege which is resented and obstructed. Supporting or enhancing a program, or wholesaling the Bank's resources through existing intermediaries, can often be more effective than building new institutions from the beginning.

Simplicity

5. Borrowers say our projects are often too complicated and beyond their capability. They are overwhelmed by our documentation and demands for data. Procurement and financial reporting requirements are burdensome. Too little attention is paid to implementation planning. Legal requirements may promote the project's passage through our bureaucracy at the cost of realism or even success on-the-ground.

6. Several Task Force recommendations for improving process are sensible--standardized bidding documents, simpler co-financing, better implementation planning, stronger risk assessments. But two basic underlying questions have not been asked: (a) do our internal processes and control requirements greatly influence project outcomes; and (b) even if these processes and controls contribute to successful projects are they too complicated and too rigid in a world where flexibility and responsiveness are keys to competitiveness? If our own Task Managers cannot keep track of the 500-600 tasks they are supposed to perform for each investment operation (according to our Operational Directives), can we expect our clients to understand Bank policy? If there is "gross" non-compliance with covenants, especially financial reporting, are our requirements unreasonable and lead to less accountability? If we spend one-third of our scarce supervision time on procurement, are we satisfied our procurement principles are realistic? If one-third of our current projects need to be formally restructured or canceled, did we build adequate flexibility into the original design?

7. Borrowers and Task Managers alike feel overwhelmed by our project requirements and frustrated that our agenda routinely exceeds our capacity to deliver. Improving the quality of the portfolio ultimately depends, in part, on ensuring that projects fit the implementation capacity of our clients, which in most cases means to simplify--our projects and our processes.

8. Simplifying projects. Project complexity is virtually inevitable in a very complex world, coupled with internal constraints of limited Board slots, net resource transfer considerations, multiple objectives (so much to do, so little time), decentralized clients, increased sensitivities to non-economic considerations, etc. Straightforward projects are criticized (where is the policy content?); simplicity is sometimes mistaken for simple-mindedness and inconsequence. The major change in attitude and incentives required for portfolio improvement is not so much on rewards for implementation performance but for ensuring that projects are designed keeping in mind the implementation capacity of our borrowers. Perhaps SOAs should develop a "complexity assessment" index, measuring the number of project components, cofinancing required, organizational and policy changes required, legal conditions, etc.) Projects which are elegant in their simplicity and realism should be praised, while those with a high complexity index should be re-examined, particularly for countries where the current portfolio is not performing well.

9. Simplifying process. While recognizing that internal process reform will have only limited impact on project success, there is parallel need to bring process under control. The project cycle has become a monster. ODs have become too complicated, too numerous, too burdensome to be useful. The project cycle has been elongated, and new requirements being added which increase cost and time (even if they add value, such as good EAs). Little wonder that the Bank is being criticized for not following its own rules.

10. We need a major simplification process. Just as SAS is proposing a "load shedding" effort for Task Managers, we ought to initiate an Operations-wide program to simplify our major business processes, especially financing of preparation, project appraisal, financial reporting and ICB. It cannot be an effort at the margin; it cannot be done only by Operational staff, since we only know what we know. We need a full-time team of insiders and outsiders who understand systems analysis and can look afresh at our major production processes, especially from the point of view of the client. We should not underestimate the complexity of simplification; such efforts often wind up making things even more complicated, but, a "business-as-usual" approach will not suffice when our costs are rising, quality declining, output stagnant and our staff say they can no longer cope.

Technical Quality

11. The third major issue mentioned by the borrowers is the declining quality of the Bank's appraisal process. "Quality at entry" is crucial for portfolio success and yet borrowers and some cofinancers perceive a deterioration in the Bank's professionalism and objectivity in project appraisal. The quality issue has three dimensions: staff quality, resource availability and methodology. Are we doing enough of the right thing with the right people? Several Task Force conclusions and recommendations on these points don't ring true, and warrant much closer analysis: specifically that the Bank is deficient in some skills (financial analysts, institution specialists) but not in the traditional hard technical skills (engineers, for example); that project problems are not technical; and, that resources are on the whole adequate for the Bank to do its basic business.

12. We believe a further review of the current skill mix in the Bank would reveal deficiencies in the numbers and experience of technical staff. An increasing proportion of task managers are economists and other staff whose basic professional experience has been limited to the Bank. We see the need for more hard skilled professionals in water resource management, industrial pollution control, forestry, waste management as well as in institutional development, social development and financial analysis.

13. We also believe that technical staff continue to be located in the wrong place; SOD's are often too small to be effective; TD's are spread too thin; OSP is too remote. There is a consensus among technical staff that the Bank's fragmentation of technicians is dysfunctional and contributes in inadequate project implementation support. (There is no consensus on the solution).

14. Finally, we believe that resources are inadequate to fulfill the obligations placed on Task Managers and staff for project development and implementation. We are preoccupied with cost, yet compared to most commercial or merchant banks our costs are exceptionally low (less than 0.5 percent of assets). Simplification of process and use of information technology will improve efficiency, but the fundamental problem remains that operational staff are often stretched beyond their capacity to deliver the quality output our clients deserve. Supervision missions

remain the residual tasks, fitted in among other missions. If 70 percent of SPN time is spent in headquarters, each project gets only about 4 s/w of field supervision per year, almost none of which will probably be site visits. A decade ago, two thirds of all staff time on a project was spent after appraisal; today it is less than 50 percent. It is not enough to focus more management attention on implementation if resources do not follow.

Summary

15. The Wapenhans Task Force correctly says that implementation success is fundamentally the responsibility of the borrower and comes from results on-the-ground, but its recommendations focus on the responsibilities of the Bank in-the-office. I hope we can use the occasion of this important report to develop a borrower-oriented agenda along the lines suggested in this note.

cc: TD Management Team
TD Directors
EAP/SAS Country Directors
Messrs. El Maaroufi, Drysdale

DRitchie:ns

Review of Recom   ations of Draft Report on Portfolio Management

Recommendation	Reactions	Proposed Next Step
1. Introduce concept of country port. perf. management linked to Bank's core business plan.	a) Too focused on Bank internal processes, procedures and objective of this link is not made explicit..	a) Develop mechanism to encourage borrowers to better define their priority investment/ reform programs around which country business plans would be formulated, taking into account portfolio performance.
	b) CPPR only useful if provides candid assessment of problems and leads to recommendations that are actionable. CCPR that has Board, rather than borrower, as intended audience will have limited use.	b) CCPR must be discussed and appropriate action programs, as well as lending program adjustments agreed with borrowers.
	c) Move to establish quantitative performance indices not supported.	c) Agree with borrower during project preparation on qualitative and quantitative indicators that will measure project progress and sustainability prospects and include these in periodic reporting requirements as well as standard feature of Form 590.
2. Provide for country portfolio restruct. in adjusting countries, including reallocation of undisb. balances of loans/credits.	Implies lack of priority for some development expenditures under-way, most probably as a result of Bank's implementing a lending program that is not necessarily the Government's lending program. Also, may reward borrowers for inefficient implementation. Better to cancel projects that are unlikely to achieve their development objectives and begin appraisal of new operations.	Undertake detailed public expenditure reviews starting with countries with most serious portfolio problems. Would include assessment of implications of review on Bank's outstanding portfolio and current 5-year lending program.
3. Improve quality of projects entering portfolio		
a) Foster Borrower commitment and beneficiary participation in project identification and preparation.	a) Much too general "motherhood" type of recommendation. Not question of getting borrower to buy into our proposals, but rather, how to develop borrower capacity to define its own development priorities and identify and prepare reform/investment program	Where borrower capacity too weak to engage in these activities, focus of Bank assistance should be on upgrading this capacity (through EDI, long-term TA, etc.) and helping meet basic needs. Implies very limited agenda with very few, if any complex projects. Where borrower capacity does exist, definition of Bank's lending and ESW program should be driven by borrower. May also imply reduced program over short term as borrowers take on this responsibility.

FROM:WB PMDSD 202 477 1833 TO:WB ORG 202-477-1276 SEP 14, 1992 2:33PM #839 P.08

b) Bank should give more attention to risks/sensitivity analysis and to implementability.	b) Identifying key variables for project success (see 1c above) step in right direction.	Suggest peer review process be supplemented by mandatory one day in-house review of project following preappraisal mission that would discuss alternative technical solutions and implementation options. Review process would assist TM in finalizing project design, including recommended procurement, audit processes and needed conditionalities.
		Bank appraisal and subsequent supervision should focus more explicitly on project's ability to repay loan, rather than more obscure future economic benefits. Even social projects could be encouraged to build internal support for the maintenance of benefits by incorporating an increasing proportion of costs into agency budgets.
		Much greater attention/resources need to be devoted to reviewing the adequacy of a project's organizational arrangements prior to project initiation.
		Staffing of project preparation and appraisal missions deserves some level of care as provided in peer review process.
	Recommendation to avoid cofinancing makes little sense, particularly for sectors (i.e. power) where financing requirements enormous.	Drop this recommendation.
	Issue of project complexity needs to be more directly raised and addressed. Incentives to staff perceived to reward complexity over simplicity.	Recommendations to simplify projects need to be developed, implemented and monitored, particularly in countries where implementation capacity is weak and/or the quality of the portfolio under implementation is poor.
c) Loan documents should reflect priorities and implementation needs.		
- executing agencies should be represented at negotiations	Agreed. Possible implication that should be recognized is that more negotiations should be done in field.	

- Critical substantive covenants should be distinguished from admin. ones.	This is already prescribed. What more can be done at project level? Does recommendation imply that Legal Dept. will be the arbitrator for what goes in and what doesn't? Creation of covenant database needs more thought. What is its purpose, given that compliance will be highly country specific issue. Maintenance of this base will be time-consuming and costly.	Project seminars proposed in 3(b) above would alert TM to ill-conceived covenants.
- Loan documents should include implementation plans, schedules, measures and progress reporting arrangements	Much too general to be useful. Need very specific guidance.	Train professional staff in use of computerized project management systems and require that such systems be applied in our operations. For projects which must be complex, professional MIS expertise should be brought to bear early in the project appraisal process.
4. Define Bank's role in and improve its practices of project performance management		
- Ensure core supervision responsibilities performed end-use supervision enforce-ment of procurement and disb. requirements, monitor-ing compliance with loan agreement); limit extended TA and assumption of managerial role.	With exception of compliance with loan covenants, all core actions internally focused with limited impact on long-term sustainability. No advice provided on how to draw fine line between proper supervision role and assuming substantive implementation assistance role.	Provide guidance on how to design projects so that "core supervision requirements" are handled as part of clients monitoring system so that Bank staff may focus creatively on practical and unforeseen problems that would prevent project from achieving its objectives. Task Force report currently neglects the important contribution supervision can make as a vehicle for institutional strengthening.
- Progress tracking and compliance.	Much more intensive effort is required than recommendation that "reporting requirements should be agreed at negotiations".	The introduction of project management system needs much greater institutional support. (See comments under 3(c) above regarding implementation plans, etc.)
- Procurement: Standard bid documents, development of incentives/penalties for timely/tracking completion, centralized review of large contracts.	Procurement occupies far too much time in project supervision.	If we are certain that Bank does indeed possess world's best procurement system we should mandate use of standard Bank documents with the provision that during loan negotiations, borrower can take exception to particular clauses which will then be discussed and resolved as part of negotiation process.
- Verification and Certification: greater use of third parties	Agree with need to establish adequate independent auditing capacity	Need institutional effort to ensure that auditing procedures that are mandated by Bank make sense.

5. OED Credibility	OED tends to perform operations audits rather than in-depth evaluation of projects and to focus on implementation rather than real world benefits. Major reorientation required.	
6. Create an internal environment supportive of better portfolio management.		
- Recognition and rewards.	Very little substantive guidance provided. Essentially exhortative recommendation.	Change incentives to encourage much greater staff continuity and to ensure that our best staff don't solely work on our best performing countries.
	Inadequate budget (Admin. costs of 0.35%!) plus management's higher priority on competing uses for the budget, places major constraints on supervision	Provide sufficient budget for supervision. Currently stand-alone supervision missions rarely take place.
- Accountability of Country Directors.	How will this be achieved, particularly as poor performance not always related to Bank's effort?	
- Skills enhancement.	Orientation in portfolio management good idea.	
	The case for more financial and general management staff vs. technical experts is not adequately made.	Drop this recommendation.
	How would proficiency testing be accomplished? Having tests of the Bank's rules is unlikely to capture more important issues of judgement, thoroughness, integrity and flexibility.	Drop this recommendation.
- Field Office.	No problem with recommendations as currently presented, although general tone is a bit negative.	
- Information Management	As indicated several times already, this recommendation is not sufficiently developed to be useful.	See remarks under 3(c) above regarding implementation plans, etc.

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

FACSIMILE TRANSMISSION

DATE : September 4, 1992

TO : Mr. Wapenhans, Vice President & Special Adviser

FROM : Mr. Samir Bhatia, Division Chief, PBD

EXT. : 37065

SUBJECT : Support Task Force Report

Willi,

The enclosed comments may be of some interest to you.

Regards,

Samir

Attachment

Total number of pages including cover sheet: ___.

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

J. Y.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: August 25, 1992

TO: Mr. Gershon Feder, Division Chief, AGRAP

FROM: Jacob Yaron, Senior Rural Finance Adviser, AGRAP

EXTENSION: 30416

SUBJECT: Effective Implementation: Key to Development Impact -- Draft Report

1. I have reviewed the above report, which addresses a crucial issue: the continuous deterioration of the quality of the Bank portfolio. While this is a long overdue issue, the report adequately centers on the reasons for the declining quality of Bank lending and proposes drastic changes to be introduced in the Bank's pattern of operations, which are aimed at ameliorating the poor state of affairs. In my review of the report, I focused mainly on the following issues: (i) general assessment of the report, (ii) the rating of project's performance, (iii) sustainability (particularly in DFC lending), (iv) the report's recommendation on extensive use of monitorable key performance indicators, and (v) AGR's suggested key performance indicators for DFC lending and credit programs to targeted groups. An annex, which summarizes recent AGR contributions to the dissemination of key performance indicators is attached.

I. General Assessment of the Report

2. The report is thoughtfully and comprehensively written, and addresses many of the major deficiencies associated with the present Bank operations and the declining quality of its loan portfolio; it skillfully and boldly diagnoses the reasons for this deterioration and rightly focuses on the Bank's internal reward regime, i.e., staff recognition and promotion as the prime reason for lending targets becoming the prime objective at the expense of adequate assessment of project risks and developmental impact. I agree with the report's five conclusions as detailed on page ii, though I believe it would be only fair to indicate that the first three appear somewhat trivial. The recommendations seem to be highly appropriate, instrumental, and timely, while the recommendation (page iv) that calls for creating an utterly different internal environment supportive of better portfolio management is centered on the most crucial issue—without changing the Bank's internal environment, little, if any, improvements can be expected.

II. The Rating of Project Performance

3. The report rightly claims that the present rating system is deficient, if not altogether bankrupt, as it lacks objectivity and transparency, and often portrays a rosier performance than the one eventually assessed and rated by OED. This leaves the reader somewhat puzzled as to how the Bank, while relentlessly pursuing excellence, sustained such a defunct rating system for that long. While there is hardly a chance that the report's verdict regarding the obsolescence of the present rating system would generate a heated debate, the reader may still benefit from a more detailed review of the arguments that were used in support of the introduction of the present rating system, as well as maintaining it that long, so as to better assess the sense of realism that characterizes the handling of problematic aspects associated with implementing the proposed changes as detailed in the report.

4. While I have no difficulties with or reservations regarding the diagnosis, I am somewhat skeptical regarding the assessment of what it

will take to introduce the recommended changes. For example, the issue of meeting lending targets is not going to "evaporate" as an overriding criterion from the Bank's internal environment unless very restrictive measures are introduced to provide an utterly different reward regime in the Bank. The report rightly calls for a drastic change in Bank atmosphere, which is clearly a prerequisite for achieving the proposed changes. Yet, the reader could benefit from a clearer recommendation on how this change in the Bank's atmosphere is to be achieved and on what are the necessary conditions that would generate the changes in the reward regime and set up incentives to motivate staff to prefer the proposed agenda, its priorities, and a new set of objectives over the "old" measurement of lending targets. A firm standing by the Bank on issues assessed by the report as being crucial to achieving developmental impact could by themselves reduce lending volumes significantly. Hence, so much will depend on the set of new incentives to be introduced to cope successfully with project officers and managers who will not remain indifferent to the consideration of a reduced loan portfolio.

5. The idea that Bank staff "must restrain their tendencies to preempt borrowers responsibilities at the early stages" (page 24) is a noble idea. It leaves, however, the reader puzzled on the expected impact on new lending. In many instances, without Bank staff initiating and encouraging the local authorities to be actively engaged in identification and preappraisal, many of the presently existing projects in the loan portfolio would not have materialized. In many instances, extended reliance on domestic skills and capabilities may significantly defer or even eliminate altogether the possibility of project appraisal and its realization.

6. The alternative of extensively using consultants, NGOs, or any other "intermediaries" by the borrowing country or implementing agency for project preparation can hardly be seen as a real solution to the problem. If the task of project preparation is to be shouldered by "outsider" consultants to the implementing agency, the desired borrower's "commitment" is likely to be significantly hampered. Furthermore, if the vacuum to be created by Bank staff abstaining from project initiation or from influencing the time schedule for project preparation would be filled by consultants, it may require additional coordination efforts among the implementing agency, the consultant and the Bank, generating increased costs and deferrals in project preparation.

III. Sustainability

7. The report highlights the inattention to sustainability (para 38) as a major failure. Furthermore, sustainability, as currently interpreted, constitutes a prime criteria in OED assessment, whether or not projects were successfully implemented. I would like to focus exclusively on the sustainability issue in the context of Bank lending through Development Finance Corporations (DFC). My claim, to start with, is that the definition of sustainability, at least in the context of DFC's lending, has been misinterpreted for decades and requires being significantly sharpened.

8. There is an urgent need to distinguish between sustainability that is not dependent on subsidy and sustainability that is conditioned on the likelihood that the DFC involved will continue to function as long as continued subsidies will save it from bankruptcy and liquidation; this is not presently done. To bring it ad absurdum, if government decides to continue indefinitely to prop up a DFC through substantial subsidies, the DFC in most instances would be "sustainable" infinitely regardless of the losses it incurs. The issue that remains unresolved is whether this DFC can be defined as sustainable. The absence of a distinction between DFCs' self-sustainability and DFCs' "sustainability" based on subsidy dependence is at the root of much of the confusion associated with assessing project

rating when DFC lending is involved (for specific recommendations on how to tackle this problem, see Annex I).

IV. The Report's Recommendations on the Extensive Use of Key Performance Indicators

9. I strongly support the recommendation to establish a new project rating system based on key performance indicators. If a pragmatic approach prevails and hair-splitting arguments on the weights of the various key performance indicators are avoided, then a significant contribution to an improved project rating system is underway.

10. The idea of introducing monitorable key performance indicators is commendable because it can significantly improve the design of new projects and their monitoring, as well as enrich the Bank's dialogue with borrowers and their implementing agencies. It could generate much needed consensus on project impact assessment. The promotion of key performance indicators is crucial to obtaining improved assessment of and public debate on the desirability of allocating scarce financial resources to carry out a project.

11. The proposed changes present an extremely complex challenge, which is the urgent need to substitute a system that was primarily based on an easily monitorable variable, i.e., the lending targets—though this measure has, in many instances, nothing to do with developmental impact—with an utterly different method. While it is not so complex to introduce the key performance indicators capable of assessing developmental impact, the issue of assessing staff contribution to project design and performance implementation is a far more demanding challenge.

12. It is clearly premature at this stage to expect the report to arrive at a comprehensive solution to the latter problem. It is, however, extremely important to emphasize that changing the internal Bank environment is fully conditioned on the promotion and introduction of a very demanding staff performance assessment system, which ought to be transparent, not complex, objective, and capable of recognizing pragmatism and experience as well as creativity.

V. AGR's Suggested Key Performance Indicators for DFC Lending and Credit Programs to Targeted Groups

13. I would like to highlight the fact that AGR has recently made significant progress in promoting key performance indicators, and may offer the Bank some already tested tools to serve in establishing the proposed new rating system. Our contribution centers on (i) a quantified key performance indicator for assessing financial intermediation carried out by DFC—the Subsidy Dependence Index (SDI)—which is detailed below and was designed to provide a meaningful picture of the social costs associated with maintaining the DFC operations and (ii) set of key performance indicators in assessment of credit programs to targeted groups.

cc: Messr. Wyss (CODDR); Harris (PSCDR); Salop (OSPVP); Forno (LA3AG); Petit, Le Moigne (AGRDR); Pritchard (AGRTN)

ANNEX I

Recent AGR Contributions to Dissemination of Key Performance Indicators for DFC Lending and Credit Programs to Targeted Groups[1]

I. The Subsidy Dependence Index

1. The Subsidy Dependence Index (SDI) is a key performance indicator in the assessment of lending through DFCs. For several decades, international donors have focused on creating and strengthening DFCs. Many of these institutions, however, have encountered problems such as loan defaults, high operating costs, insolvency and staggering subsidy dependence. Financial profitability ratios such as return on equity and return on assets have long been used to assess the performance of DFCs, but these measures have not proven useful in explaining the cost of maintaining the DFCs' continued operations.

2. Much of the subsidization required to keep DFCs afloat has not been captured by conventional accounting procedures, which, among other things, were not designed for this purpose. Past DFC profitability measures have provided governments, donors, and DFC managements with an inadequate picture of the actual cost of DFC operations.

3. The SDI is a user-friendly tool aimed at providing a more comprehensive measurement of DFC financial performance and its subsidy dependence. This type of analysis involved (1) taking full account of the overall social costs entailed in operating a DFI, including all subsidies received by a DFC in the context of its activity level (interest earned on its loan portfolio), similar to calculations such as effective protection, domestic resource cost, and job creation cost; (2) tracking progress made by a DFC in reducing its subsidy dependence over time; and (3) comparing the subsidy dependence of DFCs providing similar services to a similar clientele.

4. The SDI complements conventional financial analysis and improves the evaluation of financial institutions that are subsidy recipients. In effect, the SDI goes beyond financial analysis into the area of economic analysis by providing a meaningful picture of the cost side of DFI operations, only part of which is captured in conventional financial data.

5. The SDI computation expands and enriches traditional financial analysis in three principal aspects, since (1) it quantifies the impact of subsidies received that affect the DFCs' financial performance, resolving the issue that much of the value of the subsidies is not recorded in the DFC income statement; (2) it suggests an index that measures the overall subsidy received by the DFC against its prime source of income—the interest earned on its loan portfolio; and (3) it imputes the cost of capital of the DFCs' equity. This final aspect resolves the issue of "costless" equity, thereby allowing a more meaningful comparison of the financial and economic costs of DFCs that are characterised by different equity-to-assets ratios.

6. Finally, the SDI addresses the need to improve the measurement of progress made toward "the phasing out of credit subsidies, the assumption by the fiscal budget of funding responsibility for any remaining subsidies, and the reduction and/or rationalization of directed credit lines," as required by the "World Bank Policies Guiding Financial Sector Operations" (para 17). While the SDI should serve as the key performance indicator in assessing DFC lending, its methodology departs significantly

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[1] For details, see Bank Discussion Papers #150 *"Successful Rural Finance Institutions"* and #174 *"Assessing Development Finance Institutions: A Public Interest Analysis"*. (forthcoming)

from the present overreliance on information available in conventional accounting procedures and profitability ratios. By providing a meaningful, comprehensive analysis of the real costs associated with a DFC's operations, the methodology suggested seeks to enrich the dialogue among governments, donors, and development finance institutions' managements to ensure proper allocation and use of scarce resources. It is also intended to promote improved assessment of and public debate on the desirability of DFCs' continued operations by making their costs transparent and subject to regular review vis-à-vis their priority among other public expenditures.

7. Calculating the SDI involved aggegrating all the subsidies received by a DFC. The total amount of the subsidy is then measured against the DFC's on-lending interest rate multiplied by its average annual loan portfolio, because lending is the prime activity of a supply-led DFC. Measuring a DFC's annual subsidies as a percentage of its interest income yields the percentage by which interest income would have to increase to replace the subsidies and provides data on the percentage points by which the DFC's on-lending interest rate would have to increase to eliminate subsidies.

8. Presently, the Bank staff appraisal reports with credit components usually include a routine conventional financial analysis of the DFC involved. This analysis is generally based on data gathered from the DFC's audited statements. Much of the analysis is typically focused on the profitability of the intermediary involved, as reflected in financial profitability ratios such as return on assets and return on equity. Rarely, however, is supplementary information provided on the value of implicit and explicit subsidies received by the DFC. There is no routine, standardized methodology that requires the assessment and measurement of the DFC's subsidy dependence or changes that occur over time in the DFC's subsidy dependence. However, much of a DFC's presented profit often could not have been obtained without significant subsidisation.

9. In contrast to the profit maximizer, which does not differentiate between profit that is subsidy dependent, as long as continued subsidization is ensured, and profit that is fully subsidy independent, subsidy dependence is crucial to DFCs' performance assessment. The social cost of DFCs' operations, of which subsidy constitutes a significant share, is essential to determining the social justification for their existence and continued operation, because DFCs are generally public or quasi-public institutions. Furthermore, calculation of neither ERR nor FRR makes sense in assessing credit financial intermediation loans. Hence, the usefulness of introducing a quantified key performance indicator instead is exceptionally important if assessment of DFC lending is at stake.

II. Suggested Key Performance Indicators in Assessment of Lending to Targeted Groups

10. A diversified list of key performance indicators can be found in Bank Discussion Paper #150, "Successful Rural Finance Institutions" (pages 75-90), as the four programs reviewed in the paper are among the best performing schemes; their key performance indicators can be used in considering key indicators in future projects' design and implementation assessments.

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

ROUTING SLIP	DATE: September 3, 1992

NAME	ROOM NO.
Mr. Willi A. Wapenhans, EXC	D1321

x	**URGENT**		PER YOUR REQUEST
	FOR COMMENT		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: Portfolio Management Task Force Report

REMARKS:

I have enclosed a copy of my memo of September 2 to David Goldberg, responding to a number of queries raised internally within the Legal Department on the procurement recommendations.

My memo provides additional arguments in support of the Task Force recommendations. In particular, I have elaborated on the need for the operational Procurement Review Committee to review major contract awards ensuring consistency in the application of procurement rules across the regions.

FROM: R. Srinivasan, Chief, CODPR	ROOM NO.: A 11-033	EXTENSION: 84104

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File Title	Barcode No.
EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	30024557

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Correspondents / Participants
To: David Goldberg, LEGVP
From: R. Srinivasan, Chief, CODPR

Subject / Title
Portfolio Management Task Force Report - Working Papers

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Withdrawn by	Date
Bertha F. Wilson	August 21, 2017

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: May 27, 1992

TO: Files

FROM: Josephine Woo, Project Officer, AF4PH

EXTENSION: 34899

SUBJECT: NIGERIA - Primary Education Project (Cr. No. 2191-UNI) Textbook Procurement

1. Messrs. Srinivasan, Ohri and Berk, and myself met on Monday, May 11, to discuss government's request for waiver of standard ICB/LCB procedures and the issues outlined in my memo to Mr. Ohri dated May 6, 1992. Subsequently I had further discussions with Mr. Ohri on May 19. Following are the main points of our discussions.

2. On the procurement of Primary one Books required for the first year of the project, it was agreed that:

(a) given the time constraints, standard ICB and LCB procedures be waived;

(b) LIB procurement procedures be used for books written in English -- which are grouped into four separate packages with estimated costs ranging from about US$800,000 to about US$1.6 million for each package -- since for each subject (English language, mathematics, science and social studies) there is an adequate number of books written in English which have met prequalification criteria on the basis of pedagogical merit;

(c) of the two versions of the draft LIB documents submitted by the government, representing two alternative methods of selecting successful bids, Version 2 (which proposes to divide each package of books into five lots of predetermined sizes) be adopted subject to the following amendments:

  (i) that the pedagogical scores given to the prequalified books be included in the bidding documents;

  (ii) that the prices and specifications of the paper offered by the government, which bidders have the option to acquire, be inserted in the bidding documents; and

  (iii) that the section explaining the evaluation criteria and procedures be clarified without any ambiguity to avoid confusion at a later date; and

(d) since no alternative sources have yet been established, sole source procurement procedures be used -- subject to quoted prices being established as reasonable and in accordance with procurement documents modified on the basis of the LIB documents mentioned above -- for books written in local languages which have met prequalification criteria on the basis of pedagogical merit, with an estimated total costs of US$1.7 million spread over five contracts.

3. On the procurement of books required for subsequent years of the project, it was further agreed that:

(a) standard ICB or LCB procedures be adopted as appropriate with regard to advertising and notification of the international community;

(b) for books required for the second and third years of the project, a general procurement notice be placed in the Development Business within the next few months with the following information:
   (i) that government intends to procure, sometime in November, Primary Two and Three textbooks in four subjects (English language, mathematics, science and social studies) for schools in Nigeria;
   (ii) that interested bidders are invited to submit, before the end of September, books for evaluation on the basis of pedagogical criteria which are summarized in the procurement notice; and
   (iii) that further information may be obtained from the Project Implementation Unit of the Federal Ministry of Education and Youth Development, etc.;

(c) books submitted in response to the general procurement notice be evaluated in October, after which those below a minimum score established by the evaluation panel would be rejected and the unsuccessful bidders would be informed of the panel's decision;

(d) bidding documents be issued and made available to prequalified bidders in November, including information on the pedagogical scores of the books which have been determined by the evaluation panel to have met the prequalification criteria;

(e) bids be evaluated on the basis of pedagogical merit (20%) and prices (80%), and successful bids be selected using the same method as adopted for the procurement of textbooks required for the first year of the project; and

(f) for books required for the fourth through sixth years of the project, procedures similar to those outlined above for the procurement of textbooks required for the second and third years of the project be adopted at the appropriate time.

4. It was also pointed out that these procedures could be further refined with reference to a textbook procurement paper being prepared by Tony Read of the International Book Development, Ltd., under contract with the Bank.

Cleared with and cc: Messrs. Berk (AF4PH), Ohri (AFRVP), Srinivasan (CODPR)

cc: Messrs/Mmes. Lim, Agarwal (AF4DR); Nkwanga, Domingo, Radel (AF4PH); Diop (AFTED); Gopalkrishnan, Ayoung (AFTOS); Awunyo (LEGAF); Abraham (LOAAF); AFR Files

[JW\NIR\PRI\Files1.mmo]

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

-- Technical

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

Commercial:

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

Legal:

- o acceptance of contract terms
- o applicable law
- o 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 awarded for technical merit
Chile:	highway	--	capability to perform
Turkey:	dredgers	--	technical responsiveness
Turkey:	mine locomotives	--	technical responsiveness

File

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 2, 1992

TO: Messrs W. A. Wapenhans and I. Scott

FROM: J. C. Peter Richardson JCPR

EXT:

SUBJECT: **Possible Preparatory Steps for the September 11 and 14 Meetings**

Beyond keeping our ears to the ground in order to correct misinterpretations of the report and discover major points of contention in order to prepare to deal with them effectively, I think there may be four things we should be doing before Mr. Stern's meetings of September 11 and 14.

1. **Scope of the Meetings.** I think we should suggest that Mr. Stern clarify the presumably somewhat different focus of the two meetings. The memorandum of invitation said that the first meeting would cover the technical issues and implied that the RVPs need not attend it, while the TD directors should. In at least one region that has had its internal discussion (MENA), I know there was puzzlement on this point. I know I do not really understand the distinction, as there are few "technical" issues other than procurement. I strongly suspect others are also puzzled. Perhaps Mr. Stern hopes to surface in this first meeting -- perhaps without RVPs or CD directors present -- whether the structure is blamed by technical people for much of the problem. If not, perhaps he sees the first meeting as a warm-up for the second. If the latter is correct (Bob Picciotto's view), probably it would make sense to have the Senior Operations Advisers present at both, though this has not been signalled. A talk with Ms Armitage might shed some light. An em from her or ES to the RVPs clarifying the intended coverage might be useful.

2. **Implementation Plan.** While a final implementation plan should, of course, await decisions on the recommendations, it is not too early to start thinking about implementation (which, of course, will determine the success of the effort). It might be useful -- for its value as a checklist, and also to help guide his thinking about next steps -- to provide Mr. Stern with a copy of a draft implementation plan (attached), amended in any way that seems appropriate. Then, at the end of the second meeting -- which presumably would, assuming fairly broad consensus, have some discussion of implementation -- Mr. Stern could ask us to refine and circulate for comment by the affected vice-presidencies an overall implementation plan. We would be half way there, and his own early reactions to the draft plan would help guide the effort.

3. **Annual Meetings Speech.** While it is true that we should not short circuit the decision process, it is also true that the best way to convince staff that top management is serious about "putting successful project implementation first" would be for Mr. Preston to say words to that effect in his Annual Meetings speech. There is a real danger that the Regions will regard top management as providing only lip service to the "values" recommendation -- if he does not go out on a public limb. If we can ascertain through informal inquiries of the RVPs (or their staffs) that there is substantial consensus on the

main recommendations, a few broadly worded paragraphs could be included in the speech drafts before the September 11 meeting without fear of upstaging the RVPs' consultation process. Mr. Stern, however, would have to brief Mr. Preston so that the speech draft would not be his first exposure to the overall subject.

If Mr. Stern supports the broad PMTF recommendations and is likely to be asked to oversee their implementation, he would probably strongly favor some hook in the speech. But as Mr. Summers is handling the speech and Mr. Shakow is hesitant, Mr. Stern will have to take the initiative in getting the hook inserted. (David Goldberg tells me that many EDs have the report and that they are exceedingly happy about it, as a result of which its existence may well surface during the Annual Meetings discussions and related press coverage -- a further argument for addressing the subject overtly, at least in general terms, rather than just in response to leakages).

4. **Pre-Meeting Meeting**. I imagine you have met or will have met with Mr. Stern before September 11 to discuss the substance of the report, likely reactions, and your views of them. It may be important also to meet to plan the formal meetings. As we are proposing a comprehensive program of change -- among other things, to prevalent values, it will be absolutely essential to achieve RVP ownership (hopefully enthusiastic) of the major recommendations. This ownership will be weakened if it appears that the recommendations would be imposed from above even if not supported below. For that reason, I think Mr Stern will need to be less commanding, less decisive than normal -- at least until towards the end of the second meeting. The greatest effectiveness will come from his appearing to <u>yield to the RVPs' expressed desires</u> to get on with implementation, from his initially appearing to be reserving judgement until he hears their reactions. This approach, of course, is not Mr. Stern's usual style -- which is why it might be wise to discuss it with him.

* * *

Members of the task force will need to know whether they are invited to audit the two meetings. I think they should be. If they are not, there should be task force meetings on the two afternoons of Mr. Stern's morning meetings to debrief them.

Draft: 8/10/92

Implementation Plan for the Recommendations of the Portfolio Management Task Force

General

Each affected vice-presidency should appoint a senior person to assist the vice-president in overseeing implementation of the recommendations. Semi-annual reports on implementation (keyed to the implementation plan) should be provided to the President. Through FY94, Mr. Stern would hold a quarterly meeting of those responsible to resolve issues, permit an exchange of experience and approaches, and review progress. Mr. Stern would lead the effort to obtain necessary Board approvals. General staff support to Mr. Stern would be provided by ORG and OSP/COD.

	Recommendation	Responsibility	Timing	Comment
A.	**Introduce the concept of portfolio performance management linked to the Bank's core business processes**	RVPs, COD guidelines	FY93	
1.	Introduce annual country portfolio performance reviews linked to country implementation reviews	RVPs to define process. CDs to do	FY93	OSP to set Bankwide deadline for Regional country-focussed reports as input to ARPP (see #5 below); OSP to set data requirements in support of statistical analyses
2.	Reflect CPPR in CSPs	CDs	FY93	Address match between Bank's and borrower's priorities; Borrower's record of implementation to affect size, composition of lending. Board CAS discussions to encompass portfolio performance
3.	Link CPPR to business plan and CAM	Regions	FY93	Provide resources necessary for anticipated restructurings

	4.	Link CPPR to creditworthiness and lending allocations reviews	FRS, DEC, COD	FY94	
	5.	Introduce Annual Report on Portfolio Performance	President, OSP	FY93	OSP to coordinate, RVPs, CD directors to answer questions at Board
	6.	Discontinue existing reports	OSP, Scys	FY93	Discontinue: OSP Annual Sector Reviews, Semi-Annual Report on Projects Under Execution, ARIS
	7.	Link ARPP to OSP work program	OSP	FY94	
	8.	Develop and apply country portfolio performance indices	Regions; OSP to issue guidance	FY94	Approach to phase-in to be determined
B.	**Provide for country portfolio restructuring in adjusting countries, including the reallocation of undisbursed balances of loans/credits**		Regions, Scys, OSP	FY93	Bank approaches in each country to be determined in connection with next adjustment loan, if there is one, and in the CPPR; special Board procedures to be developed by Scys., OSP; assistance/leadership in restructuring to be exerted through aid coordination groups
C.	**Improve the quality of projects entering the portfolio**		Regions	FY93	Management leadership; guidance; training required
	1.	Ensure country commitment	CDs	FY93	Start with identification; support but do not preempt Borrowers' primary role. IEPS to assess commitment, define roles, plan preparation, including participation processes
	2.	Foster broad-based participation in project preparation	CDs	FY93	Avoid preemptive role; reassess stakeholder commitment before and during

				appraisal. Do not proceed if it is inadequate
3.	Introduce more rigorous analysis of risks/sensitivities	Regions; OSP	FY93	OSP to clarify methodology, help PAA arrange training program; economic analyses must evaluate likelihood of trouble in implementation, serious potential macroeconomic obstacles, principal sensitivities; identify critical indicators of progress and likely impact
4.	Emphasize implementability in design and appraisal	Regions; OD on cofinancing to be prepared by CFS with OSP; COD to amend format of Schedule C in President's Memorandum	FY93	Implementation plan (including procurement timetable) to be carefully evaluated for realism. Cofinancing to be avoided unless necessary; when used, harmonize reporting and other requirements as much as possible and designate "lead manager" if feasible
5.	Ensure borrower understanding of objectives, implementation plans, procedures and responsibilities	Regions	FY93	Require that executing agency be represented at negotiations; leave adequate time
6.	Reflect priorities in legal documents	Regions, Legal OSP to evaluate financial covenants	FY93	Highlight critical substantive covenants; include them only if Bank willing to enforce. Attach implementation plans and schedules (as "best estimates"). Set timing for Borrower submission of operations plan and for ICR mission

7.	Strengthen role of Legal Department	Legal	FY93	Legal to exert quality control on covenanting practices, create and coordinate covenant data bank; Regions to provide necessary updating data for data bank
D.	**<u>Define the Bank's role in and improve its practice of portfolio management</u>**	Regions	FY93	Intensity of Bank advice, technical assistance will vary with project type and executing agency capabilities, but role should never be preemptive; Bank needs to be more decisive in identifying portfolio problems, taking appropriate action
1.	Define and adhere to the Bank's proper role	Regions	FY93	Borrowers must not feel it is "the Bank's project"
2.	Pay special attention to start-up	Regions, EDI to consider expanded role	FY93	Ensure those with responsibilities understand the implementation plan; ensure continuity from appraisal (e.g. at least through first disbursement)
3.	Develop performance monitoring systems based on implementation plan and critical indicators	Regions	FY93	Focus monitoring on critical indicators agreed at negotiation; assist Borrowers, as necessary, in establishing systems for tracking progress. Phasing in of identification of critical indicators and related tracking on existing portfolio to be determined
4.	Improve progress tracking, the Form 590 and filing practices	Regions, OSP, PAA	FY93	OSP to revise Form 590, develop interface to country portfolio performance ratings; OSP to develop standards for project file;

			PAA and OSP to develop standards, procedures for electronic filing
5. Use "midterm" reviews only when necessary	Regions	FY93	Restructuring reviews should be conducted whenever appropriate, as indicated by missions
6. Monitor changes in borrower commitment	Regions	FY93	During implementation, assess stakeholder commitment and consider restructuring (or suspension where appropriate) if it lapses
7. Increase Bank's decisiveness in portfolio performance management	Regions	FY93	After 12 months' problem project status, division chief to recommend use of remedies or restructuring or to state in a memorandum to CD director why neither would be appropriate
8. Make standard bidding documents mandatory and work to improve borrower procurement practices	Regions, OSP	FY93/4	OSP should assist Regions in negotiating necessary adaptations of Bank standard contracts to local contexts
9. For ICB, revise the Guidelines and standard contracts	OSP	FY93	
10. Create an advisory Bank Operations Procurement Review Committee	OSP	FY93	Create forthwith, determine membership, issue procedure for reviews
11. Introduce third party verification	Regions	FY93	Identify local capabilities for independent verification; where necessary, develop plans to strengthen them (using the new IDF as necessary). Change disbursement rules for SALs, SECALs. Require

				certifications re SOE systems for all negotiations after 1/1/93
E.	<u>**Preserve OED's credibility as an instrument of independent accountability and refocus ex post evaluation on sustainable development impact**</u>	OED, Regions	FY93	
	1. Replace the PCR with an "Implementation Completion Report"	Regions, OSP to issue OD on ICR; OED to be consulted	FY93	After OD issuance, phase out PCRs as rapidly as Borrowers agree to prepare transition plans to operational stage of projects; obtain Board agreement for OED to provide PCRs and ICRs to EDs on request
	2. Increasingly emphasize development impact in OED's independent reviews	OED	FY93	Seek JAC agreement that OED will not review uncompleted projects -- i.e. not do midterm reviews. OED to plan significant increase in impact evaluations, review of ARPP. OED to continue providing TA in evaluation, when requested by Borrowers, but within framework of PSM managed by Regions
F.	<u>**Create an internal environment supportive of better portfolio performance management**</u>	Managers at every level	FY93	Recent change in Board procedures will also help
	1. Emphasize on-the-ground net benefits as the prime value, the measure of success	Managers at every level	FY93	Top management and RVP actions will be key -- e.g., in budget meetings, etc., inquiries about portfolio health should precede inquiries about new lending. Annual Meetings speech should address

			the importance of portfolio performance. The Bank's World might carry stories about effective restructuring, outstanding implementers (such as China)
2. Hold line managers accountable for results in portfolio performance management	Office of Pres., RVPs, CDs	FY93	Seek explanations where portfolio performance index is low or declining or problem projects are not being dealt with
3. Recognize and reward portfolio performance management work	Regions, PAA to include in panel criteria, APR forms	FY93	Recommendations to be sought from TD directors re TD incentives
4. Enhance the skills required for portfolio performance management	Regions; PAA, with OSP assistance	FY93	<u>Recruitment</u>: emphasis to be given to management experience in all recruitment of specialists; special effort to find experts in financial and general management, institutional development, public administration. PAA to develop recruitment plan with Regions. <u>Training</u>: substantive orientation to be provided to new operational staff; course in PPM to be developed; proficiency testing in key areas to be instituted for task managers
5. Establish resident missions in/for all countries with significant programs and give them larger (but	Regions, with PAA and PBD assistance	FY93/4	Regions to review, consult with countries by 1/1/93, develop plan and schedule, define roles; PBD to include necessary

	circumscribed) roles in portfolio performance management			funds in regular and capital budget requests for FY94
6.	Use information management technology to better advantage	Regions, OSP, ITF	FY93	Give priority to task manager's workstation project, redesign of portfolio module of MIS, covenant data bank (see above), information filing and retrieval systems. At appraisal, address Borrower need for IT-related assistance in creating the requisite project monitoring capability. ITF to develop user-friendly guide to choice of appropriate software for planning and monitoring; continue to develop global communications network
G.	**Budget Implications**	VPs and PBD	FY93/4	After management approval of an implementation plan, VPs would estimate incremental costs in Prospects Summaries for FY94; With PBD assistance, President's office would review and determine whether the contingency should be tapped or a supplemental budget request made, or neither; Planning Directions paper would reflect conclusions.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 31, 1992

TO: Willi Wapenhans, EXC

FROM: Yves Rovani, DGO

EXTENSION: 31720

SUBJECT: Comments on the Portfolio Management Task Force Report of July 24,1992

First, let me reiterate my support for the whole exercise which is particularly timely.

I generally concur with the contents of the report: first, the diagnostic, which makes abundantly clear that we have a problem; second, the main conclusions and recommendations, which offer a well chosen set of avenues for solving the problem. I need not elaborate as our Supervision Study, my paper to the JAC on the Future of Evaluation in the Bank, and our support of ECON and its tracking component, make my and OED's views sufficiently clear.

The process via which the managers in the Bank's six regions and OSP are reviewing the report and will develop follow up action plans is, I believe, of vital importance. Only after those returns are in can we assess whether the response fits the circumstances i.e. whether it will be rapid and plausible enough and capable of mobilizing staff, to ensure the desired impact on the quality of the portfolio, its management and reporting thereon.

From my perspective, the test will be whether the resulting action plan ensures beyond doubt both accountability and transparency. If not, consideration should be given to second best complementary measures, such as setting up a corps of inspectors, or even an ombudsman, to ensure that outside views are heard, answered, and acted upon as needed.

The issue of transparency, as we were discussing the other day, deserves particular attention. It is increasingly expected in today's world. Failure to respond could have dire consequences as critics will be led to assume the worst. There is no easy solution to achieving transparency of decisions and actions. But any solution has to include actions to ensure borrowers' ownership of, and a participatory approach in, operations financed with Bank help. In this connection, I think that the Bank would be well advised to support much more actively the build up in member countries of an evaluation capability and of monitoring and evaluation systems of countries' programs, as effective ways of supporting more transparent public policies and action, accountability, and improved governance.

The report rightly emphasizes - as numerous OED reports have done- the need to ensure quality at entry. The important recommendation made in this context to establish a strong tracking system should, in my view, be strengthened.

Turning now to the role of evaluation in the Bank as addressed in the Task Force report; I find the report too defensive, particularly in the Summary section (V.E.) which seems to be preoccupied with OED intrusion in operational decisions - of which there is no example in the record - rather than seizing the available opportunity to support enhanced accountability, transparency and experience sharing. Indeed, OED is not part of the portfolio management problem, it is part of the solution. I wished in this respect that you had included my paper to the JAC on the Future of Evaluation as an annex to your report; it could have benefitted from the review by operational managers.

Regarding the report's specific recommendations on evaluation, my views are as follow:

1. Impact Evaluations: I agree.

2. Country Reviews: I believe that OED should undertake selectively more independent reviews of country assistance strategy and portfolio management, to complement the self evaluation process recommended by the Task Force.

3. Sector Policy Reviews: I agree and believe that OED should contribute experience reviews to match the schedule of Board consideration of new policies provided in the new Board procedures.

4. PCRs: I fully agree with the forward looking concept proposed but believe that changing the name of the PCR would be unnecessarily confusing to our partners. In addition, PCRs should include an explicit rating of implementation performance.

5. Annual Report of Portfolio Performance: I agree with the new concept proposed (subject of course to further elaboration by those concerned). I believe the report should be to the President rather than by the President, and agree that it should be complemented by an independent OED review. For this to be worthwhile, OED will have to carry out independent sample reviews.

6. Audit Ratio: I do not believe that OED can reallocate resources from audits to impact evaluations, as made clear in the Annual Report on Operation Evaluation for FY92, see paragraphs 29-33.

7. PCRs not going to the Board: this proposal is in my view premature; it should be considered only when the PCR backlog has been cleared, and when PCRs have become a proven management tool. This could take at least three years.

8. Evaluation Capacity Development of Borrowing Members: I agree and endorse the approach presented in Annex A; it should be incorporated in the main report.

9. Annex D (Mervin Weiner's Paper):

-Bank Consolidated Evaluation Program: the formalization of this DGO mandate deserves to be pursued and incorporated in the main report.

-Early Feedback role for OED: I agree that this idea should be pursued on an experimental basis beginning with a few sectors. It should be applied more broadly only if carried out as intended - to help ensure experience feedback - and if it is not allowed to lapse into some sort of quality control, which is not an OED function.

10. Chapter V. Section E. of the main report, and section E. of Annex A, should be retitled: "Enhance OED's role as an instrument of independent accountability, experience review and dissemination; support the expansion of ex post evaluation to include sustainable development impact".

The Task Force report correctly acknowledges that reallocation of resources will not be adequate to fund OED's recommended emphasis on impact evaluation work. I certainly agree, but OED's funds are also not sufficient to adequately prepare for and carry out an annual evaluation of the ARPP, nor to meet the increasing demand for cross-cutting studies or evaluation capacity development.

Mr. Köpp concurs with my views and will follow up.

c.c. Mr. Hans Eberhard Köpp
Mr. Robert Picciotto

i) Mr. E. Scott
ii) Files

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

DATE: August 27, 1992 09:02am

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

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

EXT.: 34380

SUBJECT: Africa Region & the Wapenhans Task Force Report

Willi:

I wanted to brief you on how we in the Africa Region are dealing with the Portfolio Management Task Force Report.

First, the report has been provided to each 26 level staff member in the Region and each Departmental DMT has instructions to meet and discuss the report and its recommendations. Most of these DMT meetings have already taken place.

Second, after the DMTs meet, each Department sends written comments on the report to the office of the Sr. Operations Advisor with a copy to other RMT members. About half of the written comments have already been received.

Third, at next week's RMT, we shall discuss your report in light of the comments received from the DMTs. We shall then brief our representatives to the meetings with Ernie and send you directly written comments on the report.

Because Miguel Martinez and I both serve on the task force steering committee, there is no need for you to make a presentation on the report to our RMT. Thanks, nonetheless, for your kind offer to do so.

Finally, you suggested that we might have lunch. Does September 1 or 2 suit you? If so, perhaps your secretary could call mine (Alicia) to firm this up.

Best regards.

Francisco

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

DATE: 17-Aug-1992 04:46pm

TO: Hans Wyss (HANS WYSS)

FROM: W. Wapenhans, EXC (W. A. WAPENHANS)

EXT.: 80121

SUBJECT: Report of Portfolio Management Task Force

1. Thank you for your comments on the draft report. They will be helpful in revising the report after management review. There are, however, a number of concerns expressed in your comments which either have already been dealt with or on which future work will be needed. These are noted below.

2. Implementation: I fully agree that the proposals advanced by the Task Force need to be made operational. I suggest that that is a next step and a task that should be undertaken with the full involvement of operational managers. Such a task could well extend to the review and revision of pertinent directives and guidelines as well. I thus note with satisfaction that you have already initiated work to identify follow-up action.

3. Improve Rating Methodology: there is indeed a specific recommendation on rating methodology. Para. 63, second bullet states: "Work should be initiated to make performance indices for projects and portfolios operational". Again I would submit that this be done best with full participation of operational staffs.

4. Management of Portfolio Performance: I know of no better way to concentrate management attention on portfolio performance than to:

i) link this activity to the core business processes of the Bank;
ii) manage the performance project portfolios in a country context; and
iii) rebalance incentive systems for staff to increase priority for these efforts.

That is the core of recommendations A. & F. In addition the Task Force has recommended the introduction of proficiency testing for task managers, the revision and improvement of training on operational policies and practices, and the "deepening of the skills review initiated by the Task Force" (para. 68). There are two areas which deserve attention and on which the Task Force has not commented:

- organization and quality control. There is no doubt in my mind that (i) these two areas are closely interwoven and that

(ii) the organizational architecture has considerable implications for the effectiveness of process including the process of quality control i.e. the peer review process. Faulty organizational architecture may make the peer review process attractive or otherwise. Organizational issues, however, were clearly beyond the scope of the Task Force. They do require separate and much more in-depth treatment than we could have given such a deserving topic.

5. Perceptions: the perceptions reported on are widely held with such convictions, and largely confirmed independently by OED's work with staff that it would have been negligent not to report on them. To provide factual evidence in support of these views is made difficult by the absence of requisite data bases (time recording on procurement etc.), definitions (skills categories etc.), and formal records (resource allocation decisions etc.). Further analysis of the past may neither throw more light on these matters nor essentially alter the conclusions to be drawn. Perceptions, however, must be exposed lest they become reality.

6. Bank and Borrower Roles: as you point out this is a critical message of the task force report. In para. ix of the summary the report states that "staff needs guidance...."; para. 27 defines the role of the Bank and admits that the intensity of its support may vary; and the recommendation in para. 66 is intended to say what you advance in your para. 6, namely "..direct provision by Bank staff of extended technical assistance, however, should normally be avoided... ." I do agree that a very clear statement on the bank's position in this regard would help once the management has accepted this position.

7. Quality at Entry: I have already commented on the rating methodology. The same comment is pertinent for evaluation. I would not expect ratings to be based exclusively on economic performance indicators; that is neither wise nor feasible in all cases. However, the critical notion is that the elements crucial to the achievement of project objectives be captured in performance indicators and given appropriate weight. If they collapse the project is in need of restructuring. And if such need is not accepted by the borrower the Bank should have opportunity of recourse.

8. Loan Agreements: in my view contractual covenants are only as good as the parties' willingness to enforce them. That is all the report says! Compliance monitoring and enforcement of contract is a far more effective and acceptable way of getting things done than retention of approval rights. Enforcement does require occasional recourse to remedy. If the borrower performs well under the Loan Agreement but the guarantor does not under the Guarantee Agreement the dilemma arises. It is with this potential conflict in mind that the report cautions against the innocent use of policy covenants in agreements concerning project investments. This also goes for financial covenants -- policy or

otherwise! If tariff issues are critical -- by all means include them provided there is the will to enforce! An audit covenant not enforced, at the same time, raises the very doubt that impairs credibility.

9. Restructuring: the recommendations deal with both Portfolio Restructuring (para. 64) and Project Restructuring (para. 66, 2nd bullet). The difference is that for the former we still need a policy decision while for the latter we need managers to force it.

10. Finally, I fully agree with what is set in on the last page of the Annex to your memo. That is why recommendation F (para. 68) calls for the urgent recruitment of staff experienced in general management.

CC:	Hans-Eberhard Kopp	(HANS-EBERHARD KOPP)
CC:	David M. Goldberg	(DAVID M. GOLDBERG)
CC:	V.S. Raghavan	(V.S. RAGHAVAN)
CC:	Enzo Grilli	(ENZO GRILLI)
CC:	Harinder Kohli	(HARINDER KOHLI)
CC:	Claude Blanchi	(CLAUDE BLANCHI)
CC:	Edilberto L. Segura	(EDILBERTO L. SEGURA)
CC:	Sri-Ram Aiyer	(SRI-RAM AIYER)
CC:	Pieter P. Bottelier	(PIETER P. BOTTELIER)
CC:	Abdallah El Maaroufi	(ABDALLAH EL MAAROUFI)
CC:	Francisco Aguirre-Sacasa	(FRANCISCO AGUIRRE-SACASA)
CC:	Miguel E. Martinez	(MIGUEL E. MARTINEZ)
CC:	Daniel Ritchie	(DANIEL RITCHIE)
CC:	Inder Sud	(INDER SUD)
CC:	Yoshiaki Abe	(YOSHIAKI ABE)
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CC:	Prem C. Garg	(PREM C. GARG)
CC:	Samir K. Bhatia	(SAMIR K. BHATIA)
CC:	Michel Pommier	(MICHEL POMMIER)
CC:	Joanne Salop	(JOANNE SALOP)
CC:	Dominique Lallement	(DOMINIQUE LALLEMENT)

File

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

DATE: August 17, 1992 09:03am

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

FROM: Hans Wyss, CODDR (HANS WYSS)

EXT.: 82851

SUBJECT: Report of the Portfolio Management Task Force

1. I have reviewed the above report, circulated under your memorandum of July 23, 1992 to, inter alia, the members of the Steering Committee (to whom this EM is being copied). Comments are listed below.

General.

2. The scope of the TF's inquiry strikes a welcome balance between portfolio management issues faced during the supervision phase of operations and the "quality at entry". The areas covered under the report's recommendation are well selected, and most of the recommendations are highly welcome (not surprisingly in view of the deep involvement of some of my COD colleagues in the TF). Inspite of this broad appreciation for the scope, the analysis and recommendations of the report, I am listing below a few points on which I suggest that the report requires major strengthening.

Implementation of Recommendations (proposed and missing).

3. A number of the recommendations will need substantial work to make them implemementable. Managers and staff will only be able to take advantage of the recommendations which will be accepted during the review process if these are fully worked out as to their implementability. Against this background, I already suggested at the Steering Committee meeting which reviewed the prior draft, that - similar to the follow-up recommendations of the Technical Assistance Review TF in 1991 - an action plan be prepared to translate the recommendations into a credible implementation process. COD is preparing for the OSPVP a list of follow-up actions that would be required on the recommendation (see also para. 4 below). agreed - next step!! - different group!!

4. The report lacks recommendations on specific subjects on which the report identified existing weaknesses that need to be addressed:
(i) improve rating methodology for projects under supervision, make proposal operational! para. 63 2nd bullet.
(ii) strengthen management capacity for supervision,
(iii) improve task management function for more effective supervision,
(iv) strengthen peer review system, and
(v) greater management attention to portfolio management. ?

separate enquiry

i) link to core business process
ii) Country focus
iii) Personnel policies, incentive systems

These points are briefly elaborated in the Annex to this memorandum which also contains a separate comment on a technical skills matter that merits attention in a broader context.

— also borrowers!!!

68, 3rd bullet. ".. deeper skills ..."

Perceptions vs. Evidence.

5. The report refers to a number of staff (and managers') perceptions (e.g. on resource constraints, skill deficiencies; and also a generalization on staff time spent on procurement) for which the report (or the working papers) does not give factual support - or for which it gives evidence to the contrary. First, this matter should be addressed before the report is put in a form that goes outside Bank Management. The report's frankness is welcome. However, it would do damage to the institution if on all issues on which perceptions are presented it were not to spell out the factual validity of such perceptions. Second, a recommendation to management would appear appropriate that misperceptions among staff should be addressed/corrected.

- data base insufficient
- further analysis only justified if controversial
- perceptions tend to become reality unless they are discussed in the limelight!!

Role of Bank vis-a-vis Borrower.

6. This is one of the most important areas which the TF has addressed. While I welcome the thrust of the analysis and recommendations, the latter are largely in the nature of a general exhortation. A clear statement is needed both for the sake of borrowers and Bank staff that the Bank's role is one of insuring 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 a vis actions under the Bank's control). This does not mean that top-of-the-line Bank technical staff should not be of great help to borrowers -- to the contrary; but this would be incidental to Bank supervision missions. As long as this approach is not clearly spelled out and understood, the observed tendency for Bank staff to intervene increasingly into borrowers' matters will continue. (At present the openendedness of this involvement by TMs is checked largely by budget constraints leading to a lot of staff/managers' frustrations).

Summary: para. ix

Text: para. 27

".. clear definition .. of critical importance.."

Quality at Entry and Loan Agreements.

7. The observations emanating from the ECON group's work on improvements in economics evaluation are very welcome. However, there remain many loose ends on the identification of "key performance variables for inclusion in legal documents and for monitoring during implementation." Economic parameters (in the strict sense) are not suited for inclusion in loan agreements for investment projects. It is rather the financial covenants (in addition to institutional covenants) which are critical here. ?

do not share this view

8. Unfortunately, the report undermines the importance of critical covenants by such references as "excessive reliance on covenants" (para.20) and "Because breaches of policy conditions beyond the control of the executing agency are unlikely to lead the

Bank to cancel otherwise satisfactory projects, such conditions should be included only if they are essential to project success" (para 65). The first observation is correct if it is understood to refer to excessive numbers of covenants, but is certainly incorrect if it means that the Bank should not rely thoroughly on critical covenants, particularly of a financial policy nature. The second observation suggests a lack of understanding about covenants "beyond the control of the executing agency" - covenants of this nature do not belong in agreements with executing agencies, but rather in the agreement with a guarantor/government (e.g. on financial policy issues regarding changes in electricity rates where such decisions are not within the power of a power company). Similarly, para. 56 adds to the confusion on financial [policy] covenants when these are referred to without differentiation under audit covenants. On this central issue of financial policy covenants the report lacks the precision needed - this is especially troubling since this is an area where the Bank, as identified by the report, has lost credibility. The respective recommendation in this critical area has no teeth and will further erode the Bank's credibility unless the subject is addressed fully.

✓

yes - in the sense of compliance !!!

means of enforcement? suspend the loan! - and that is where the problem rests!

follow-up separate work is under way !!

Portfolio Restructuring/"Weeding out Problem Projects".

9. The recommendation on countrywide portfolio restructuring is very welcome - in this context, I would however emphasize more countries undertaking a "stabilization" program than those in an "adjustment program". Portfolio restructuring appears particularly relevant during the stabilization phase characterized by a shortage of counterpart funding, contraction and changes in public investment priorities. Second, the same concept of portfolio restructuring also appears to apply to situations where external and internal circumstances have suddenly changed (external shocks or domestic civil disturbances).

The phrase is: "In adjusting countries --" The rest is semantics !!

para. 64 1st bullet.

10. Absent from the report regarding the weaknesses in the portfolio is a highly credible recommendation for a concerted effort to now weed out a significant part of the large number of projects which have been in problem status for some time (say, at least 1 1/2 years). What is needed is a decision by Bank management that within portfolio management top priority should be given to engage immediately on such a process. However, by focusing on country portfolio restructuring the report has lost sight of the micro-dimensions which underlie many problem projects. It is true that in a number of countries such countrywide portfolio restructuring is the way to go about. But these are expensive exercises. There are also many countries which have individual problem projects that can be dealt with on a project specific basis and do not depend on a country wide exercise. Thus, it would be worthwhile for the Bank to set clear goals for tackling all "mature" problem projects within say a period through end CY1993 through country portfolio restructuring or through project specific restructuring/closings, as determined by the CD concerned.

Policy matter!

management matter!

Can do now !!!

not so but one needs a policy decision - the other managerial action !!

para. 66 2nd bullet

ANNEX.

A. Recommendations

A number of weaknesses identified in the diagnostic sections are not the object of specific recommendations.

(i) Rating methodology - Para 7 states that "there is no consistent rating methodology based on objective criteria agreed with the Borrower and applied from the time of appraisal through completion and impact evaluation". There is no corresponding recommendation in Chapter V;

(ii) Management strengthening - No recommendation is made on managers' selection, training, and evaluation based on their ability and experience in staff training and portfolio management although some serious managerial weaknesses have been noted in paras 40, 41, 43, 54, 55, 56, and 57;

Matter of organization and management - should be subject to separate review!

(iii) Task management function - Task managers are reported to be overloaded with administrative tasks (para 34 and findings of the reports of the Task Force on Lending Quality and of the LAC study on Enhancing Quality and Efficiency). No recommendation is offered to either a further review the job content of task managers or to provide administrative support at the divisional level;

(iv) Peer reviewers (PR) - The peer review system has been the only quality control instrument outside of the departmental management. Both staff and managers have expressed concerns about its effectiveness (lack of incentives and weak PR selection). No recommendation is offered either as part of the improvement of quality at entry or as part of the enhanced recognition and rewards.

Matter of internal quality control; should be reviewed as part of a management study!

(v) Weaknesses in managerial attention to portfolio management - The lack of focus on implementation issues by divisional and departmental management which is perceived by staff and which is also evidenced by the recent LAC study on Enhancing Quality and Efficiency and by the weak response to dealing with problem projects and unmet covenants, should receive a more elaborate treatment than currently displayed in para 57.

Message appears to have been received!

B. Technical Skills

The report's references to the weakness of financial specialists is well taken. However, the suggestion for an increase in management specialists among Bank staff merits further thinking. What has increasingly been lacking are TMs and SOD Division Chiefs bringing with them the experience as senior/general managers of agencies similar to those they are dealing with among Bank

✓ agreed!

borrorwers - i.e., with hands-on expertise that makes them fully respected by the responsible managers among borrowers. As the Bank has moved toward economists/sector strategists, there has been a clear a trade-off in skills which cannot be "offset" by engaging some management specialists. This issue is far more complex - and important - and merits management attention in its own right.

✓ agreed!

CC:	Yoshiaki Abe	(YOSHIAKI ABE)
CC:	Francisco Aguirre-Sacasa	(FRANCISCO AGUIRRE-SACASA)
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CC:	Edilberto L. Segura	(EDILBERTO L. SEGURA)
CC:	Institutional ISC Files	(INSTITUTIONAL ISC FILES)

8/12
P 2

Mr Wapenhans
cc: Peter Richardson

World Bank aid often a failure

By Charles Clover
LONDON DAILY TELEGRAPH

LONDON — More than one-third of all World Bank aid projects fail, serving mainly to increase the foreign debt of the poor countries they are meant to help, according to the results of an internal World Bank report.

The report's author, W.A. Wapenhans of the bank's portfolio-management task force in Washington, admits that "something is not quite right" with the bank's project supervision.

The report, which shows the highest recorded rate of failure in the bank's history, has been leaked to the Ecologist magazine, published in Britain.

It comes at a particularly embarrassing time for the bank, which has just been entrusted at the Rio Earth Summit with running the new global "green" fund, the Global Environment Facility.

[World Bank officials, contacted in Washington by The Washington Times, declined to comment on the report. They said it is still in draft form and will not be released for some time.]

The report shows that the proportion of projects reported by the bank's operations evaluation department as "unsuccessful" rose from 13.1 percent for the period 1979-81 to 35 percent for the period 1989-91.

The number of "problem" projects ranked among the most intractable also rose.

Mr. Wapenhans warns of indications that "technical output or proficiency has declined markedly in supervision" and that the bank has "optimistic" expectations of rates of return from projects.

The report says the failure rate has been increased by the package of free market reforms known as "structural adjustment," which was supposed to create an environment for projects to thrive.

WT 8/12 p.2

Daily Telegraph 8/11

WORLD IN BRIEF

Over a third of World Bank aid projects fail

By Our Environment Editor

MORE than a third of all aid projects funded by the World Bank fail, adding to the foreign debt of the poor countries they are meant to help, an internal bank report says.

The bank's phenomenal failure rate casts doubt on the competence of the world's largest aid donor and has led to calls for Britain to stop the £158 million it subscribes to the bank every year.

The report of the bank's portfolio-management task force in Washington shows the highest recorded rate of failure in the bank's history. It has been leaked to the Ecologist magazine.

ROUTING SLIP	Date 8/11/92

NAME	ROOM NO.
Mr. Wagenaars	
cc IS o/r	

	URGENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE:

REMARKS

F.Y.I.

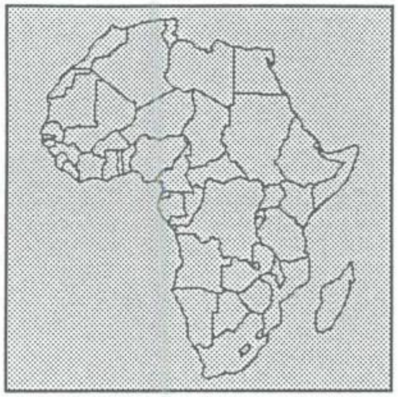
Reassuringly similar to our PMTF recommendations!

From	Room No.	Ext.
[signature]		

P-1862

AFRICA REGION
OFFICE OF THE SENIOR OPERATIONS ADVISER

ROUTING SLIP



DATE: August 6, 1992

FOR INFORMATION

NAME	ROOM NO.
Mr. Peter Richardson, ORG	F 13-035
cc: Mr. Pulgar-Vidal, AFRVP	J 5061

RE: Portfolio Management on-going efforts in the Africa Region to improve on Implementation

REMARKS:

Peter:

You may be interested in the attached two papers which give an overview of the on-going efforts in the Africa Region to further improve on project implementation.

Miguel

FROM:	ROOM:	EXTENSION:
Miguel E. Martinez	J5-063	37508

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: June 3, 1992

TO: Africa Region Higher Level Staff

FROM: Miguel E. Martinez, Senior Operations Adviser, AFRVP MEM

EXTENSION: 37508

SUBJECT: **Interesting Initiatives to Further Improve on Implementation -- Highlights of the Semi-Annual ARIS Meeting with Mr. Jaycox**

As part of the Regional Action Program adopted by the RMT at the ARIS meeting on December 1991, Mr. Jaycox met with each of the six Country Departments and five GTs to review progress in the implementation of the Regional Action Program. Background papers were prepared by the CDs and GTs and they are available on request. The common themes and interesting initiatives for further strengthening our implementation effort are summarized below under two major themes: Project Design/Capacity Building and Implementation Strategy.

Project Design/Capacity Building

■ Good project implementation begins with sound project design. In turn, this usually means:

* Keep the project simple (few components, few implementing agencies, few covenants) particularly in new sectors where a modest "pilot" approach would be a better choice. Innovative approaches to project design are most welcome but they must be well thought out if they are to succeed.

* Seek early Government commitment on critical policy issues and orientations. Up-front key policy conditionality so that the enabling environment for project implementation is in place by effectiveness.

* Obtain early agreement on institutional setup, implementation arrangements (including a clear-cut definition of responsibilities and authority of the various entities involved in project implementation, standard bidding documents, and TORs for TA), counterpart funding and cost recovery mechanisms.

- It is crucial to ensure that projects are "owned" by borrowers and beneficiaries. This sense of project ownership can be encouraged by seeking input from Government officials and beneficiaries during project preparation. Some Divisions have organized project preparation workshops with Government and beneficiaries. Beneficiaries involved in project preparation subsequently became effective "advocates" during project implementation. We should insist that key staff of the implementing agencies participate in the negotiations.

- We need to systematically translate Project objectives into a set of annual indicators (preferably quantitative). These should be discussed during negotiations and included in the project documentation. These indicators are particularly important for projects in the PHR sectors, agricultural extension and capacity building.

- We need to put much more emphasis on implementation issues during project preparation. In particular procurement, disbursements, staffing/functioning of the implementing agencies, and formulation of a detailed time-specific implementation schedule for major project components which should include the necessary internal steps in the Government administrative process. These implementation arrangements should be thoroughly discussed with the Borrower's executing agency and reflected in an implementation annex to the SAR. This annex will stay as a working document and as such will not be part of the Board package.

- There was unanimous agreement that the Bank should help develop local implementation capacity in the Borrower's executing agency, among beneficiaries, and in the local construction and consulting industries. More specifically, Borrower's capacity should be strengthened, particularly in connection with procurement of goods and services and financial management/auditing.

- We should continue to discourage the reliance on long-term resident TA and independent Project Implementation Units (PIU). Everybody agreed that PIUs often generate a number of problems: lack of sustainability resulting from their isolation vis-a-vis the rest of the administration without sufficient emphasis on transfer of know-how or responsibilities, and generous compensation schemes that generate resentment among other civil servants. The key is to design implementation arrangements that promote institutional development. An increasing number of new projects are relying on existing government institutions for project management.

- It was the shortcomings of the civil service that led to the notion of PIUs. These shortcomings should be tackled more directly. We should not avoid the challenge of Civil Service Reform (CSR). We should explore the scope for "projectizing" CSR in addition to supporting it under adjustment operations.

- Among the different kinds of technical assistance the most difficult to evaluate is the provision of (expatriate or local) consultants to help a Borrower implement a project or to strengthen local institutions. It is crucial that we identify ways to monitor the performance of these consultants, particularly as regards transfer of technical know-how and managerial responsibilities to their counterparts.

- We also need to identify ways to encourage greater private sector participation in projects. For instance, performance-based contracts for parastatal enterprises (e.g., utilities); build-own-operate-transfer (BOOT) schemes; private delivery of publicly provided services (e.g., municipal services); or development of small- and medium-sized contractors. Greater coordination with IFC would be useful.

- The AGETIP model is an innovative concept: an autonomous project implementation agency managed like a private enterprise, with strict adherence to a detailed procedures manual, able to execute a large number of small contracts, induce competition and lower unit prices, and execute projects fast. It should be considered whenever the alternative is force account.

Implementation Strategy

- The increasing involvement of Country Teams (CTs) in project implementation issues was widely welcome. CTs routinely participate in the ratings of projects, which has led to greater candor and realism. In some departments, CTs have organized retreats to discuss country-specific implementation issues. CTs constitute a valuable on-the-job training opportunity for CODs to get acquainted with the bread-and-butter of SOD work; in return, SOD staff members are routinely informed of changes in the macro environment that may have an impact on project implementation, and discuss with COD staff members the scope for adjustment-related support to solve project implementation issues (e.g., pricing or investment). In one department, CTs routinely meet in preparation for project mid-term reviews, debrief returning supervision missions, and review the portfolio every six months.

- We need more active portfolio management. A problem project should not stay in that category too long. Either the performance improves after remedial actions are taken (such as project restructuring or suspension of disbursements) or the project should be dropped. In this connection, some Departments have adopted the practice of preparing for every problem project, detailed time-bound action programs with specific "trigger points". Departments also report an increasing use of project restructuring and improved project performance as result of suspension of disbursements. We should be tougher in the conditions for extending closing dates.

- Management's attention to supervision can send clear signals to Task Managers. In some divisions, returning supervision missions are routinely debriefed by the Division Chief. In other divisions, Division Chiefs sometimes join supervision missions in the field (not just appraisal). In some departments, the Director routinely reads/comments on a random sample of supervision reports. Some departments have carried out full-fledged Departmental Portfolio Reviews, with participation of the Departmental Management Team and selected Task Managers.

- More attention needs to be focussed on the staffing of supervision missions in terms of skills and experience. A staff member with little implementation experience should not be sent by him/herself on supervision. A well-staffed supervision mission, with a balance of senior and junior staff, constitutes an invaluable training opportunity for less-experienced staff members. Some divisions which routinely assigned senior staff members to supervision missions have reported that this constitutes a powerful signal to junior staff about where the priorities really lie. Another useful "on-the-job training" for new staff is the preparation of PCRs.

- Mid-term reviews (MTRs) are rapidly becoming a standard feature of projects in our portfolio. Divisions that have already carried out MTRs reported that in order to be successful: (a) MTRs must be prepared in close coordination with the Borrower, and among the inputs, include reports crisply describing the relevant issues and options; and (b) MTRs must result in an Action Plan to be followed up during subsequent supervision missions. Inviting staff members from other divisions to participate in the MTR may provide a fresh outlook: for instance, staff members managing similar projects in other departments, or the Task Manager who appraised the project but has since transferred to another department.

- Project launch workshops should be a standard component of all new projects. We should also help borrowers develop meaningful and feasible progress reports and require that these reports be made available to the Bank at the beginning of each supervision mission.

- Some departments are experimenting with networking between similar projects across countries by organizing sub-regional workshops and arranging for participation in a supervision mission in another country.

- Some departments have scheduled the ARIS review to precede the annual Departmental IEPS and EPS review for all countries. Implementation letters from the Director summarizing the analysis and recommendations of the Country ARIS Reports have been sent to all countries. This letter sets the stage for CIRs.

- Some departments have reported the increasingly important role of Resident Missions (RMs) in project implementation. Some RMs have beefed up their staff with procurement and auditing specialists. Agriculture sector divisions appear to make the most intensive use of RMs. Some departments have assigned to the RM the primary responsibility for discussing project implementation issues with core Ministers every quarter. Some RMs organize semi-annual workshops with local project managers to exchange views on generic issues affecting project implementation.

- Country Implementation Reviews are increasingly used in all Departments. CIRs can be very useful to improve portfolio performance: they catch the Minister of Finance's attention and empower the sector ministries interested in improved implementation. Key factors for success are: (a) adequate preparation work (jointly with the borrower); and (b) clear definition of the necessary follow-up. RMs should play a leading role in the preparation of the CIRs and in the follow-up of recommendations.

- In some departments, sector-specific "portfolio managers" have been appointed. Their main roles are: (a) to manage the supervision work, intensity and type of supervision required (TORs, SubReports, etc); (b) to coordinate procurement and/or accounting/auditing; and (c) to help organize Sector and Country Implementation Reviews.

- One Sector Division has created Country Implementation Teams which are responsible for the supervision of all the sectoral portfolios in each country. Teams visit each country about twice a year and supervise all the sectoral portfolios.

- Thematic supervision (procurement, accounting/auditing, civil works, etc) are increasingly used. These missions are a very cost-effective way of addressing technical project implementation issues.

- Procurement continues to be a major cause for delays. The building up of procurement capacity and streamlining of procurement procedures should be part of the country policy dialogue. Project design could include components aiming at procurement reform (for example the recent projects in Burkina Faso Capacity Building and Mali Public Works). One Department has set-up a procurement monitory system to improve the efficiency of his work at headquarters and in the field.

- Slow disbursements are a sign that something is wrong with project implementation, we must make an effort to identify the bottlenecks and take remedial action. In countries where slow disbursements are endemic, it may be necessary to send a strong signal by reducing new lending to the level of current disbursements.

- We should explore further use of technology to increase the efficiency of our implementation work for example: (a) All-in-One connections with implementing agencies; (b) video cassettes to train local staff on the basic elements of disbursements and procurement, and to explain the objectives of the project as well as the description of its main components; (c) video links for face to face meetings with local project managers and resident mission staff; etc.

- Finally, a division suggested that, in contrast with the usual cut-and-dry supervision reports, we experiment with a different type of reporting, something more "journalistic" and likelier to give a better understanding of broader implementation problems. This could be achieved by means of a people-intensive field methodology (e.g., implementors, managers, randomly selected end-users and beneficiaries) and on the basis of unscheduled visits to project sites.

cc: Messrs./Mmes. Jaycox, Gillette, Colaco, Aguirre-Sacasa, Lim, Marshall, Denning, Serageldin, Landell-Mills, Muhsin/Stover, Husain, Pulgar-Vidal

12/9/91

AFRICA REGION

Regional Action Program for Further Improvements in the Implementation Effort

(Progress since last year's ARIS and objectives for the next twelve months)

OBJECTIVE	INSTRUMENTS 12/5/90 Action Program	STATUS	FUTURE ACTIONS FY92 Action Program
Further Enhancement of Managerial Attention to Implementation	"Signals". In the PPR process, excellence in implementation should increasingly be a factor in performance evaluations, promotions and merit increases.	**On-going.** Managers have generally given more attention to implementation performance in PPRs.	**Strengthen.** We have made a good start and the following actions will be taken to further strengthen this process: (a) more systematic discussions on implementation performance in the context of the PPR process (at divisional and departmental level); and (b) consistency of Management signals on the importance of implementation during the whole year (finding ways of discussing lending targets and budget that do not undermine the implementation culture). In addition, the Region should pursue with Personnel Department the idea of incorporating excellence in implementation as a promotion criteria for sectoral economists and financial analysts, grade 25.
	Meetings of the RVP with each Department to discuss implementation issues in March/April	**Done.** Meetings took place in April.	**Continue same practice in FY92.** The RVP will meet with each Department and Group Teams in March/April 1992 to discuss progress in implementation of the Regional Action Program and other implementation issues. In addition, the RVP will meet selectively with returning supervision missions.
	Departmental Implementation Reviews	**Done.** Departments have held implementation meetings chaired by Country Director/Project Adviser.	**Continue and strengthen in FY92.** CDs will: (a) organize semi-annual implementation reviews (e.g., in March and at the time of ARIS); and (b) transmit to Governments the findings and recommendations of the country ARIS reports.
	Monitoring of the implementation effort	New instrument, not included in 12/5/90 Action Program.	(a) Indicators of implementation performance (disbursements, review of problem projects, staff input, etc.) will be included in the Regional APEX reports for discussion at RMT meetings (guidelines will be prepared by the SOA/ CAO's offices); (b) CDs will study/take action to improve on the disbursement performance of the investment portfolio. Country progress reports to be prepared for the March/April meeting with the RVP and full report in next year's ARIS; and (c) all MOPs will include a discussion of country implementation issues as attachment to the table on the status of loan/credits (the SOA's office will prepare the corresponding guidelines).

OBJECTIVE	INSTRUMENTS 12/5/90 Action Program	STATUS	FUTURE ACTIONS FY92 Action Program
Dissemination of Good Practices and Incorporation of Lessons Learned in Future Projects	**Discussion of Sectoral Implementation Issues by the Group Teams**	**On-going.** Group teams have been integrated into the Regional ARIS process. Each has prepared a note on the implementation experience/lessons learned as input into the Regional ARIS process and, in the case of agricultural sector, some design changes are being undertaken as a result of the ARIS exercise.	**Continue.** Group Teams will: (a) organize meetings of sectoral staff to discuss their respective ARIS papers and disseminate the lessons from this review; (b) meet with the RVP in March/April 1992 to discuss issues/progress in implementing the sectoral ARIS recommendation; and (c) prepare sectoral papers like this year's for next year's ARIS. GT chairpersons will participate in the RVP meetings on implementation with the CDs.
	Dissemination of Lessons from Experience	**On-going.** (a) a computer database of lessons learned from OED reports/PCRs on Regional projects was made available to all Regional staff through All-in-1 in early 1991; (b) in addition to generic lessons (Mr. Jaycox' memo to all Regional staff, dated November 27, 1990), sectoral lessons are being prepared (the one on Power projects was circulated on September 30, 1991); and (c) a note on "common themes" in the SOA's Review of Projects packages has been prepared and circulated to all staff (through on-line directives in All-in-1).	**Continue.** (a) generic lessons will be updated in the light of findings in the on-going ARIS process; (b) sectoral lessons will be prepared for other sectors; (c) meetings of Sectoral staff will be organized to discuss the corresponding lessons (the agricultural GT has organized subgroups for particular topics which will discuss and disseminate pertinent lessons; (d) SOA's office will continue to disseminate cases of good practice, and the "common themes" memo will be updated.
	Dissemination of Good Practices in Supervision	**On-going.** (a) good practices are being disseminated through the Implementation Workshops, weekly meetings of the Departmental Project Adviser, TD and SOA, and attendance of the SOA at Divisional meetings; and (b) in addition, a survey of Task Management practices has been completed and Departmental discussions are underway.	**Continue.** Activities under (a) will continue along the same lines as this year and, based on the ongoing ARIS exercise, the SOA's office will prepare a note on best practices in supervision. In addition, a Regional meeting to share experiences on the organization and focus of "Project launch workshops" will be organized. Under (b), following the Departmental discussions, notes on best practices will be prepared, and the TORs for Task Managers will be updated. We will continue the close interaction with the Training Division in the design/delivery of courses for Task Managers. Finally, periodic meetings with new regional staff will be organized by the SOA's office to brief them on the implementation process in the Region.
	Regional Implementation Workshops to provide a forum for the discussion of generic implementation issues/innovative practices	**On-going.** Five workshops have been held already (attendance: 40-60 staff members at each workshop).	**Continue.** Workshops to be held about once a month. Speakers/topics for the next 5 months already agreed.

Regional Action Program

OBJECTIVE	INSTRUMENTS 12/5/90 Action Program	STATUS	FUTURE ACTIONS FY92 Action Program
Broadening the Implementation Effort	Too much focus on progress in physical implementation of the project; need for **more attention to the likely development impact of the project.**	**On-going.** Discussions at the Regional Management Retreat; weekly meetings of the Project Advisers, TD and SOA; SOA's attendance at Divisional meetings; special instructions in the Regional ARIS guidelines.	**Continue and strengthen.** We have made a good start and the following actions will be taken to further strengthen this process: (a) Division Chiefs will ensure that missions systematically focus on development impact issues; (b) project restructuring, cancellations, supervision of disbursements and other ways of enhancing the development impact of projects will be more actively used by divisional management; and (c) the SOA's office will prepare a proposal for streamlining supervision documentation to ensure that reporting is more related to project objectives/impact.
	More involvement of Country Teams (CTs) in the Implementation Process	**On-going.** A Task Force was appointed to propose further improvements in the operations of Country Teams (Report issued in July 1991). CTs have reviewed the status of the country portfolio in the context of the on-going ARIS process (Regional ARIS Guidelines issued on July 15, 1991), and differences of opinion in project ratings with the SODs are escalated to the DMT. CTs have also been incorporated into the process for project mid-term reviews (memo dated September 12, 1991).	**Continue and strengthen.** We have made a good start. CTs will carry out semi-annual reviews of portfolio (in preparation for the March/April meetings with the RVP, and at the time of ARIS), and will continue to play a major role in country implementation reviews and project mid-term reviews.
	More involvement of Resident Missions (RMs) in the Implementation Process	**On-going.** RMs are members of the CTs, and are taking an increasing role in the follow-up of supervision issues and organization/follow-up of country implementation reviews.	**Continue and strengthen.** The participation of RMs in Country Implementation Reviews will be further strengthened, and CDs will continue to experiment with the transfer of higher-level staff to the field and hiring of local staff for follow-up on routine supervision issues.
	Mid-Term Project Reviews	**On-going.** Mid-Term Project Reviews (MTPRs) have been incorporated in the design (and legal documents) of all new operations, and Regional guidelines for carrying out these Reviews have been issued (memorandum to all Regional staff, dated September 12, 1991).	**Continue and strengthen.** We will continue to include MTPRs in all new operations, and CDs will start a major effort to clean up the portfolio by preparing and implementing action programs for all projects currently rated "3" and "4." Progress in this task will be reported at the time of the RVP meeting with the Departments in March/April 1992, and next year's Departmental ARIS Reports will include a section on progress in the "cleaning-up" of the portfolio.
	Country Implementation Reviews (CIRs)	**On-going.** A Regional Workshop to share experiences on the organization and focus of CIRs was organized in December 1990 (report issued also in December 1990); CTs are increasingly involved in C[illegible]IRs have been the subject of two Regional Implem[illegible]on Workshops (February 8 and November 15, 1991); and CDs are increasingly using CIRs as part of their implementation strategy.	**Continue and strengthen.** CDs will continue to carry out selective sectoral and country Implementation Reviews.

Regional Action Program

OBJECTIVE	INSTRUMENTS 12/5/90 Action Program	STATUS	FUTURE ACTIONS FY92 Action Program
Improvements in Auditing and Procurement	**Regional Action Programs** for Improving Auditing and Procurement	**Done.** Regional Action Programs for Improvements in Auditing and Procurement were issued by the RVP on November 28, 1990 and May 29, 1991, respectively. Implementation is under way. In addition, an immediate Action Program to address problems in Audit Reporting was issued by the RVP on October 31, 1991.	**Continue and strengthen.** The following actions will be implemented. **Auditing:** CDs will (a) report on Departmental actions taken under the Immediate Action Program for auditing at the RVP implementation review meetings with the Departments in March/April 1992; and (b) fully implement the Regional Action Program for improvements in auditing, and report on actions taken at the time of next year's ARIS. **Procurement:** CDs will (a) fully implement the Regional Action Program issued on May 29, 1991 and report on progress at the time of the March/April meeting with the RVP and in next year's ARIS; and (b) organize special disbursement/procurement missions to speed up disbursements.

MEM
November 25, 1991

Annex 2

AFRICA REGION - ARIS FY91

Improving the Efficiency of Supervision

"Good Practices" from the Departmental ARIS Reports

* Country Teams to review the portfolio every six months.

* Director to chair a meeting of Division Chiefs and Country Teams to review portfolio at least once a year.

* Departmental ARIS review planned to precede a Departmental IEPS and EPS review for all countries. All mission travel was halted during the first part of September to ensure staff participation in these reviews.

* Implementation letters from the Director summarizing the analysis and recommendations of the Country ARIS reports to be sent to all countries. This letters will set the stage for CIRs.

* Project launch missions.

* Procurement seminars for local procurement officers for Bank financed projects.

* Creation of a Library of Standard Bidding Documents.

* SODs to single out a problem project portfolio every year for intensive review and follow-up with sectoral implementation plans.

* Issue from time to time notes to Departmental staff to help them better appreciate how various sectors of lending may be affected by policy undertaking in one sector (as for example in the case of the Kenya - Financial Sector Project.

* Delegation to Resident Missions (RM) the primary responsibility for discussing project implementation issues with core Ministries every quarter.

* RMs to follow-up on recommendations made in Aide Memoires prepared by supervision missions.

* Engage local consulting firms for supervision of civil works.

* Directors of Bank financed projects in the country should meet at least every two months to exchange views on the "nitty-gritty" of project implementation.

* Government should be encouraged to set up an institutional mechanism to oversee project implementation and review problem projects.

* More frequent use of formal and informal suspension of disbursements.

* Ownership by the Borrower - promoting the idea that supervision is the responsibility of the local project management and that the Bank's role is to monitor the results of that in-house supervision.

* Formulation of standardized Back-to-Office formats to improve efficiency in supervision.

* Bring in outside experts to provide a fresh perspective on projects ("independent quality control").

* Supervision of the entire portfolio in a given sector in each country to ensure that sectoral issues are consistently covered.

* Appointment of portfolio managers in the SODs.

* Agreement on standard bidding documents during project preparation.

* Workshops with government counterpart during supervision missions to identify and solve bottlenecks to project implementation.

* Appoint back-up TMs for each project in order to ensure continuity in routine supervision.

* Work-sharing in supervision with cofinanciers.

* Networking between similar projects across countries (sub-regional workshops for senior local staff working on the implementation of our projects).

* Thematic supervision.

* Development of Divisional procurement monitoring systems for the portfolio and systems for reporting on contract awards.

* Periodic participation of Division Chiefs in supervision missions.

ROUTING SLIP	Date 8/10/92

NAME	ROOM NO.
Mr. Wagenhans	File
cc Mr. Scott o/r	

	URGENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE:

REMARKS

A first attempt at an implementation plan.

From	Room No.	Ext.
Peter Richardson		

P-1862

Implementation Plan for the Recommendations of the Portfolio Management Task Force

General

Each affected vice-presidency should appoint a senior person to assist the vice-president in overseeing implementation of the recommendations. Semi-annual reports on implementation (keyed to the implementation plan) should be provided to the President. Through FY94, Mr. Stern would hold a quarterly meeting of those responsible to resolve issues, permit an exchange of experience and approaches, and review progress. Mr. Stern would lead the effort to obtain necessary Board approvals. General staff support to Mr. Stern would be provided by ORG and OSP/COD.

		Recommendation	Responsibility	Timing	Comment
A.		**Introduce the concept of portfolio performance management linked to the Bank's core business processes**	RVPs, COD guidelines	FY93	
	1.	Introduce annual country portfolio performance reviews linked to country implementation reviews	RVPs to define process. CDs to do	FY93	OSP to set Bankwide deadline for Regional country-focussed reports as input to ARPP (see #5 below); OSP to set data requirements in support of statistical analyses
	2.	Reflect CPPR in CSPs	CDs	FY93	Address match between Bank's and borrower's priorities; Borrower's record of implementation to affect size, composition of lending. Board CAS discussions to encompass portfolio performance
	3.	Link CPPR to business plan and CAM	Regions	FY93	Provide resources necessary for anticipated restructurings
	4.	Link CPPR to creditworthiness and lending allocations reviews	FRS, DEC, COD	FY94	
	5.	Introduce Annual Report on Portfolio Performance	President, OSP	FY93	OSP to doordinate, RVPs, CD directors to answer questions at Board

	6.	Discontinue existing reports	OSP, Scys	FY93	Discontinue: OSP Annual Sector Reviews, Semi-Annual Report on Projects Under Execution, ARIS
	7.	Link ARPP to OSP work program	OSP	FY94	
	8.	Develop and apply country portfolio performance indices	Regions; OSP to issue guidance	FY94	Approach to phase-in to be determined
B.	<u>Provide for country portfolio restructuring in adjusting countries, including the reallocation of undisbursed balances of loans/credits</u>		Regions, Scys, OSP	FY93	Bank approaches in each country to be determined in connection with next adjustment loan, if there is one, and in the CPPR; special Board procedures to be developed by Scys., OSP; assistance/leadership in restructuring to be exerted through aid coordination groups
C.	<u>Improve the quality of projects entering the portfolio</u>		Regions	FY93	Management leadership; guidance; training required
	1.	Ensure country commitment	CDs	FY93	Start with identification; support but do not preempt Borrowers' primary role. IEPS to assess commitment, define roles, plan preparation, including participation processes
	2.	Foster broad-based participation in project preparation	CDs	FY93	Avoid preemptive role; reassess stakeholder commitment before and during appraisal. Do not proceed if it is inadequate
	3.	Introduce more rigorous analysis of risks/sensitivities	Regions; OSP	FY93	OSP to clarify methodology, help PAA arrange training program; economic analyses must evaluate likelihood of trouble in implementation, serious

				potential macroeconomic obstacles, principal sensitivities; identify critical indicators of progress and likely impact
4.	Emphasize implementability in design and appraisal	Regions; OD on cofinancing to be prepared by CFS with OSP; COD to amend format of Schedule C in President's Memorandum	FY93	Implementation plan (including procurement timetable) to be carefully evaluated for realism. Cofinancing to be avoided unless necessary; when used, harmonize reporting and other requirements as much as possible and designate "lead manager" if feasible
5.	Ensure borrower understanding of objectives, implementation plans, procedures and responsibilities	Regions	FY93	Require that executing agency be represented at negotiations; leave adequate time
6.	Reflect priorities in legal documents	Regions, Legal OSP to evaluate financial covenants	FY93	Highlight critical substantive covenants; include them only if Bank willing to enforce. Attach implementation plans and schedules (as "best estimates"). Set timing for Borrower submission of operations plan and for ICR mission
7.	Strengthen role of Legal Department	Legal	FY93	Legal to exert quality control on covenanting practices, create and coordinate covenant data bank; Regions to provide necessary updating data for data bank
D.	**<u>Define the Bank's role in and improve its practice of portfolio management</u>**	Regions	FY93	Intensity of Bank advice, technical assistance will vary with project type and executing agency capabilities, but role should never be preemptive; Bank needs

				to be more decisive in identifying portfolio problems, taking appropriate action
1.	Define and adhere to the Bank's proper role	Regions	FY93	Borrowers must not feel it is "the Bank's project"
2.	Pay special attention to start-up	Regions, EDI to consider expanded role	FY93	Ensure those with responsibilities understand the implementation plan; ensure continuity from appraisal (e.g. at least through first disbursement)
3.	Develop performance monitoring systems based on implementation plan and critical indicators	Regions	FY93	Focus monitoring on critical indicators agreed at negotiation; assist Borrowers, as necessary, in establishing systems for tracking progress. Phasing in of identification of critical indicators and related tracking on existing portfolio to be determined
4.	Improve progress tracking, the Form 590 and filing practices	Regions, OSP, PAA	FY93	OSP to revise Form 590, develop interface to country portfolio performance ratings; OSP to develop standards for project file; PAA and OSP to develop standards, procedures for electronic filing
5.	Use "midterm" reviews only when necessary	Regions	FY93	Restructuring reviews should be conducted whenever appropriate, as indicated by missions
6.	Monitor changes in borrower commitment	Regions	FY93	During implementation, assess stakeholder commitment and consider restructuring (or suspension where appropriate) if it lapses
7.	Increase Bank's decisiveness in portfolio performance management	Regions	FY93	After 12 months' problem project status, division chief to recommend use of

				remedies or restructuring or to state in a memorandum to CD director why neither would be appropriate
8.	Make standard bidding documents mandatory and work to improve borrower procurement practices	Regions, OSP	FY93/4	OSP should assist Regions in negotiating necessary adaptations of Bank standard contracts to local contexts
9.	For ICB, revise the Guidelines and standard contracts	OSP	FY93	
10.	Create an advisory Bank Operations Procurement Review Committee	OSP	FY93	Create forthwith, determine membership, issue procedure for reviews
11.	Introduce third party verification	Regions	FY93	Identify local capabilities for independent verification; where necessary, develop plans to strengthen them (using the new IDF as necessary). Change disbursement rules for SALs, SECALs. Require certifications re SOE systems for all negotiations after 1/1/93
E.	<u>Preserve OED's credibility as an instrument of independent accountability and refocus ex post evaluation on sustainable development impact</u>	OED, Regions	FY93	
1.	Replace the PCR with an "Implementation Completion Report"	Regions, OSP to issue OD on ICR; OED to be consulted	FY93	After OD issuance, phase out PCRs as rapidly as Borrowers agree to prepare transition plans to operational stage of projects; obtain Board agreement for OED to provide PCRs and ICRs to EDs on request

	2. Increasingly emphasize development impact in OED's independent reviews	OED	FY93	Seek JAC agreement that OED will not review uncompleted projects -- i.e. not do midterm reviews. OED to plan significant increase in impact evaluations, review of ARPP. OED to continue providing TA in evaluation, when requested by Borrowers, but within framework of PSM managed by Regions
F.	<u>Create an internal environment supportive of better portfolio performance management</u>	Managers at every level	FY93	Recent change in Board procedures will also help
	1. Emphasize on-the-ground net benefits as the prime value, the measure of success	Managers at every level	FY93	Top management and RVP actions will be key -- e.g., in budget meetings, etc., inquiries about portfolio health should precede inquiries about new lending. Annual Meetings speech should address the importance of portfolio performance. The Bank's World might carry stories about effective restructuring, outstanding implementers (such as China)
	2. Hold line managers accountable for results in portfolio performance management	Office of Pres., RVPs, CDs	FY93	Seek explanations where portfolio performance index is low or declining or problem projects are not being dealt with
	3. Recognize and reward portfolio performance management work	Regions, PAA to include in panel criteria, APR forms	FY93	Recommendations to be sought from TD directors re TD incentives
	4. Enhance the skills required for portfolio performance management	Regions; PAA, with OSP	FY93	<u>Recruitment</u>: emphasis to be given to management experience in all recruitment

		assistance		of specialists; special effort to find experts in financial and general management, institutional development, public administration. PAA to develop recruitment plan with Regions. Training: substantive orientation to be provided to new operational staff; course in PPM to be developed; proficiency testing in key areas to be instituted for task managers
	5. Establish resident missions in/for all countries with significant programs and give them larger (but circumscribed) roles in portfolio performance management	Regions, with PAA and PBD assistance	FY93/4	Regions to review, consult with countries by 1/1/93, develop plan and schedule, define roles; PBD to include necessary funds in regular and capital budget requests for FY94
	6. Use information management technology to better advantage	Regions, OSP, ITF	FY93	Give priority to task manager's workstation project, redesign of portfolio module of MIS, covenant data bank (see above), information filing and retrieval systems. At appraisal, address Borrower need for IT-related assistance in creating the requisite project monitoring capability. ITF to develop user-friendly guide to choice of appropriate software for planning and monitoring; continue to develop global communications network
G.	Budget Implications	VPs and PBD	FY93/4	After management approval of an implementation plan, VPs would estimate incremental costs in Prospects Summaries for FY94; With PBD assistance, President's office would review and

determine whether the contingency should be tapped or a supplemental budget request made, or neither; Planning Directions paper would reflect conclusions.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

File

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.

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.

File

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M. Srinivasan, PRE/COD	
cc. PMTF, M. Wagenhans	

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RE:

REMARKS

Any rejoinder?

From	Room No.	Ext.
Peter Richardson		

P-1862

Record Removal Notice

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File Title	Barcode No.
EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	30024557

Document Date	Document Type
7/31/1992	Memorandum

Correspondents / Participants
To: Peter Richardson, CPBVP
From: David Goldberg, LEGVP

Subject / Title
Portfolio Management Task Force Report - Working Papers

Exception(s)
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Additional Comments

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File Title	Barcode No.
EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	30024557

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To: Andres Rigo, LEGOP
From: Christian A. Walser, LEGOP

Subject / Title
Wapenhans Task Force - Proposed Paper on Procurement

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RE:

REMARKS

This may be useful if slide talks are requested -

Comments welcome.

From Peter Richardson | Room No. | Ext. 84571

P-1862

EFFECTIVE IMPLEMENTATION:

KEY TO

DEVELOPMENT IMPACT

Report of the Portfolio Management Task Force

WHAT THE TASK FORCE DID

Reviewed other studies (OED, ARIS, Project Quality, ECON, TA; LAC and AFR papers)

Feeder Papers -- about 20 (consultants included: Weiner, Nurick, Mould, Strombom, Kearns)

Focus groups (IT), surveys (Res. Msns.; peer review), interviews

3 Conferences

- Borrowers
- Assistance Agencies
- International contractors

Built on innovations and best practices

Tested with Steering Committee & Advisory Council

THE PROBLEM

Projects in:	Major Problems (ARIS)	Unsatisfactory (OED)
FY 81	11%	15%
FY 89	13%	30.5%
FY 91	20%	37.5%

FY 91 problem projects in 4th or 5th year: 30%

Countries w. over 25% problem projects: 39%

Completion time estimated at appraisal: 4.5 years; Actual: 7

Compliance with financial covenants: 22%, 25% 15%

Types of problem:
- Institutional
- Counterpart funds
- Management
- Procurement

Optimism still increasing

<u>Caveats</u>

- Oil shock
- Debt crisis
- Declining terms of trade
- Country institutional, policy, macroenvironments
- More complex undertakings: poverty, environment, women, soft "evolutionary" sectors; possible higher rating standards

Not technical problems (so far as we can tell)

Significance of absolute numbers hard to gauge, but TREND alarming

Bank PPM evidently did not stem the steady, serious decline.

CAUSES OF THE PROBLEM

Priorities/incentives/preferences favor approval, reports -- over implementation work; lending a culmination, rather than a beginning

Appraisal unrealistic -- problems of "quality at entry"

- Risk and sensitivity analyses inadequate -- when done, macro factors, implementation problems almost always neglected
- IMPLEMENTABILITY neglected; detailed implementation plans rare
- Need for Borrower COMMITMENT often subordinated to the timetable
- Promotional approach (esp. where heavy preparation role) not unusual

Negotiations seek signature more than understanding/commitment

CAUSES OF THE PROBLEM (Cont'd)

In portfolio performance management (PPM)

- Attention diminishes during start-up
- Procurement problems (approvals slow)
- Project-by-project approach dominates; systemic problems sometimes neglected
- Bank's role unclear -- project becomes "the Bank's"
- Flexibility on covenants; rigidity on design (reluctance to suspend or restructure)
- Almost no attention to **actual** benefit flows (during the operational phase)
- Continuity problem

FIVE FUNDAMENTAL CONCLUSIONS

1. **BANK SUCCESS = NET BENEFITS "ON-THE-GROUND"** -- not loan approvals, good reports, disbursements

2. **Successful implementation requires COMMITMENT**, built on stakeholder participation

3. **Quality at entry** key; includes commitment, implementability. Realistic implementation planning essential to realistic appraisal

4. **Country focus** required, in addition to project-by-project approach; needed for systemic problems, CD accountability

5. **Portfolio performance** must be a factor in country assistance strategies (e.g. size, composition of lending program), business processes.

Not new or radical ideas -- **back to basics** -- countries, results, priorities -- $138 billion vs. $25 billion.

<u>RECOMMENDATIONS</u> -- CONCEPT OF COUNTRY PORTFOLIO PERFORMANCE MANAGEMENT

- Annual Country Portfolio Performance Review -- diagnose systemic problems; verify ratings, country portfolio performance indices

- Reflect CPPRs in CSPs, BPs, CAM, Creditworthiness & Lending Allocations reviews (Diagram)

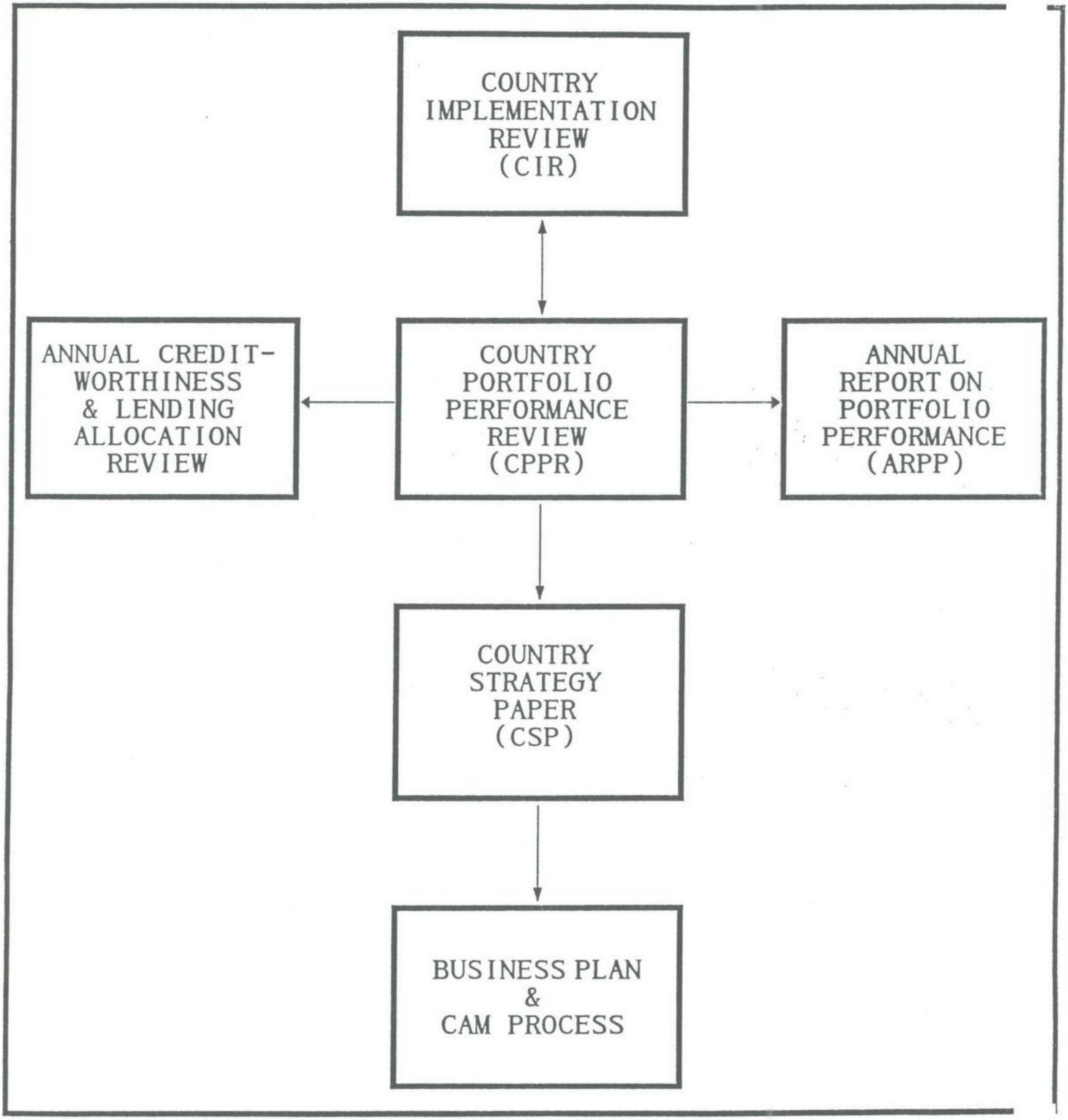
- Annual Report of President on Portfolio Performance Review

    - Country focussed; built on CPPRs; RVPs', CD directors' role

    - OSP coordinates: statistical annexes, sector annex, trend analysis, PSEs -- replaces ARIS

    - Input to OSP work programming

- Draws on, feeds into annual portfolio review with borrower (e.g. CIR)


COUNTRY IMPLEMENTATION REVIEW (CIR)
ANNUAL CREDIT-WORTHINESS & LENDING ALLOCATION REVIEW
COUNTRY PORTFOLIO PERFORMANCE REVIEW (CPPR)
ANNUAL REPORT ON PORTFOLIO PERFORMANCE (ARPP)
COUNTRY STRATEGY PAPER (CSP)
BUSINESS PLAN & CAM PROCESS

<u>RECOMMENDATIONS</u> -- RESTRUCTURE PORTFOLIO IN ADJUSTING COUNTRIES

Corollary of country approach to PPM

Adjustment affects counterpart availability, prices, priorities, cost/benefit

When adjustment occurring, public investments -- including Bank-financed projects -- need to be reviewed

Restructuring, cancellation, additional resources

Bank must help country (and other donors) face these project realities -- especially when Bank is lending for adjustment

Accelerated Board approval procedure -- for reallocation of cancelled Bank funds. (Without reallocation, little country incentive)

RECOMMENDATIONS -- IMPROVE QUALITY AT ENTRY

- "Quality" includes COMMITMENT, IMPLEMENTABILTY, REALISTIC APPRAISAL of risks, sensitivities

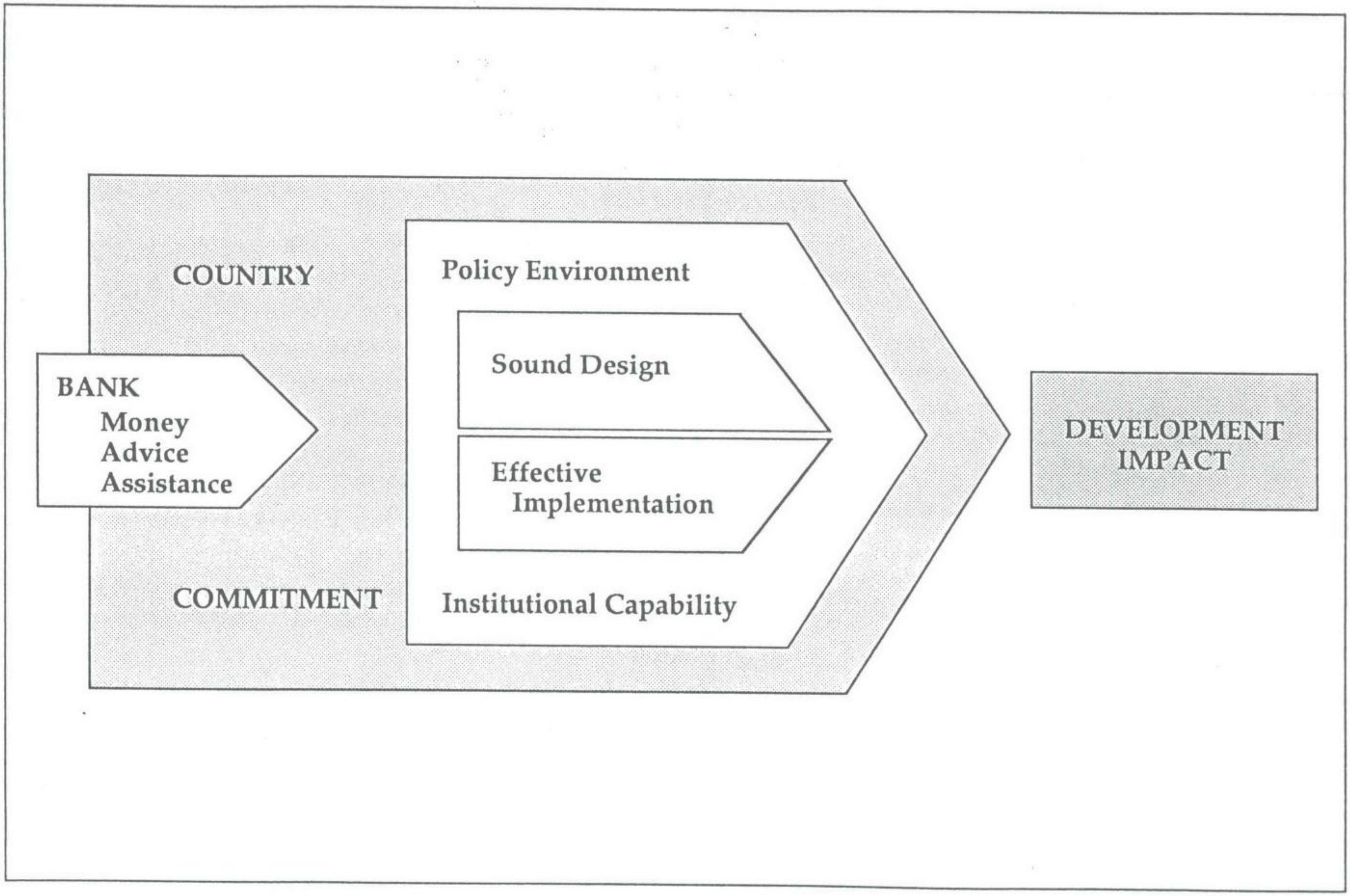
- COMMITMENT (Diagram)

  - Without it, successful implementation unlikely
  - Requires understanding and participation
  - Must be assessed, fostered, maintained

- IMPLEMENTABILITY

  - Compatibility with executing agency capabilities
  - Limit components (including PSEs)
  - Beware cofinancing complexities
  - Realistic implementation planning (including procurement) essential

FOR MAXIMUM DEVELOPMENT IMPACT, BANK's ROLE MOST BE SUPPORTIVE, BUT NOT PREEMPTIVE . . . . .



<u>RECOMMENDATIONS</u> -- IMPROVE QUALITY AT ENTRY (Cont'd)

- REALISTIC APPRAISAL

  (Comprehensive review of SARs showed risk/sensitivity analysis not being used to shape projects or guide monitoring)

  - Do **not** assume smooth implementation

  - Explicitly address RISKS due, *inter alia*, to:

    - macroeconomic factors

    - financial issues

    - institutional/managerial capabilities (poor implementation)

  - Identify principal sensitivities, critical indicators -- for progress and likelihood-of-benefit monitoring

<u>RECOMMENDATIONS</u> -- QUALITY AT ENTRY (Cont'd)

- LOAN DOCUMENTS

  - Require presence of executing agency at negotiations -- understanding, not just signature

  - Differentiate critical substantive covenants from administrative ones

  - Include only those substantive covenants Bank will enforce

  - Incorporate critical indicator thresholds (e.g. price of traded output) as triggers for consultation, suspension

  - Re-evaluate Bank financial covenants; use with care

  - Include Implementation Plans -- as "best estimates" -- in side letters

  - Strengthen Legal's role; create covenant data base

RECOMMENDATIONS -- FOR PORTFOLIO PERFORMANCE MANAGEMENT (PPM), DEFINE BANK ROLE, IMPROVE PRACTICES

- FOUR ROLES

    - "Core" supervision -- procurement, disbursement, end-use
    - Compliance monitoring

    - Trouble-shooting, facilitation)
) Optional
    - Implementation assistance)

- In latter two roles, support, advise -- not preempt

- Normally, Bank should help arrange protracted implementation assistance, if needed, but not itself provide it

    - Bottomless drain on budget
    - Poor comparative advantage for TA from headquarters
    - Danger of preemption, loss of country learning by doing

RECOMMENDATIONS -- IMPROVE PPM (Cont'd)

- Start-up -- special attention, dissemination, continuity
- Performance monitoring -- keyed to agreed implementation plan, critical indicators
- Decisiveness in monitoring -- after 12 months as problem project, division chief to suspend, restructure or explain
- Standard (adapted) bid documents mandatory; advisory Procurement Review Committee; review of Guidelines
- Third party verification/certification -- local procurement, SAL/SECAL eligibles, SOE system and audit
- CIRs to address generic problems, stimulate action
- Improve 590 -- critical indicators; text retrieval

RECOMMENDATIONS -- OED ROLE; QUALITY AFTER IMPLEMENTATION

- Replace PCRs with "Implementation Completion Reports (ICRs)"
  - Forward looking, as well as retrospective; review Borrower's plan for transition to operational phase
  - Baseline, indicators for reporting results during operations -- as input to impact assessments
  - Timing, in relation to project events, agreed at negotiation
  - Provided to OED; OED gives to EDs on request
- OED **not** involved in midterm reviews (credibility depends on independence -- staying out of individual active operations)
- Heavier OED emphasis on IMPACT EVALUATIONS

RECOMMENDATIONS -- MORE SUPPORTIVE ENVIRONMENT FOR PPM

- Emphasize: on-the-ground NET BENEFITS as the PRIME VALUE, MEASURE OF SUCCESS
- Recognize, reward: PPM work; Level 25 and above
- Recruit: financial, institutional development, management, public administration experience
- Train: in operational (incl. PPM) policies, practices; substantive orientation; proficiency testing; consider procurement stream
- Make line managers accountable for PPM
- Revisit reassignment policy
- Resident missions for all countries with significant programs
- Use IT and MIS more effectively (for Borrowers and at HQ)

NEXT STEPS

- RVPs to consult their staffs
- Meet with MDs and Mr. Preston
- Revise as necessary
- Provide to JAC in draft; then Board
- **Plan implementation -- comprehensive program of change requiring sustained leadership from all management levels -- must be "owned"**
- Possible need for transitional budget (for restructuring, resident mission start-up, etc.) -- i.e. before savings from standard bid documents, better use of critical indicators in monitoring, fewer implementation delays, better IT, etc.

W. Wapenhans

File

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 24, 1992

TO: Ms. Katherine Marshall, AF5DR

FROM: R. Picciotto

EXT: 84569

SUBJECT: **Mali: Portfolio Management and Evaluation**

1. As agreed, I visited Mali from July 12 to July 18, 1992 to conduct a broad assessment of on-going IDA-financed operations and to help generate suggestions for improving AF5's portfolio performance. The notes which follow must be read as an informal record of impressions gathered during a brief tour. If prescriptions are offered, it is with a view to catalyze a purposeful exchange of views with you and your management team. Beyond the Mali case, my main purpose has been to think through the relevance of emerging Wapenhans task force recommendations. With this in mind, please let me know how you wish to proceed.

A. THE VISIT

2. The visit was skillfully orchestrated by the Resident Representative. Field observations included:

(i) a day trip to the Office du Niger together with Ms. Chantal Dejou, comprising a visit to the command area (Niono) and a rice processing plant (Molodo) as well as consultations with farmers' groups and discussions with Mr. Tibou Fayinke, Director of the Office;

(ii) a day trip to the CMDT Mali Sud III project (Bougouni), again with Ms. Dejou, including meetings with the local farmers' union and the extension organization and a foray to the "bas fonds" where the Bank plans to fund minor irrigation along lines pioneered by a Canadian NGO;

(iii) meetings with the Urban II project management cell in Bamako followed by visits to rehabilitation areas, sites and services schemes and the auction of developed urban plots by ACI, an autonomous agency;

(iv) a visit to an Energy du Mali subdivision and neighboring generating and transmission facilities;

(v) a visit to AGEDIP schemes in Bamako.

3. Implementation issues were discussed with the following senior officials: Mr. Boubacar Bah, Minister of Private Sector Promotion and Governor of the World Bank; Mr. Issoufi Maiga, Director General of Procurement Operations; Mr. Samba Sidibe, Minister of Transport and Housing; Mr. Moctar Toure, PDG of EDM; Mr. Lamine Ben Barka, AGETIP Director; Mr. Sevdou Idrissa Traore, Minister of Agriculture and Rural Development. I also met with the former Finance Minister (Mr. Bassary Toure); the Acting Director General of the Controle General d'Etat (Mr. Bounafou Toure); the former head of the Health Project Unit (Dr. Sanoussi Konate) as well as senior staff of the new Education Project and Health Project Units. In addition, taking advantage of social occasions, I talked briefly to the former Minister General Controller; the Minister of Justice;

the Minister of the Fonction Publique; the Minister of Energy and the Minister of Employment. In order to gauge aid coordination aspects and secure an outside perspective on Bank programs, I had an opportunity to meet with Mr. Denis Beaudoin, CIDA; Mr. Fougere, Mission Francaise de Cooperation; Ms. Piergrossi, EEC and Mr. Dennis Brennan, USAID.

4. Finally, on July 18, the Resident Representative, Ms. Dejou and I held a constructive roundup meeting with Mr. Younoussi Toure, Prime Minister. Ms. Dejou briefed the Prime Minister on agriculture projects issues and I took advantage of the session to stress the growing role which country performance played in IDA allocations. I also highlighted (i) the need to maintain sound economic management as the basis for tranche release of adjustment operations; (ii) the systemic procurement and financial management problems which hinder disbursements in investment operations; and (iii) the project specific issues affecting the Energy du Mali and Urban projects. Echoing what I heard throughout my stay, the Prime Minister said that he fully shared the Bank's assessment and would take decisive action to improve utilization of Bank assistance.

B. THE PORTFOLIO

5. Despite the turbulence of its politics, Mali has managed to respect the broad parameters of the IMF/Bank macroeconomic framework. On the other hand, social indicators have registered slow progress and serious lapses in public expenditures management during the twilight era of the transition government recently came to light. With the advent of a democratically elected government, increased transparency and accountability have become political imperatives. This provides a window of opportunity for the Bank and other donors to help Mali put in place improved financial management and controls as well as more effective project monitoring and evaluation systems.

6. Most officials I met stressed that they endorsed the objectives of the Bank's program in Mali and, while pleading for flexibility, confirmed their support for continued liberalization of the economy and for staying the course of fiscal responsibility. On the other hand, for the past several weeks, the attention of the Cabinet has been rivetted to the north where the security situation has deteriorated. Ethnic incidents have spread to Mopti and to the major cities.

7. Thus, looking ahead, sustained adjustment cannot be taken for granted. So far, the focus of the fledgling government has been on maintaining law and order rather than on managing the economy. (The budgetary consequences of the security situation will have to be watched: the need for mobility of the "brigades mixtes" over vast expanses of territory -- as well as the pressure to use public funds to mitigate public dissatisfaction -- could soon begin to involve significant outlays.) With the flowering of a free press and the opportunity to voice protest through parliament, vested interests (students associations; farmers' groups and civil service unions) have begun to flex their muscles. The determination of the government to stick to a sound fiscal program will soon be tested with respect to key policy conditions of the IDA program (size of the civil service; reductions in higher education expenditures; paddy and cotton pricing).

8. The IDA portfolio (Annex 1) is fairly representative of AF5 activities. It includes a mix of adjustment and investment credits. Well anchored to the macroeconomic program, the country assistance strategy focusses on adjustment, agriculture, human resources and infrastructure development. Recent operations emphasize private sector development, public sector reform; environmental protection and participation. Given the rudimentary state of Mali's infrastructure and its weak financial sector, the Bank's program gives pride of place to fixed assets creation and institutional development.

9. Statistically, the aggregate rating of ongoing Mali operations (1.9) is in line with the average of the AF5 portfolio and the nature of the problems is similar to that faced in other countries of the Region. However, some of the individual ratings may be optimistic in the light of recent policy and implementation slippages. Disbursements in FY92 were \$55.2m, 18% of the undisbursed portfolio.[1] A concentrated effort to improve portfolio implementation in Mali would be timely and could have positive spillover effects in similarly situated countries.

10. The prospects for the improved portfolio management initiative sketched in Section C below are favorable. The country assistance strategy is well designed. The new Government is keen to improve the effectiveness of development assistance to Mali. The Bank enjoys considerable prestige and exercises significant leverage over Mali's development program. Relations with donors are good and the resident mission has built up a formidable network of local contacts.

Agriculture

11. Mali enjoys considerable land and water potential. A clear and sustained Government strategy for long term development of the sector is needed to tap this potential. With one third of the portfolio in agriculture, improved implementation of IDA financed operations in the sector will be a litmus test of Government determination to tackle implementation problems. A disruption in the program may occur if, as is rumored, the new Agriculture Minister decides to move away from the basic approach being pioneered in the IDA financed agriculture services project. Such a discontinuity would have deleterious consequences for the credibility of the agriculture program, the morale of extension staff and the prospects for the next phase of institutional development in agriculture, i.e. a stronger research base, linked to improved higher agriculture education.

12. Rural infrastructure has become a significant bottleneck to agriculture diversification in favorably situated areas. The initiation of private irrigation funded through institutional credit may have potential and the constraints to such a program should be identified and removed. The set-up of a rural AGEDIP might be worth considering in order to ensure efficient execution of rural roads, rural water supply and minor irrigation schemes, in conjunction with participatory development approaches.

13. Liberalization of cereals marketing triggered by effective (and informal) cooperation among aid donors has been remarkably successful but has not yet reached into rice where the Office du Niger faces the paradox of "excess" production and severe marketing problems largely due to the incoherence between the rice import policy of the outgoing government and the unrealistic "support" prices which the Office du Niger has been mandated to protect. Given the weaknesses of the public marketing network, a flourishing private paddy processing sector has already emerged.

14. Only a sound and well calibrated rice import and pricing policy combined with rapid disengagement from Office du Niger involvement in procurement and rice processing will ensure sustained paddy production increases over time. The Office du Niger needs to concentrate its efforts on network maintenance, participatory water distribution and salinity prevention and control. Yet, there are powerful vested interests working in favor of budgetary support through concessional rice imports, let alone for maintaining the status quo regarding Office du Niger activities. Similarly, realistic pricing for cotton has begun

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[1]Excluding adjustment and hybrid operations, disbursements in FY92 were only \$25.3m, 12% of the undisbursed portfolio of investment credits.

to run afoul of increased farmers' union clout vis-a-vis CMDT. It is likely that the policy capacity of Government in this area will require strengthening.

15. In general, the transition to a liberalized approach to agriculture inputs and products marketing should have high priority in the policy dialogue. This will require donor prodding not only with respect to rice and cotton price policy but also vis-a-vis other entrenched interests involved in livestock production, dairying and other agro-industrial activities. Both the Prime Minister and the new Bank Governor have evinced a keen interest in these aspects of the Bank program: they should be kept apprised of the obstacles which may be encountered.

16. Internally, given the interconnected nature of agriculture policies and the rising implementation problems affecting the agriculture portfolio, a graduated response to Government actions is needed and a disciplined approach to developments in the sector is essential to avoid backsliding. In particular, early attention to the execution of the new (and unusually complex) natural resources management project is warranted where, in order to manage the risks involved, selection of early interventions should be based on proven NGO interventions.

Human Resources

17. I was unable to meet either the Education or the Health Ministers and time was too short to visit human resource operations in the field. But I did have a chance to talk to the officials directly involved in the monitoring of Bank projects and came away uncertain about the prospects for improved implementation in the sector. Obviously, the new Education Minister must act promptly if the education sector operation is to graduate from the problem project category.

18. With every day which passes without such action, the chances of Mali reaching the expenditures switching targets prescribed in the policy component of the hybrid credit are growing slimmer. Doubts prevail as to whether the US or even France (which, at this stage, appears keener to back the position taken by the Bank) will maintain a tough posture regarding social sector conditionality. (The joint Jaycox/Jolly letter which quoted different enrollment targets from those embedded in the IDA financed project created uncertainty which the Resident Representative was able to dispel.)

19. Regarding health, there is little doubt that the first project pioneered successful approaches at the field level and that the lessons of the first project have been internalized by Mali decision makers. However, the repeater project is ambitious and complex. Whether the new management structure will deliver the goods remains to be seen as the shift from a "project unit" to almost total reliance on the line departments may have been abrupt. An early test of performance should be made and institutional adjustments initiated if problems arise.

20. In general, the focus of human resource operations should be on the delivery of basic services to the poor. Effective monitoring and independent evaluation should be used as instruments of accountable management in these sectors. In addition, taking account of lessons from the first project, cross sectoral dissemination of "what works and what does not" is needed with respect to civil works construction. Finally, sustainable operation of water supply schemes through participatory techniques should be given high priority as implementation proceeds.

Energy and Industry

21. The need for radical restructuring of the Power 2 project is well understood by all concerned. In order to facilitate decisive action, suspension of disbursements should be considered. The finances of EDM are in disastrous shape and many knowledgeable observers (including the former Energy Minister) state that internal collusion goes a long way in explaining the widespread theft of electrical materials and equipment as well as of the high physical and financial "losses". Privatization of management and distribution may be the most appropriate solution. Fragmentation of decision making in the sector is widely acknowledged as a major issue even though there may be resistance to getting the prices right by splitting water and power activities. The new Minister of Energy appears tentative and has insisted on interministerial working level consultations prior to review of options by the Cabinet.

22. In industry, the momentum of privatization should be recovered by systematic evaluation of completed activities (widely criticized as calendar driven) and by involving the new Minister of Private Sector Promotion. The new institutional development project might be used to this end and agro-industries may provide an early test of Government commitment.

Infrastructure

23. The economic priority of improved transportation in the vast and landlocked territory of Mali is clear. With the recent restructuring of the Highways V project and the broad agreement reached on sector policies, the way is open for systematic institutional development in the sector. In addition, supervision should go beyond monitoring of civil works contracts and involve a wider range of skills than recently deployed.

24. Resettlement performance of the Urban 2 project may not have been in line with Bank policy. Generally, considerable frustration arises from the current location of the Project unit in the Ministry of Equipment. The effectiveness of long term technical assistance in this context appears dubious. Here again, a firmer approach to project restructuring and a higher dose of institutional expertise in supervision might have been warranted. We made clear that the reversal of decisions made by the outgoing government regarding land distribution in the Bamako area and the hasty announcement regarding a new housing bank is an acid test of the new government's credibility in the sector.

25. The definition of an urban policy geared to the decentralization implicit in the new democratic order has become urgent. An urban policy framework is certainly needed if the AGEDIP operation is to achieve sustainable capacity building: it is hard to visualize how small pilot waste disposal schemes at the neighborhood level will be economic or durable without a metropolitan approach to cost recovery and disposal siting. Eventually, the criteria of AGEDIP subproject selection should be linked to municipal planning priorities operating within clear fiscal limits and sound cost recovery principles. In this context, a linkage between AGEDIP and the metropolitan mapping scheme might be envisaged.

C. PORTFOLIO MANAGEMENT PRACTICES

26. Given AF5's receptiveness to change, the country's potentially responsive leadership and the relevance of the Bank's operations program, Mali could be turned into a model of excellence in portfolio management. The goal would be a realistic, favorable and sustainable portfolio rating by the end of FY93 aiming at a satisfactory overall development impact for all operations in the portfolio.

27. This is a feasible but demanding proposition. It will require clusters of managerial action geared to: (i) results oriented country assistance strategy work; (ii) early restructuring of problematic operations; (iii) improved design, information and analysis of Bank financed operations; (iv) supervision management geared to borrower accountability; (v) implementation and evaluation capacity building; and (vi) a strengthened organizational and technology base. Without concrete action to manage change, it would be idle to trumpet new "values" or the spontaneous generation of an "implementation culture".

Country Strategy

28. It should be clear by now that the contrast between a sound macroeconomic framework and a lackluster investment project performance was a fleeting phenomenon. The recent slippages in fiscal performance have provided a clear demonstration that a macro "state of grace" is not sustainable without adequate implementation capacity. Accordingly, Mali officials recognize that implementation concerns will assume greater weight in the design of Bank lending and non lending instruments alike.

29. The Mali PFP provides a clear framework of development objectives. It is, however, not intended as a detailed medium term implementation document for institutional development at sector level. In this respect, an excellent start for deepening the dialogue with Malian authorities is the recently issued "bilans et perspectives" draft which Ms. Garrity delivered to the Prime Minister and the Bank's Governor at the end of our roundup meeting on July 18. Going beyond the "journees de reflexion" Senegal model, a concrete objective of the follow up process ought to be an agreement with Malian authorities about sector policies, associated medium term socio economic targets and capacity building measures.

30. The forthcoming public expenditures review and the preparation of the institutional development project provide concrete opportunities to relate Mali's economic management to the removal of structural obstacles to sustainable and equitable growth. In addition, the annual ARIS should be transformed into a full fledged country portfolio performance review involving Mali authorities. This would lead to the formal estimation of a country portfolio performance index grounded in the evaluation methodology summarized in para 33 below.

Timely Restructuring

31. In Mali as elsewhere, procrastination in dealing with serious implementation problems has been a hindrance to improved portfolio management. The advent of a new government provides an opportunity "to clean house". Obviously, reshaping of the Power and Urban projects should have priority. In addition, the education and health projects should be kept under close scrutiny. Finally, there ought to be a full review of the agriculture projects portfolio (and pipeline) at an early opportunity in order to "lock in" progress made and manage emerging risks.

Operational Design and Information

32. Implementation and evaluation problems often start at the conception stage. Reflecting the ambitious objectives of the country program, there has been a temptation to design complex operations (particularly in the agriculture and human resources sectors). And, as for most other country programs in the Bank, quality assurance of appraisal has not mandated explicit and transparent linkages between operational goals, activities and verifiable performance indicators. This needs to change. And since supervision at its best

is reappraisal, AF5 should put a logical framework for evaluation in place not only for operations yet to be appraised but also for operations already in the portfolio.

33. In this context, the results-oriented evaluation and rating methodology validated by the Wapenhans task force ought to be pioneered in the Mali case. The objective would be to secure more informative and realistic ratings and more effective portfolio management by ensuring that the policy, financial, technical and institutional assumptions underlying the economic analysis are spelled out (whether in cost/benefit or cost effectiveness terms), that sensitivity analysis is used to assess operational risks and that indicators are actually tracked to monitor progress. This would make objective development impact ratings possible and it would facilitate effective managerial vetting (and eventually audit) of ratings. The form 590 would have to be adjusted to accommodate the supporting analysis and complementary poverty reduction, environmental soundness and institutional development indices would have to be displayed, where appropriate.

Improved Supervision Management

34. Results oriented portfolio management will require enhanced borrower accountability for operational follow up and progress reporting. A number of Malian officials expressed the view that borrower's dependence on the Bank for assessment and resolution of routine issues should be reduced. This would allow Bank staff to concentrate on the "commanding heights" of implementation and evaluation -- and to facilitate dissemination of best practice across sectors and countries. At the same time, Malian officials in charge of implementation would have to be given more authority for follow up and issue resolution within their ministries. If so, access to the ministerial level by Bank teams could become more selective. More systematic advance planning of supervision work in consultation with Malian officials (with respect to mission focus, timing and skills) would also be desirable.

Capacity Building

35. For institutional development to be at the core of the country program, each operation ought to have a clearcut component of training and capacity building. Technical assistance management ought to be improved (as prescribed in the new OD 8.40) and more efforts deployed to enhance coordination among donors. Unfortunately, the Natcap exercise in Mali has not had much impact and the UNDP representation in Mali is widely perceived to be ineffective. Thus, Mali presents an unusually difficult case for improved UNDP/Bank cooperation.

36. Procurement delays, counterpart funding constraints and audit covenant compliance have acted as recurring constraints to project implementation in Mali. These problems cannot be tackled decisively on a project by project basis. They reflect systemic weaknesses in financial management and control. The approach followed with respect to procurement streamlining and associated training in concert with the Direction Nationale des Marches is promising and might be replicated with respect to auditing. But the ultimate solution lies in the modernization of budget accounting, financial management and treasury operations within the Ministry of Finance combined with greater reliance on outside accounting firms.

37. Mali recognizes the need to strengthen its auditing and control organization. A recent review funded by CIDA recommends a strengthened and independent Controle General d'Etat operating under the aegis of Parliament. This contrasts with the prior model which placed the function in the President's office. Some Malian officials argue that the best approach would consist of restoring a Cabinet position reporting to the Prime Minister to oversee all financial management and auditing controls. Whatever the decision reached

(and action ought to be taken soon), there will be a parallel need to strengthen the analytical and enforcement capacity of the judiciary branch (Cour des Comptes).

Evaluation

38. In managing the Mali program, the feedback between operations evaluation and project design will have to be strengthened. PCR production ought to be built into the supervision process and the borrower should be involved in PCR preparation whenever possible. Lessons of experience ought to be disseminated more systematically within and across countries. PCR quality should be enhanced: PCRs should be forward looking and provide the basis for the actions needed to ensure optimum benefits from the investments made. Where warranted, they should make provision for impact assessments and participation by beneficiaries where required. In this context, it may be appropriate to plan for evaluation capacity building in Mali. While the Bank's new Governor has evinced an interest in sponsoring such a function, alternative approaches should be explored before a decision to assist is made.

Organization and Information Technology

39. Effective deployment of scarce technical skills to deal with common problems across sectors and countries is a perennial challenge. In addition to improved access by AF5 to TD and OSP skills, the resident mission has potential for further contributing to improved portfolio management. For example, AF5 should consider further strengthening its resident office structure through use of local professionals on a multi-country basis, using the "hub" concept.

40. The portfolio management information system ought to be revamped. The level of computer literacy in Mali implementation agencies is relatively high and this is an untapped resource for improved project monitoring and execution.

41. Last but not least, AF5 management should reward staff excellence in supervision and evaluation work and especially in the effective workout of problem situations. The recent Highways V case is an example of what can be done.

cc: Mr. Sarbib, Ms. Garrity, Ms. Hennrich-Hanson

Annex 1

THE MALI PORTFOLIO a/

	FY	Orig.Comm.. ($ m)	Disbursed ($ m)	Closing Date	Rating
ADJUSTMENT					
SAL	91	70.0	19.3	6/30/93	2
Pub Ent Dev	88	40.0	27.0	6/30/92	1
AGRICULTURE					
Mopti	85	19.5	13.0	9/30/93(?)	2
Agr. Services	91	24.4	-	9/30/95	1
SECAL	90	53.0	18.4	12/31/96	2
Office du Niger	88	48.8	6.8	6/30/97	2
Nat Res Mgt	92	20.4	-	6/30/98	2
HUMAN RESOURCES					
HR Sector	89	26.0	4.9	12/31/94	3
Health 2	91	26.6	-	12/31/97	2
Water Supply	84	10.9	11.3	6/30/93	1
INDUSTRY/EGY					
PE Inst. Dev.	88	9.5	5.1	12/31/94	1
Power 2	89	33.0	3.4	12/31/95	3
INFRASTRUCTURE					
Highways V	86	48.6	40.4	12/31/93	3
Urban 2	86	28.0	24.4	3/31/93	3
PW and Cap. Bldg	92	20.0	-	3/31/97	2
Mining Cap. Bldg	92	6.0	-	NA	NR
TOTAL		484.7	174.0		

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a/ Source : OPNIS, 7/8/92

Record Removal Notice

File Title	Barcode No.
EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	30024557

Document Date	Document Type
7/24/1992	Memorandum

Correspondents / Participants
To: Peter Richardson, EXC
From: David Goldberg, LEGVP

Subject / Title
Report on Portfolio Management

Exception(s)
Attorney-Client Privilege

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

Archives 01 (March 2017)

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

DATE: July 23, 1992 05:37pm

TO: See Distribution Below

FROM: W. Wapenhans, EXC (W. A. WAPENHANS)

EXT.: 80121

SUBJECT: Report on Portfolio Management

I would like to thank you all for the very prompt and mostly constructive response to the call on very short notice for comment on successive drafts. I have taken note carefully of all comments and to the extent possible reflected them in the revised version. Some comments appeared mutually exclusive and exception was taken to others. Most of those difficult to reconcile appeared to deal with matters of style, tone, organization and analysis. On those I have tried to arbitrate as best I could.

I believe the principal recommendations to rest in the consensus we had reached last Friday. The constructive comments received on Chapter V confirm that. Again I should like to thank all those of you who painstakingly helped to shape the focus and the composition of the principal recommendations as they now stand.

I now plan to distribute the report to the members of the Steering Committee and the Advisory Council for their review. Should we not have succeeded in adequately reflecting their concerns in the draft we will still have opportunity to do so before the report is finalized.

Meanwhile, a discussion draft will go to Mr. E. Stern with copies to Messrs. Karaosmanoglu and Sandstrom. As discussed I am inviting Mr. Stern to consider holding an extended Loan Committee meeting to solicit the responses from RVPs and other interested VPs.

I will be out of the country until August 8. I hope that we will have most comments by then for a final version. While I am gone Peter Richardson will look after the affairs of the Task Force.

DISTRIBUTION:

TO: Ian Scott (IAN SCOTT)
TO: Peter Richardson (PETER RICHARDSON)
TO: Prem C. Garg (PREM C. GARG)
TO: Samir K. Bhatia (SAMIR K. BHATIA)
TO: Michel Pommier (MICHEL POMMIER)
TO: Joanne Salop (JOANNE SALOP)
TO: Dominique Lallement (DOMINIQUE LALLEMENT)

TO:	David M. Goldberg	(DAVID M. GOLDBERG)
TO:	Sherif Omar Hassan	(SHERIF OMAR HASSAN)
CC:	Institutional ISC Files	(INSTITUTIONAL ISC FILES)

Peter,
Mr. W's preference.
Marie

WW
Which wordings do you prefer. These are your changes for Annex A + Chapter V, which should be consistent.

PK

	Annex A		Chapter V
A.	Introduce the Concept of Country Portfolio Performance Management Linked to the Bank's Core Business Processes	A.	same
B.	Provide for Country Portfolio Restructuring in Adjusting Countries Including the Reallocation of Undisbursed Balances of Loans/Credits	B.	Provide for Portfolio Restructuring in Adjusting Countries
C.	Improve the Quality of Projects Entering the Portfolio	C.	same
D.	Define the Bank's Role in and Improve Its Practice of Project Performance Management	D.	Define the Bank's Role in Support of Project Implementation and Improve Its Practices in Portfolio Performance Management
E.	Preserve OED's Credibility as an Instrument of Independent Accountability and Refocus *Ex-Post* Evaluation on Sustainable Development Impact	E.	Preserve Independent Accountability and Refocus Operations Evaluation Functions
F.	Create an ~~Improved~~ Internal Environment Supportive of Better Portfolio Performance Management	F.	Create a Supportive Environment for Improved Portfolio Performance Management

MEMORY STORAGE REPORT (JUL 23 '92 08:58AM)

WORLD BANK

(AUTO)

FILE	FILE TYPE	OPTION	TEL NO.	PAGE
023	MEMORY TX		71212	01

REMAINING CALL CAPACITY 299

Peter,
Mr. W's preference.
Marie

WW
Which wordings do you prefer. These are your changes for Annex A & Chapt V, which should be consistent.

PK

Annex A		Chapter V	
A.	Introduce the Concept of Country Portfolio Performance Management Linked to the Bank's Core Business Processes	A.	same
B.	Provide for Country Portfolio Restructuring in Adjusting Countries Including the Reallocation of Undisbursed Balances of Loans/Credits	B.	Provide for Portfolio Restructuring in Adjusting Countries
C.	Improve the Quality of Projects Entering the Portfolio	C.	same
D.	Define the Bank's Role in and Improve Its Practice of Project Performance Management	D.	Define the Bank's Role in Support of Project Implementation and Improve Its Practices in Portfolio Performance

File

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

DATE: 22-Jul-1992 07:33pm

TO: W. Wapenhans (W. A. WAPENHANS)
TO: Peter Richardson (PETER RICHARDSON)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Mali

Attached is a draft of my mission report on Mali. You will note that the recommendations on portfolio management parallel closely the recommendations of your task force. If you have any comments or suggestions on the draft (which has yet to be issued to the Region) I would be grateful to have them. Thanks.

To: Katherine Marshall

From: R. Picciotto

Subject: Mali : Portfolio Management and Evaluation

1. As agreed, I travelled to Mali from July 12 to July 18, 1992 (Section A) to conduct a broad assessment of on-going IDA-financed operations (Section B) and to help generate suggestions for improving AF5's portfolio performance management in light of emerging Wapenhans task force recommendations (Section C). Should you consider it useful, I am available to meet with you and your management team to discuss what follows, at your convenience.

A. The Visit

2. The program for my visit was well designed and skillfully orchestrated by the Resident Representative. Field observations included :

(i) a day trip to the Office du Niger together with Ms Chantal Dejou, comprising a visit to the command area (Niono) and a rice processing plant (Molodo) as well as consultations with farmers' groups and discussions with Mr Tibou Fayinke, Director of the Office;

(ii) a day trip to the CMDT Mali Sud III project (Bougouni), again with Ms Dejou, including meetings with the local farmers union and the extension organization and a foray to the "bas fonds" where the Bank plans to fund minor irrigation along lines pioneered by a Canadian NGO;

(iii) meetings with the Urban II project management cell in Bamako followed by visits to rehabilitation areas; sites and services schemes and the auction of developed urban plots by ACI, an autonomous agency;

(iv) a visit to an Energy du Mali subdivision and neighboring generating and transmission facilities;

(v) a visit to AGEDIP schemes in Bamako.

3. Implementation issues were discussed with the following senior officials : Mr Boubacar Bah, Minister of Private Sector Promotion and Governor of the World Bank; Mr Issoufi Maiga, Director General of Procurement Operations; Mr Samba Sidibe, Minister of Transport and Housing; Mr Moctar Toure, PDG of EDM; Mr Lamine Ben Barka, AGETIP Director; Mr Sevdou Idrissa Traore, Minister of Agriculture and Rural Development. I also met with the former Finance Minister (Mr Bassary Toure); the Acting Director General of the Controle General d'Etat (Mr Bounafou Toure); the former head of the Health Project Unit (Dr Sanoussi Konate) as well as

senior staff of the new Education Project and Health Project Units. In addition, taking advantage of social occasions, I talked briefly to the former Minister General Controller; the Minister of Justice; the Minister of the Fonction Publique; the Minister of Energy and the Minister of Employment. In order to gauge aid coordination aspects and secure an outside perspective on Bank programs, I had an opportunity to meet with Mr Denis Beaudoin, CIDA; Mr Fougere, Mission Francaise de Cooperation; Ms Piergrossi, EEC and Mr Dennis Brennan, USAID.

4. Finally, on July 18, the Resident Representative, Ms Dejou and I held a substantive and constructive roundup meeting with Mr Younoussi Toure, Prime Minister. Ms Dejou briefed the Prime Minister on agriculture projects issues and I took advantage of the session to stress the growing role which country performance played in IDA allocations. I also highlighted (i) the need to maintain sound economic management as the basis for tranche release of adjustment operations; (ii) the systemic procurement and financial management problems which hinder disbursements in investment operations; and (iii) the project specific issues affecting the Energy du Mali and Urban projects. Echoing what I heard throughout my stay, the Prime Minister said that he fully shared the Bank's assessment and would take decisive action to improve utilization of Bank assistance.

B. The Portfolio

5. Despite the turbulence of its politics, Mali has done well in respecting the broad parameters of the IMF/Bank macroeconomic framework. On the other hand, social indicators have registered slow progress and serious lapses in public expenditures management during the twilight era of the transition government recently came to light. With the advent of a democratically elected government, increased transparency and accountability have become political imperatives. This provides a window of opportunity for the Bank and other donors to help Mali put in place improved financial management and controls as well as more effective project monitoring and evaluation systems.

6. All the officials I met stressed that they endorsed the objectives of the Bank's program in Mali and, while pleading for flexibility, confirmed their support for continued liberalization of the economy and for staying the course of fiscal responsibility. On the other hand, for the past several weeks, the attention of the Cabinet has been rivetted to the north where the security situation has deteriorated. Ethnic incidents have spread to Mopti and to the major cities.

7. Thus, looking ahead, sustained adjustment efforts cannot be taken for granted. The focus of the fledgling government has been on maintaining law and order rather than on managing the economy. (The budgetary consequences of the security situation will have to be watched : the need for mobility of the "brigades mixtes" over vast expanses of territory -- as well as the pressure to use

public funds to mitigate public dissatisfaction -- could soon begin to involve significant outlays.) With the flowering of a free press and the opportunity to voice protest through parliament, vested interests (students associations; farmers' groups and civil service unions) have begun to flex their muscles. The determination of the government to stick to a sound fiscal program will soon be tested with respect to key policy conditions of the IDA program (size of the civil service; reductions in higher education expenditures; paddy and cotton pricing).

8. The IDA portfolio (Table 1, below) is fairly representative of AF5 activities. It includes a mix of adjustment and investment credits. Well anchored to the macroeconomic program, the country assistance strategy focusses on adjustment, agriculture, human resources and infrastructure development. Recent operations emphasize private sector development, public sector reform; environmental protection and participation. Given the rudimentary state of Mali's infrastructure and its weak financial sector, the Bank's program gives pride of place to fixed assets creation and institutional development.

TABLE 1 : THE MALI PORTFOLIO a/

	Orig.Comm.. ($ m)	Disbursed ($ m)	Closing Date	Rating
ADJUSTMENT				
SAL	70.0	19.3	6/30/93	2
Pub Ent Inst Dev	40.0	27.0	6/30/92	1
AGRICULTURE				
Mopti	19.5	13.0	9/30/93	2
Agr. Services	24.4	-	9/30/95	1
SECAL	53.0	18.4	12/31/96	2
Office du Niger	48.8	6.8	6/30/97	2
Nat Res Mgt	20.4	-	6/30/98	2
HUMAN RESOURCES				
Education Sector	26.0	4.9	12/31/94	3
Health 2	26.6	-	12/31/97	2
Water Supply	10.9	11.3	6/30/93	1
INDUSTRY/EGY				
PE Inst. Dev.	9.5	5.1	12/31/94	1
Power 2	33.0	3.4	12/31/95	3
INFRASTRUCTURE				

Highways V	48.6	40.4	12/31/93	3
Urban 2	28.0	24.4	3/31/93	3
PW and Cap. Bldg	20.0	-	3/31/97	2
Mining Cap. Bldg	6.0	-		
TOTAL	484.7	174.0		

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a/ Source : OPNIS, 7/8/92

9. Statistically, the aggregate rating of ongoing Mali operations (1.9) is in line with the average of the AF5 portfolio and the nature of the problems is similar to that faced in other countries of the Region. However, some of the above ratings may be optimistic in the light of changes in the government (particularly in the agriculture and urban sectors). Therefore, a concentrated effort to improve portfolio implementation in Mali would be timely and it could have positive spillover effects in similarly situated countries. The prospects for such an initiative are favorable. The country assistance strategy is well designed. The new Government is keen to improve the effectiveness of development assistance to Mali. The Bank enjoys considerable prestige and exercises significant leverage over Mali's development program. Relations with donors are good and the resident mission has built up a formidable network of local contacts.

Agriculture

10. The south of Mali enjoys considerable agriculture potential. The definition of a clear Government strategy for long term development of the sector is essential in order to tap this potential. With one third of the portfolio in agriculture, improved implementation of IDA financed operations will be a litmus test of Government seriousness in tackling implementation problems. A significant disruption in the program may occur if, as is rumored, the new Agriculture Minister decides to move away from the basic approach being pioneered in the IDA financed agriculture services project. Such a discontinuity would have far reaching consequences for the credibility of the agriculture program, the morale of extension staff and the prospects for the next phase of institutional development in agriculture, i.e. the construction of a stronger research base, closely linked to improved higher agriculture education.

11. Rural infrastructure has become a significant bottleneck to agriculture diversification in favorably situated areas. The initiation of private irrigation funded through institutional credit may have potential and the constraints to such a program should be identified and removed. The set up of a rural AGEDIP might be worth considering in order to ensure efficient execution

of rural roads; rural water supply and minor irrigation schemes, preferably in conjunction with proven participatory development approaches.

12. Liberalization of cereals marketing triggered by effective (and informal) cooperation among aid donors has been remarkably succesful but has not yet reached into rice where the Office du Niger faces the paradox of "excess" production and severe marketing problems which contrast with a flourishing private paddy processing activity and are explained by the incoherence between the rice import policy of the outgoing government and the unrealistic "support" prices which the Office du Niger had been mandated to protect.

13. Only a sensible rice import policy combined with rapid disengagement from Office du Niger involvement in paddy procurement and rice processing will ensure sustained paddy production increases over time. The Office du Niger needs to concentrate its efforts on network maintenance, participatory water distribution and salinity prevention and control. Yet, there are powerful vested interests working in favor of budgetary support through concessional rice imports let alone for maintaining the status quo regarding Office du Niger activities. Similarly, realistic pricing for cotton has begun to run afoul of increased farmers' union clout vis a vis CMDT. It is likely that the policy capacity of Government in this area will require strengthening.

14. In general, the transition to a liberalized approach to agriculture inputs and products marketing should have top priority in the policy dialogue. This will require continuous donor prodding not only with respect to rice and cotton price policy but also vis a vis other entrenched interests involved in livestock production, fisheries, dairying and other agro-industrial schemes. Both the Prime Minister and the new Bank Governor have evinced a keen interest in these aspects of the Bank program : they should be kept apprised of the obstacles which may be encountered.

15. Internally, given the interconnected nature of agriculture policies and the rising implementation problems affecting the portfolio, a graduated response to Government actions is needed and a fully concerted and disciplined approach to developments in the sector essential to deal with the uncertainties faced in the Ministry and avoid backsliding. In particular, early attention to the execution of the new and extraordinarily complex natural resources management project is warranted where, in order to manage the risks involved, selection of early interventions should be based on proven NGO interventions.

Human Resources

16. I was unable to meet either the Education or the Health Ministers and I did not visit human resource operations in the

field. But I did have a chance to talk to the officials directly involved in the monitoring of the Bank projects and came away uncertain about the prospects for improved implementation in the sector. Obviously, uncertainties about the intentions of the new Education Minister need to be removed promptly if the education sector operation is to graduate from the problem project category. This should be a high priority for Resident Mission follow up in the weeks ahead.

17. With every week which passes without a clearcut Government approach to the scholarship problem, the chances of Mali reaching the expenditures switching targets prescribed in the credit are growing slimmer. Doubts prevails as to whether the US or even France (which, at this stage, appears keener to back the position taken by the Bank) will maintain a tough posture regarding social sector conditionality. A flexible approach may be warranted if the Government demonstrates good faith in tackling the issue over the medium term. (The joint Jaycox/Jolly letter which quoted different targets from those embedded in the IDA financed project created uncertainty which the Resident Representative was able to dispel.)

18. Regarding health, there is little doubt that the first project pioneered succesful approaches at the field level and that the lessons of the first project have been internalized by Mali decision makers. However, the new project is exceedingly ambitious and complex. Whether the new management structure will deliver the goods remains to be seen as the shift from a "project unit" to almost total reliance on the line departments may have been too abrupt. An early and independent test of performance should be made and institutional adjustments initiated promptly as problems arise.

19. In general, the focus of human resource operations should be on the delivery of basic services to the poor. Effective monitoring and independent evaluation should be viewed as key instruments of accountable management in these sectors. In addition, taking account of lessons from the first project, cross sectoral dissemination of "what works and what does not" is needed with respect to civil works construction. Finally, sustainable operation of water supply schemes through participatory techniques should be given high priority as implementation proceeds.

Energy and Industry

20. The need for radical restructuring of the Power 2 project is well understood by all concerned. Suspension of disbursements should be considered. The finances of EDM are in disastrous shape and many knowledgeable observers (including the former Energy Minister) state that internal collusion is at the root of a good deal of the theft of electrical materials and equipment as well as of the physical and financial "losses". Privatization of management and distribution appears as the most appropriate

solution. Fragmentation of decision making in the sector is widely acknowledged as a major issue by Government although there may be resistance to getting the pricing right by splitting water and power activities. The new Minister of Energy has asked for interministerial consultations prior to review of organizational options by the Cabinet. This means that the Finance Minister should be brought in the picture in order to facilitate a clearcut outcome.

21. The momentum of privatization should be recovered by systematic evaluation of recent activities (widely criticized as calendar driven) and by involving the new Minister of Private Sector Promotion. A component of the new institutional development project might be constructed to this end and agro-idustries may provide an early test of Government commitment.

Infrastructure

22. The economic priority of improved transportation in the vast and landlocked territory of Mali is clear. With the succesful restructuring of the Highways V project and the broad agreement reached on sector policies, the way is open for systematic institutional development in the sector. In addition, this is a case where supervision should go beyond monitoring of civil works contracts and involve a wider range of skills than recently deployed.

23. Resettlement performance of the Urban 2 project has not been in line with Bank policy. Considerable frustration arises from the current location of the Project unit in the Ministry of Equipement. The effectiveness of long term technical assistance in this context appears dubious. Here again, a firmer approach to project restructuring and a higher dose of institutional expertise in supervision appears warranted : better late than never. The reversal of decisions made by the outgoing government regarding land distribution in the Bamako area and the premature establishment of a housing bank is an acid test of the new government's credibility. In general, the definition of an urban policy geared to the decentralization implicit in the new democratic order has become an urgent necessity.

24. An urban policy framework will be needed if the AGEDIP operation is to achieve sustainable capacity building : it is hard to visualize how AGEDIP funding of small pilot waste disposal schemes at the neighborhood level will be economic or durable without a metropolitan approach to cost recovery and disposal siting. Generally, the criteria of AGEDIP subproject selection should be linked to municipal planning priorities operating within clear fiscal limits and sound cost recovery principles. In this context, a linkage between the AGEDIP scheme and the metropolitan mapping scheme ought to be envisaged.

C. PORTFOLIO MANAGEMENT PRACTICES

25. Given AF5's receptiveness to change, the country's potentially responsive leadership and the high quality and relevance of the Bank's operations program, Mali could readily be turned into a model of excellence in portfolio management. The goal is clear : a favorable and sustainable portfolio rating by the end of FY93. This would require clusters of managerial action geared to : (i) results oriented country assistance strategy work; (ii) early restructuring of problematic operations; (iii) improved design, information and analysis of Bank financed operations; (iv) supervision management geared to borrower accountability; (v) implementation and evaluation capacity building; and (vi) a strengthened organizational and technology base. Without concrete action (e.g. along the lines given below), it would be idle to promote new "values" and an implementation culture would not be likely to take hold.

Country Strategy

26. The contrast which Mali had offered during the past 2-3 years between a sound macroeconomic framework and a lackluster investment project performance was bound to be a fleeting phenomenon. The recent slippages in fiscal performance have already provided a clear demonstration that the macro "state of grace" cannot exist for long without adequate implementation capacity : sustainable reform implies effective resource use. Therefore, implementation concerns should assume a greater weight in the design of lending and non lending instruments alike.

27. The Mali PFP provides a clear framework of objectives for the country assistance program. It is, however, fair to say that it is deliberately geared to short run macro concerns and it is not intended as a detailed medium term implementation document for institutional development at the sector level. In this respect, an excellent start for deepening the dialogue with Malian authorities is the recently issued "bilans et perspectives" draft which Ms Garrity delivered to the Prime Minister and the Bank's Governor at the end of our roundup meeting on July 18. One concrete objective of the proposed follow up process ought to be an agreement with Malian authorities about sector policies, associated medium term socio economic targets and capacity building measures.

28. The forthcoming public expenditures review and the preparation of the institutional development project provide concrete opportunities to relate Mali's economic management to the removal of structural obstacles to sustainable and equitable growth. In addition, the annual ARIS ought to be transformed into a full fledged country portfolio performance review discussed in advance with Mali authorities. This would lead to the estimation of a country portfolio performance index grounded in the evaluation methodology summarized in para 31, below.

Timely Restructuring

29. In Mali as elsewhere, procrastrination in dealing with serious implementation problems is the major single obstacle to improved portfolio management. The advent of a new government provides an opportunity "to clean house". Obviously, reshaping of the Power and Urban projects should have priority. In addition, the education and health projects might be kept under close scrutiny and there ought to be a full review of the agriculture projects portfolio (and pipeline) at an early opportunity.

Operational Design and Information

30. Implementation and evaluation problems start at the conception stage. Given the ambitious objectives of the country program, operational design has tended to be complex (particularly in the agriculture and human resources sectors). As for other country programs, quality assurance of appraisal has not always ensured explicit and transparent linkages between operational goals, activities and verifiable performance indicators. Since supervision is reappraisal, AF5 should put a logical framework for evaluation in place not only for all new operations but also for ongoing operations not expected to close before the end of FY93.

31. In this context, the results-oriented evaluation and rating methodology recommended by the ECON task force and validated by the Wapenhans task force ought to be pioneered in the Mali case. The objective would be to secure more informative and realistic ratings and more effective portfolio management by ensuring that the policy, financial, technical and institutional assumptions underlying the economic analysis are spelled out (whether in cost/benefit or cost effectiveness terms), sensitivity analysis used to assess operational risks and indicators tracked to monitor progress. This would allow more objective development impact ratings which would also need to be vetted critically by Regional managers and subject to audit. The form 590 would be adjusted to accommodate the supporting analysis. Where appropriate, separate poverty reduction, environmental soundness and institutional development indices would be displayed.

Improved Supervision Management

32. Results oriented portfolio management will also require clearer borrower accountability for operational follow up and progress reporting. A number of Malian officials expressed the view that borrower's dependence on the Bank for assessment and resolution of routine issues should be reduced. This would allow Bank staff to concentrate on the "commanding heights" of implementation and evaluation -- and to facilitate dissemination of best practice across sectors and countries. At the same time, Malian officials in charge of implementation should be given more authority for follow up and issue resolution within their ministries and access to the ministerial level by Bank teams should be more selective. More systematic advance planning of

supervision work in consultation with Malian officials in charge of implementation (with respect to mission focus, timing and skills) would be highly desirable.

Capacity Building

33. Institutional development should be at the core of the country program and each operation ought to have a clearcut component of training and capacity building. Technical assistance management ought to be improved (as prescribed in the new OD 8.40) and more efforts deployed to enhance coordination among donors. Unfortunately, the Natcap exercise in Mali has not been very successful and the UNDP operation in Mali is weak. The Planning Directorate might have to be strengthened to effect positive changes in this area and this could be a suitable use of IDF.

34. Procurement delays, counterpart funding constraints and audit covenant compliance have acted as servere constraints to project implementation in Mali. These problems reflect systemic weaknesses in financial management and control which require comprehensive treatment at the national level. The approach followed with respect to procurement documentation streamlining and associated training in concert with the Direction Nationale des Marches is promising and might be replicated with respect to auditing by requesting Mali to give oversight of this aspect of project execution to a central unit. But the ultimate solution lies in the modernization of budget accounting, financial management and treasury operations within the Ministry of Finance combined with greater reliance on outside firms. This might be tackled under the institutional development project.

35. In addition, Mali recognizes the need to strengthen its own auditing and control organization. A recent review funded by CIDA recommends a strengthened and independent Controle General d'Etat operating under the aegis of Parliament. This contrasts with the prior model which placed the function in the President's office while some senior Malian officials believe that the best system would be to restore a Cabinet position reporting to the Prime Minister to oversee financial management and auditing controls. In parallel, there is a need to strengthen the analytical and enforcement capacity of the judiciary and indeed the Minister of Justice wished to have Bank assistance in this connection.

Evaluation

36. The feedback between operations evaluation and design needs to be strengthened. PCR production ought to be built into the supervision process and prepared by the borrower whenever possible. Furthermore, the lessons of experience ought to be disseminated systematically within and across countries, PCR quality should be enhanced and PCRs should be forward looking and recommend actions needed to ensure optimum benefits from the investments as well as make provisions for impact assessments and

participation in evaluation by beneficiaries where required. In this broad context, it may not be too early to plan for evaluation capacity building in Mali and the Bank's new Governor has already evinced an interest in sponsoring such a function.

Organization and Information Technology

37. More effective deployment of scarce technical skills to deal with common problems across sectors and countries is a major challenge. In addition to improved coordination between AF5, the TD and OSP, the resident mission is an important asset for improved portfolio management. AF5 should consider further strengthening of its resident office structure through use of local professionals on a multi-country basis using the "hub" concept.

38. Another powerful instrument for improved portfolio management is information technology. The portfolio management information system ought to be revamped and eventually connected to Mali-based systems. The level of computer literacy in project implementation agencies is relatively high and this is an untapped resource for improved project monitoring and execution.

39. Last but not least, AF5 management should recognize and reward excellence in supervision and evaluation work and especially in effective workout of problem situations. The recent Highways V case is an example of what can be done.

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

DATE: 22-Jul-1992 10:22pm

TO: W. Wapenhans (W. A. WAPENHANS)
TO: Peter Richardson (PETER RICHARDSON)

FROM: Joanne Salop, OSPVP (JOANNE SALOP)

EXT.: 37499

SUBJECT: Report

As a general point, there is the question of unresolved differences of style, emphasis, opinion, and comfort with the analysis among Task Force members. I hope that the report will indicate that not all those listed in Annex F agree with every point in the Report. Plus I can't believe that the paper will be in good enough shape to give to the MDs before next week. I would not put my name on such a report if it were going out tomorrow. Aren't you circulating it to the Steering Committee first? If not, you run the strong risk of their repudiating it.

General Style point: Change all %'s to percent.

Other point: Paras 12-16 and Box 1 don't work where they are. Para 16 should be dropped outright. It adds nothing other than opinion; and there is already too much of that. Para 12 should be worked into para 23. It explains why projects fail. Paras 13-14 are what? Evidence of problems? Or causes of problems? If the former, keep them in Chapter II. If the latter, shift them to Chapter III. But in either case, make the logic clear. They now float in between. Para 15 and Box 1 are something else entirely. They are examples of some aspects of supervision. They belong in Chapter IV. However, that raises a major problem with IV: All the discussion of supervision reflects the interviews. Are there no facts?

This brings me back to what I see as the paper's fundamental flaw: It prescribes much remedial work on supervision, but the diagnosis is poor quality at entry. I think the diagnosis is right. The balance of the paper needs to be fixed.

Specific comments follow:

Title: I hadn't noticed the "sustainable" in the title before. I think it should be omitted. What does the report say about sustainability? Does it even define sustainability? What about: "Portfolio Management over the Project Cycle"?

Summary

iv. Start with OED results. That's news. Operational staff are more familiar with ARIS and will stop reading before they get to the OED results.

v. Same comment as last time. This para is a mixed bag. Can you at least put a general statement indicating what the para is about? Which period is _this_ period? How _startlingly low_ is compliance? All this is by way of saying that it is now clear that things have become worse in the last few years, given the tremendous lag between approval and completion.

vii. Delete first part of the first sentence (after capabilities.)

viii. Add "meaningful" before "sensitivity/risk" in the second sentence. You should emphasize the point that because of weak sensitivity analysis, projects and project components that are especially vulnerable to risks are not rejected; hence the portfolio is riskier than it need be.

ix. Another mixed bag. This needs a general introductory sentence.

xi. I, for one, do not believe that staff do _not_ have a comparative advantage in implementation assistance. Omit "sustainable" in last sentence.

xii. Second bullet seems to fall out of the sky. Third bullet: Change text to "more realistic and risk-conscious project anlysis and appraisal." Fifth bullet: omit "sustainable".

xiv. First -- This will "sustain the Bank as a leader ..."? Perhaps, "help restore" would be better. Third: _OMIT THE LAST SENTENCE_. _OMIT THE LAST SENTENCE_.

Main Text

Chapter I

2. _Omit "sustainable" everywhere_. In the second sentence, change "sustainable benefits" to "benefits are produced cost effectively with the resources it provides." _OMIT THE FOURTH SENTENCE._ It adds nothing other than literary distraction.

Chapter II

8. This is weak. _OMIT THE SECOND SENTENCE_. Convey the idea that the degree of risk in the portfolio should be a decision variable, and that the Bank as a development institution should probably be taking some risks. However, the worry is that 20 percent, which sounds about right, is just the tip of the iceberg; that OED ratings are much worse. Move reference to OED

failure rate from para 9 to para 8. We can all debate whether 20 percent is too high or low. There will be few takers for 35 percent being too low.

11. Kindly clarify that the OED numbers are based on approvals from long ago. NOTE that OED documented the gap; the reference, as I have mentioned in earlier EMs, is the 1988 Annual Report on Evaluation Results.

END CHAPTER II WITH TABLE 1. These are the portfolio "facts". Paras 12-15 and Box 1 are why and what do we do about them issues. They are to be moved below.

16. DELETE THE PARA. Editorial injections are not needed. Let the story be told.

23. Combine with para 12 here.

26. After this, insert paras 13-14, if they are "causes" of project failures.

27-29. As before, I still have major problems with this section. How a narrow framework that starts with supervising procurement and gets all the way to facilitating implementation is broadened to encompass quality at entry and still thought to be a useful organizing device, is beyond me. This material does not belong here! Instead, a useful beginning could provide a framework/summary for what is discussed in the chapter. This would serve as a check on the logic as well. So what is the flow of the argument of the Chapter?

40. Here is the summary of the survey explaining staff views. But what are the facts? Have we established that there are problems with implementation? Where is that established? For all I know, we have global, country, and project complexity issues. Where is the evidence that implementation matters?

42. The report makes a big deal about inadequate appraisals and design. Now we are told that they are favored.

43. Not only do some managers feel that the budgetary numbers misrepresent the case, some Task Force members share that view.

WHERE IS THE DISCUSSION OF THE QUALITY AND IMPACT OF SUPERVISION WORK? ONCE THAT IS ANSWERED, ATTACH PARA 15 AND BOX 1 TO IT.

59. B follows from nothing before in the paper.

E: Omit sustainable.

F: For what?

62. As mentioned in earlier EMs, you need to reconcile the reputedly adverse impact of adjustment on projects with the

positive impact of improved policies.

63. Omit "sustainable". Why should only "implementation experience" be taken into account? What about the lessons of experience?

N.B. Marie told me to read Chapter V no further.

<u>Annex</u>

4. <u>PLEASE DELINK THE INDICES FROM COUNTRY RISK ANALYSIS</u>.

CC:	Michel Pommier	(MICHEL POMMIER)
CC:	Dominique Lallement	(DOMINIQUE LALLEMENT)
CC:	Samir K. Bhatia	(SAMIR K. BHATIA)
CC:	Prem C. Garg	(PREM C. GARG)

cc: Peter Richardson
71212

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: July 16, 1992 12:33pm

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

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

EXT.: 34380

SUBJECT: Comments on Draft Report on Portfolio Management

Willi:

1. As promised, I summarize below my comments on the draft report on Portfolio Management. In Section I, I list my major suggestions on how we can transform the Bank's "go-go" lending culture into one that strikes a better balance between new lending and improved project implementation. Most of my recommendations --some of which I mentioned last week-- are of a substantive nature. Others are more symbolic but aim at reinforcing the message that, from here on out, implementation does matter. In Section II, I get into more detailed comments on the tone or presentation of the report.

SECTION I

2. The Bank needs to be more selective in its treatment of borrowers. More specifically, it needs to establish a clear link between a country's success in project implementation and the amount of new lending it can aspire to. Good performers on the implementation side should, other things being equal, have access to more Bank Group support. Countries with a poor implementation record should get less new lending or, in extreme cases, none at all.

3. Simplicity of project design (and in the design of adjustment operations, for that matter) should be explicitly endorsed in the recommendations section. Overly complex operations involving multiple components, multiple executing agencies and multiple donors are congenitally more prone to failure.

4. The Bank should design and then offer serious training on project cycle/implementation issues and attendance in this training should be made mandatory for line managers and staff. To underscore the importance of this activity, I strongly suggest that this particular training unit should be headed by a vice president and that, say, existing and potential Division Chiefs and Task Managers should all receive and earn a passing grade in this training. By the way, this is not a training function that I would entrust either to EDI or Personnel. It is too important for that.

5. In addition to the training mentioned above, Lew Preston should order the Bank to "stand down" for, say, a day so that Managers and staff can reflect on the institution's sorry record on project implementation and agree to make project implementation a higher priority than new lending. What I envisage, for instance, would be a series of meetings (including one where Lew Preston would meet with Directors and above) to discuss this issue and agree on action plans to remedy the current situation. Existing OED reports and their analysis of implementation bottlenecks and lessons learned could be made compulsory background reading for such a "stand down."

6. Managers and staff should be instructed to be more aggressive in "pulling the plug" (suspend, cancel or close) on problem projects that have been perennial losers instead of keeping them alive, as is often done today, for years.

7. Unit budgets should not be based, mainly --as they are today-- on the number of new operations which a unit can deliver. Supervision should loom more important in unit budgets and consideration could be giving to giving budgetary "bonuses" to those units which prove most aggressive in improving the status of their portfolios.

8. Most operational units now have output contracts with their managers. Instead of limiting these contracts to new lending, appraisal departures, PCRs and ESW, the project implementation dimension should be built into these and performance of managers and staff should explicitly reflect, inter alia, success in dealing with implementation issues.

9. In a related vein, staff incentives should be set in place to recognize success (or failure) in the project implementation area. To facilitate this, I would recommend redesigning the PPR form to include a section where a staff member's contribution to the portfolio's health would be explicitly discussed and evaluated. The final performance rating given to a staff member would take into account his/her performance in this area. This section would, of course, only be filled out in the case of staff whose duties and responsibilities include portfolio implementation issues.

10. Finally, where generic issues (e.g., lack of counterpart funds, procurement problems) cut across sectors and projects in a country and hamper a borrower's ability to execute ongoing projects, I think our adjustment operations should contain explicit conditionality to deal with these issues. Furthermore, if a country shows a "pathological" inability to solve its portfolio problems over time, the Bank should either reduce adjustment lending to it or rule it out altogether (here's the selectivity notion, once again, with the objective being this time to put the full weight of quick disbursing assistance behind creating a better portfolio performance.

SECTION II

11. There is too "rosy" a depiction of what the countries' aspirations and views are on portfolio issues. Let's face it, the sad reality is that many of our borrowers care more about "scoring" by getting new loans than about the less glamorous but more critical process of project implementation. As the report now reads, the borrowers' hands are "clean" and their representatives' criticisms of the Bank's efforts are legion. Let's have more balance here and explicitly recognize that Bank-financed projects are just that and that, ultimately, they belong to the borrowers --not the Bank--and that our borroweers are responsible for their successful execution.

12. In para 59, there is a statement that the trend towards more resident missions reflects their greater involvement in facilitating implementation. This is a non sequitur. With regard to overseas missions, what we ought to say is that they should play a greater role in this area.

13. I feel uncomfortable with para 62. It exalts the task manager on portfolio issues but does not saddle him/her with any accountability for successful project implementation. Instead this lies with the "heavies" in the Bank's structure: Department Directors and Division Chiefs. In point of fact, task managers should have adequate delegation, but with it should come primary accountability for how the projects which they oversee are doing. I also don't like the notion in the para's last sentence that staff should "have their day in court" (whatever that means) without prejudice to their evaluations. This is nonsense. If a staff member's analysis of a portfolio problem is faulty or if his/her proposed solutions do not work, or if a staff member does not deal with project issues aggressively, why shouldn't this be reflected in his/her performance evaluation. Don't forget, we have a lot of very good task managers and staff... but also more than our fair share of fools.

14. In para 73, the report takes a swipe at our strategy formulation, the alleged absence of a link between projects we finance and that strategy, and the link between portfolio performance and country assistance. Whoever wrote this does not know the Bank. Just have a look at the recent Madagascar strategy discussion, which was presented to the Board in early June. You will see that all these elements are there. And this is not an isolated case. It is standard in my Department and, I believe, in the Africa Region and probably across the Board for IDA countries. This incorrect portrayal should be struck from the report.

15. Para 73 also implies --towards the end-- that adjustment is to blame for the "untenable financial position" of many of our projects. This criticism is off the mark. What really happened was that we had been putting up with and supporting, as you know,

a number of institutions and financial practices which were OK within the distorted policy environments which existed throughout the developing world but which proved unsustainable in the tough times following the oil shocks of the 1970s. This nuance is important for the sake of accuracy and to avoid fueling the notion that adjustment has been bad for Part II nations.

16. Para 76 gave me a lot of troubles. It states, for instance, that "Bank assistance strategies should be developed in close association with borrowers" as if this was not already the case. Indeed, in my 23 years of Bank experience, this has always been the case and pious affirmations of this type are precisely the sort of statements that give the report the harsh, critical and incorrect tone which people like Peter Bottelier complained about last Thursday.

17. I also found naive, in the same para, the reference to a need for "at least a 10 year framework." Conditions change so quickly in the real world that this sort of approach is hardly credible.

18. Someone should re-read carefully para 81. Is it really true --as the para now states-- that the ARPP should be discontinued?

19. In para 134, there is a plea for a more simplified form 590. In my view, what is really needed is a more meaningful form, one which would force project officers to <u>succinctly</u> but clearly discuss the performance of a project, its main problems and what is being done to deal with these. One of the problems, Willi, that we now have is that the "paper trail" for our projects has largely disappeared and that we don't have concise statements of how they are doing, what ails them and what needs to be done to cure their infirmities.

20. I hope these comments are helpful.

Francisco

CC: Ian Scott

(IAN SCOTT)

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July 16, 1992

BY FACSIMILE

Willi Wapenhans
The World Bank
Room D-1321
1818 H Street, NW
Washington, DC 20433

Dear Willi:

There follows a suggested revision of paragraphs 122 and 123. This does not include the second sentence of Paragraph 123, which should be moved elsewhere.

Lester

Lester Nurick

The Procurement Guidelines, which are incorporated into the Bank's loan documents, are divided into two components; one prescribes the procedure for international competitive bidding (ICB) under Bank financed contracts; the second describes various contract provisions required to be included in the bidding documents for such contracts.

(a) The procedures for ICB have been developed largely to deal with traditional procurement. They do not readily fit the needs of the newer aspects of social sectors procurement, e.g., the need to acquire a wide variety of text-books [other examples?]. The Task Force recommends that the Guidelines be reviewed with these newer needs in mind.

(b) While borrowers are required under the Guidelines to incorporate certain provisions in their contracts and the Bank has prepared sample bidding contract documents to help them do so, (for works, (others?)) these contract documents are recommended but are not mandatory. As a result, borrowers often prepare contract documents which do not meet Bank requirements and require constant, time consuming revisions. The Task Force recommends that these standard bidding contracts, modified as appropriate to accomodate national requirements, be made mandatory.

This would serve several purposes; (i) it would save considerable Borrower and Bank staff time in reviewing and revising the contracts; (ii) it would ensure the inclusion of a number of contract provisions which have been found to be useful in contract implementation (the use of an independent supervising engineer, the inclusion of a fast-track dispute resolution mechanism, quality assurance procedures); (iii) more contractors would be likely to bid.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

File

WW In addition on p.3.

(Borrowers also mention greater lending volatility at end.)

PR

DATE: July 15, 1992

TO: Lewis T. Preston

FROM: Willi A. Wapenhans

EXT: 80121

SUBJECT: **Report of the Portfolio Management Task Force**

1. Attached is the report of the Portfolio Management Task Force. Its work drew on a large number of existing reports (such as ARIS and the supervision report of OED) and on numerous special studies which it commissioned. It has been discussed with the Steering Committee of managers and advisers from across the Bank, and has been furnished to an Advisory Council composed of Messrs. Picciotto, Rajagopalan and Rovani.

2. There is no doubt that a portfolio management problem exists. The number of problem projects reported in the Annual Review of Implementation and Supervision (ARIS) has doubled in the past ten years to about 20%, but that understates the problem. ARIS reports that the proportion of problem projects among those in their fourth or fifth year of implementation is 30%. OED's data, based on assessments at completion of implementation is more discouraging. The proportion judged unsatisfactory rose from 15% for the cohort reviewed in FY81 to 37.5% in FY91. Factors beyond the Bank doubtless contributed to the decline, but it is self-evident that the Bank did not succeed adequately in helping its Borrowers overcome them.

3. There is, in our judgement, no single cause for the decline. Events beyond the Bank's control or influence certainly played a role. Underlying the problem, however, is the tendency across operations to put more emphasis on -- and attach more value to -- getting new loans approved then to helping ensure that loans are being effectively implemented. A second underlying cause is the tendency of the Bank to play too heavy a role in preparation and implementation and, in the process, to weaken Borrower commitmant and accountability. Borrowers (with whom we held a conference) increasingly see the Bank in a promotional role rather than as a source of objective advice. Unfortunately, implementation planning receives little attention from the Bank, as does assessment of risk/sensitivity in economic analysis. Loan covenants are used in quantity (sometimes with a view to facilitating loan approval), without distinctions being made between vital and other ones. They are frequently breached and often not enforced. The noncompliance rate with financial covenants, for example, is about 80%.

4. **During implementation**, the portfolio performance rating system lacks transparency, staff sometimes encroach on the Borrower's proper role in trying to restore a project to health, and problem projects drag on inconclusively -- the majority of them for more than two consecutive years and nearly half for three consecutive years. With some exceptions, the vaunted country focus has not spread to portfolio management, where the project-by-project approach usually predominates. As a result, generic problems often are not efficiently addressed. Lastly, while Project Completion Reports predict the flow of benefits from each implemented project, there is almost no

attempt (except when there are repeater projects) to determine the actual flow of benefits.

5. The task force reached **six fundamental conclusions**, which are reflected in its diagnosis and recommendations:

- ***On-the-ground benefits***: First, the acid test of Bank success is benefits "on-the-ground" -- sustainable development impact -- not loan approvals, good reports or disbursements. The best of plans, if poorly implemented, may yield little or no benefit.

- ***Commitment and implementability***: Second, an indispensable requirement of project success is implementability by the executing agency. Successful implementation requires stakeholder and executing agency commitment, which can only come from preeminent Borrower involvement in identification and design work and continued primary Borrower responsibility -- in fact as well as theory -- for project implementation.

- ***Quality at entry; implementation planning***: Third, concerns about (and practical plans for) implementation and the obstacles to be overcome must begin to be addressed as early as identification -- not after loan approval. Project **quality at entry** into the portfolio -- entailing thorough risk/sensitivity analysis, high stakeholder commitment and realistic implementation planning -- is a vital determinant of later performance, especially as the Bank increasingly finances evolutionary "software" projects such as those in human resources development and poverty reduction.

- ***Taking account of portfolio performance***: Fourth, if the Bank is to remain practical and relevant, its experience with project implementation must be taken into account in the Bank's country assistance strategies and planning processes as well as in project identification, preparation, appraisal, and implementation. Specifically, country portfolio performance must influence the composition and volume of new lending.

- ***The country focus***: Fifth, if the project-by-project approach to portfolio management is not supplemented by a country focus on the problems of implementation (including generic ones), opportunities will be lost for portfolio improvement, and accountability within the Bank for portfolio results will be inadequate.

- ***Resources***: Sixth, a shortage of overall budget resources has not caused the problem. Although portfolio management is a potentially bottomless activity, the task force's view of the Bank's proper role is not incompatible with current budget levels. There are, however, critical skill shortages.

6. Consistent with these conclusions, the task force has developed a comprehensive program of measures to improve the Bank's portfolio performance management. They are enumerated in the report. Broadly, the recommendations pertain to:

- ***Focussing Bank attention on on-the-ground benefits***: Sustained flows of benefits to Borrowers -- resulting from soundly conceived and well implemented loans -- must come to be seen as the Bank's principal purpose. This overarching objective should be in the forefront before, as well as after, loan approval. Prestige, accountability and the reward system should be linked to portfolio performance and resulting benefit flows as much as to gaining approval of proposed loans.

- ***Quality at entry; commitment; implementability***: Improvements in appraisal methodology are recommended, especially in risk/sensitivity analysis and the identification of critical progress indicators. Part of appraisal should entail the review of detailed implementation plans, bearing in mind that the complexity of projects should be held to a necessary minimum consistent with the capabilities of the executing agency(ies). Borrowers should fully understand obligations under the loan documents, the implementation plans should be attached (as best estimates, rather than rigid mandates), and vital covenants should be highighted.

- ***Improved and more efficient portfolio performance management***: Beyond ensuring compliance, the Bank's role in portfolio performance management requires a careful mix of well-timed support and self-restraint -- lest, by playing too direct a role, the Bank undermine Borrower accountability and commitment. Progress tracking must be made more efficient and based on the critical indicators agreed at appraisal. And the Bank must become more decisive in dealing with problem projects. Regarding procurement, mandatory use of standard clauses, adapted as necessary for each country, is recommended, as is the creation of an advisory Procurement Review Committee for the 50 or so very large contracts which account for more than half the ICB awards.

Addition :

- ***Country focus; integration of portfolio management experience***: A country-wide focus must become an integral part of portfolio management, and country directors must be made accountable for it. Annual Country Portfolio Reviews (CPPRs) should be mandatory and Country Implementation Reviews in the field should also be conducted annually unless there are no significant problems. The CPPRs should feed into a country-focussed Annual Portfolio Performance Report (APPR) from you to the Board. Country directors and RVPs should defend it in the Board. It should replace the current ARIS report. Assessments of country portfolio performance should be brought to bear on the Bank's planning processes, should influence the volume and composition of lending, and should be taken into account in project work.

- ***Quality after disbursement***: The current backward looking Project Completion Reports should be replaced by forward looking "Implementation Completion Reports (ICRs)" which, in addition to providing retrospective information, would address the transition from implementation to operations -- the stage at which benefits mainly flow. The ICRs would be provided to OED and forwarded to Executive Directors only on request. OED would increase its attention to impact evaluations, which now are a minor part of its work program. It would not do midterm reviews, as this would compromise its future objectivity.

- ***Cross-cutting measures***: The task force recommends a presumption in favor of having field missions of at least two HL staff for every country with a significant program. It recommends a better use of information technology. And lastly, it recommends more emphasis on hiring staff experienced in management, institutional development and financial management -- principal problem areas in the portfolio.

7. Successful implementation of the comprehensive program recommended by the task force will require sustained top management interest and leadership, as well as thorough assimilation throughout operations and OSP. The process of turning the Bank around to see loan approval as a beginning rather than a culminating event -- and having managers and staff act accordingly -- will take time.

8. Without the kind of pervasive change we are recommending, however, portfolio management will remain less attractive and important than work on loan approvals. More important, development impact will receive less attention than resource transfer, and measures of portfolio success will continue to be disappointing. This would not help the Bank's effectiveness or reputation and might ultimately imperil its ability to mobilize resources.

cc. Messrs. Karaosmanoglu, Sandstrom, Stern

Record Removal Notice

File Title	Barcode No.
EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	30024557

Document Date	Document Type
7/15/1992	Memorandum

Correspondents / Participants
To: Willie A. Wapenhans, EXC
From: David Goldberg, LEGVP

Subject / Title
Portfolio Management Task Force Draft Report 7/14/1992

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

File

DATE: 14-Jul-1992 09:39pm

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

FROM: Joanne Salop, CODOP (JOANNE SALOP)

EXT.: 84005

SUBJECT: WTF Report: Comments

I have a few major problems with the draft. My primary concern is with the relative neglect of quality at entry -- particularly the role of policy and the macro environment. Reading Dan Ritchie's comments, I think it even more important. As you know, quality at entry goes far beyond implementation planning, narrowly defined. It encompasses also the issues that make for project success, which the report indicates include the policy and macro environment, etc. Yet the report seems to keep coming back to a very narrow concept. This concern is reflected in my comments. (Para numbers follow the draft report.)

Executive Summary

iii. Quality-at-entry should mention the importance of evaluating the policy and macro assumptions, given their importance to project success.

v. Third sentence: "most common type of problem reported" by whom? OED? They did not mention macro environment?

vi. The "railroad" sentence is still too strong. If stay it must, kindly put it into the mouths of the borrowers more explicitly.

vii. Fourth and fifth sentences: It is not correct to say that implementation is not discussed in the SARs. What is correct is that the appraisal/evaluation does not consider possible shortfalls from perfect performance. Change the fourth sentence as follows:

> "With minimal critical evaluation of implementation plans and underlying assumptions about the macroeconomic environment, and little ..."

The fifth sentence begins with a non-sequitur. Why should it not be surprising that ...? This beginning previously made sense when it introduced a thought about the gap -- namely, that given the neglect of the downside risks, the ERR gap was not surprising.

viii. First sentence: Add to the end: "despite the fact that these are decisive for the project outcome."

ix. Third sentence: "identified".

xiii. Third sentence: Reverse the words "analysis" and "statistical data".

xix-xx. This requires a statement that the covenants will cover critical actions, as identified during the appraisal/sensitivity anlaysis, and and a cross refernec to the trigger function listed in para xvii, third sentence.

xxxiii-xxxiv. There is a need to flag the cost of dropping projects at appraisal once more objective standards prevail and reveal problems. Over time, this may diminish as we learn to identify problems at identification, etc. But there will be -- and for credibility there must be -- dropped projects. This will mean less lending or more projects prepared.

<u>Text</u>

20-23. The discussion of the 28 problem projects should go into a box, for presentational reasons.

31. First sentence: The paramount factor may be the policy framework, but the paragraph does not show how it is important to be able to absorb, or even to respond to, shocks. Delete after "framework".

46-48. This is weak. In para 46, the last sentence is a non-sequitur to the immediately preceding sentence. In para 48, does non-compliance belong under negotiations, or under implementation? Plus, what about key covenants for actions determined at appraisal to be essential? What about the discussion with the authorities on the evolution of key parameters? Shouldn't this be foreshadowed here?

52. The order of the first sentence should anticipate the sequence followed in the text.

53-55. The lack of incentives for objective and serious project analysis at apprasial should also be noted. This is a major ingredient into quality at entry.

88. This will cause serious problems. The indices by themselves should not be linked baldly and directly to country risk analysis by FRS and IEC. (By the way, what country risk analysis does IEC do?) To require this will be the kiss of death of the indices. Instead, the text should stress that the indices should be a basis for the dialogue on portfolio performance and an important input into the CPPR. In turn, the CPPR should be used by FRS and whoever else is involved in evaluating country risk.

89. Using the same language aspara 91,"OSP" should be used; not "OSP/COD".

95. First bullet: Change rigorous to systematic. (Given my exchanges with Bob Picciotto, I worry that "rigorous" may be interpreted as "highly sophisticated", rather than "thoughtful".

Fourth bullet: Should also mention an evaluation of the likelihood of the continuation of the assumed policy and macro environment.

Footnote 38: These papers are not relevant to appraisal. Certainly not the Kearns' paper. If anything, they relate to preparation.

99. Second sentence. End at "required." New sentence to begin: "For all projects, the macroeconomic, ..."

Fourth sentence: Change "revised directive" to "guidelines" or OD 10.40. (There is no directive, to be revised.)

102. Please don't call for maximum participation. Cost effective maybe.

113. The SAR is not an implementation plan. It is a staff appraisal report. I thought we wanted two documents -- an actual evaluation, arm's length, objective, etc. and an implementation plan. The SAR is the former!

138. This should be a five point plan:

First bullet. The PFP idea is not a good one. It is much too ambitious and takes us much further into the quality at entry business thanwe have gone on investment lending. If you want to emphasize the upstraem part, I can supply plenty of text from ECON for balance. Otherwise, and frankly in any case, the PFP suggestion should be dropped. It will not survive and tactically it only makes us look like we have not prioritized.

Fourth bullet. Huh? Do we ever suspend/cancel adjustment operations? Are we talking about tranche release? And even then, who can be against it? Drop it. Yes - we do!!

Sixth bullet. Isn't it? This is not an important recommendation.

Seventh bullet. When I was doing SALs "appropriate/satisfactory macroecoenomic program" was considered too vague. Are we retreating to this?

149. I hope the "organization and management" types to be recruited are to work with our borrowers and not to study the

Bank.

CC: Peter Richardson (PETER RICHARDSON)

7/13/92

Mr Wapenhans

Willi:

Since I will be in Mali next week (looking at implementation issues), I am taking the liberty of commenting on the draft which went to the Steering Committee.

I will tell you how your report looks from a field perspective when I am back. So this is only a preliminary reaction. In particular, I will refrain from commenting on the evaluation section at this juncture. In any event, the DGO and the Director of OED are better placed to do so -- and I have already had an opportunity to talk to Mervyn Weiner at some length.

With due respect, the draft task force report is a landmark. It presents a clear, cogent and convincing case to shift the Bank's managerial focus back to implementation basics. The diagnostic is solidly grounded in evidence gathered from a variety of sources, including borrowers The writing is fluid yet accurate. And the elaborate gestation and review process should help to gather a broad consensus for reform.

You recommend that the country focus should be extended to implementation. It is clear that this aspect of the 1987 reorganization did not quite click. The question is why. The new instrumentalities proposed by the task force relate to process -- making the country the "unit of account" for portfolio performance assessment and introducing country performance ratings. Is this going to do the trick ? I doubt it since the ARIS is already carried out in a country context -- until its final aggregation by OSP. The RVPs and the SOAs are already fully involved in the ARIS process. So the process refinements will help -- but may not be sufficient to shift the Bank onto a new gear.

The fundamental change which needs to take place relates to regional priority setting and this in turn calls for a cultural shift at the CD level -- as well as organizational redesign : the current structure of the regions (and its relationship to OSP/DEC) favors a proliferation of initiatives which fragment managerial attention away from the "core" business of the Bank. The TD lacks ownership of implementation issues and the CODs influence resource allocation towards a surfeit of activities often divorced from the nitty gritty of implementation reality.

In particular, the task force report does not highlight the "disconnect" between the major causes of implementation problems listed in para 12 and the limited weight which country assistance programs currently lay on institutional development geared to public expenditures management; procurement, audit or evaluation capacity. More attention to the improvement of public expenditures management and budget systems; monitoring and evaluation of development activities and implementation training should be recommended explicitly by the task force.

Regarding procurement, it does not help that the task force chose to look at the problem from the strict constructionist perspective of Bank guidelines -- without acknowledging the importance and scope of the reforms and capacity building efforts needed in many member countries to improve implementation of development programs.

Without effective contracting and consulting industries, there is no way to involve the private sector in infrastructure development in an effective fashion. The implementation dimension of governance ought to be acknowledged. It involves such prosaic matters as procurement and audit and the qualification of the Bank's own accounts by the external auditors to highlight the pervasive violation of audit covenants by Bank borrowers should be highlighted.

The focus on improved economic evaluation methodology is fully warranted and I believe taht Joanne Salop's annex is a breakthrough with far reaching implications. But the task force report should have given similar treatment to financial, institutional and environment appraisal which are woefully weak today. Indeed, without professional treatment of these aspects, economic analysis is built on shaky foundations. And if the Bank is to have high quality lending and enhanced credibility in implementation matters, it will not suffice to improve economic assessments since the risks which need to be weighed require the judgments of technical specialists, financial analysts and institutional experts. The skills implications should be highlighted in quantitative terms.

In addition, it is essential that the issue of appraisal documentation be tackled. The current SAR needs to be transformed into a critical evaluation document without any descriptive material. On the other hand, the staff should be asked to prepare a detailed implementation document without which no project should be put forward for Board approval.

Information management for project design should be pursued distinctively from (although connected with) the issue of an improved internal management information system. The lack of a common "core" of information from identification to evaluation which is highlighted in the attachment to this note ought to be remedied. In addition, the decade old experience of GTZ in putting to work a logical framework approach to project design and evaluation should be disseminated within the Bank and adapted to Bank needs -- in parallel with the EDI training effort focussed on borrowers.

Technical assistance is listed in para 10 as a traditionally strong performing sector. I do not think this is an accurate rendering of Bank experience. In general, I was surprised to see no reference made to the technical assistance review task force report (TARTF) which did go over institutional development issues in some depth -- and which recommended actions which, if implemented, ought to improve the overall management of the portfolio. It would be unfortunate if your report did not support the thrust of what TARTF has put forward and which has yet to be implemented.

But the main gap is with respect to the new actions which need to be taken. It would be helpful for your report to put forth a final section dealing with next steps. No single VPU in the Bank today can take charge of drawing the implications of your report and the steering/advisory committee structure which you have set up provides a ready made mechanism to elaborate on the main recommendations of the task force in the form of an action plan chapter.

Bob

TOWARDS A LOGICAL DESIGN AND EVALUATION FRAMEWORK (LDEF) FOR BANK OPERATIONS

Current operational directives governing the identification, preparation, appraisal, supervision and completion reporting of Bank loans and credits lack consistency in terms of the success factors which are examined and recorded in the projection and assessment of development outcomes.

The project brief attached to the Initial Executive Project Summary, the performance indicators annexed to appraisal reports, the mandatory and optional ratings recorded in the form 590 and the items which make up the project implementation form used by OED at project completion (PIF) are not constructed on the basis of a common information "core". Furthermore, the business planning classification of operational activities in terms of program objectives categories (POCs) cannot be traced down to the portfolio of approved loans and credits -- thus raising questions about the reliability of the Bank's business management apparatus.

As a result, and despite voluminous paperwork, discontinuities with respect to project documentation hamper the cost effective tracking of Bank operations, their ex-post evaluation as well as the aggregation of operational indicators for portfolio management.

Diversity in the instrumentalities, content and size of Bank operations preclude strict standardization. Yet, the Bank is expected to have ready retrievable implementation data, to track the progress of its country, sector and instrument portfolios and to record the performance and prospects of its loans and credits in terms of specified policy objectives.

A logical data framework would allow systematic tracking of progress indicators and of development outcomes (expected and achieved) from one stage of implementation to the next. It would help minimize duplication, enhance the transparency of available documentation and facilitate aggregation at regional, country, sector and institutional levels.

Six development outcome ratings, not all of which relevant in all cases (or at all stages of the operational cycle), would together help define the overall development impact of an operation :

Physical a/
Financial b/
Social c/
Institutional d/
Environmental e/
Economic f/

a/ progress of implementation (quality and quantity of planning, design and construction; procurement; disbursements; etc.)

b/ financial return; financial risk management; resource mobilization; auditing.
c/ poverty reduction; WID; resettlement, indigenous peoples impact.
d/ policy development, capacity building, training, public sector reform, etc.
e/ physical sustainability; impact on the environment (air, water, soils, other natural resources)
f/ ECON.

For each development outcome factor, one or more performance indicator would be identified and tracked in relation to plans and/or a qualitative judgment made by Bank management taking account of the view of staff, the owner and intended beneficiaries.

In addition, the activities to be undertaken to produce these results (and the major inputs required in the process) would be documented. And the ultimate goals to which the operation is geared to (in terms of country assistance objectives and POCs) would be specified.

Project tracking schedules, list and status of covenants and the usual ratios on the financial and economic side -- as well as relevant information on various performance aspects -- would be included in the data base. Where feasible, NPV and ROR would be estimated. Special attention to risk factors would be ensured in order to enhance the realism of operational objectives and the effectiveness of implementation.

At critical thresholds in the project cycle, ratings would be awarded and endorsed by regional management (and in the end by OED) with regard to development impact (and its constituent factors):

1. Highly Successful
2. Moderately Successful
3. Satisfactory
4. Unsatisfactory

The standardization of information classification would not be allowed to standardize the content of operations. The quality of a country assistance program lies precisely in the ability of country managers to exercise judgment and address only the most relevant and important economic and sectoral issues, to ensure the commitment of their borrowers, to adjust operations as the need arises and to use a combination of judicious instruments appropriately sequenced to deliver timely and cost effective results.

Therefore, selectivity in operational focus is the key to simpler and more effective operational designs. Individual operations would not be expected to address all factors with the same degree of rigor. On the other hand, the assumptions made regarding exogenous or endogenous factors linking goals to development outcomes and activities to inputs and costs would be transparently presented in the appraisal documentation and periodically evaluated as implementation proceeds.

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

DATE: July 10, 1992 00:02am

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

FROM: Miguel E. Martinez, AFRVP (MIGUEL E. MARTINEZ)

EXT.: 37508

SUBJECT: Draft report of the Task Force on Portfolio Management

As I had to leave before the end of the meeting, I thought of sending you this note with some specific comments from a quick review of the Recomendations of the Report (in "bullet" style) that you might find useful.

The Task Force has done an outstanding job on a very difficult subject and the comments below are intended to suggest further improvements in an already very good report.

As I mentioned in the meeting, the two general suggestions are: (a) more recommendations in the area of "incentives" to staff and managers in order to create a supportive environment for the "cultural change"; and (b) more emphasis on the lessons learned from the project implementation work. Some of the on-going initiatives in these two areas in our Region are included in our ARIS Regional Action program (FY 91 Regional ARIS Report, annex 1).

SPECIFIC COMMENTS

* Para. 72. The linkage between quality of the portfolio and lending level is one of the key recommendations of the Report. The recent CSP on Nigeria included an specific discussion on portfolio performance and proposed a reduction in new commitments until performance improves. I understand that this recommendation was approved by the President.

* Para. 75. You may want to clarify the concept of CIR as discussed in the meeting this morning. The linkages between the CPPR and the other business processes may require a change in its current timing, which by the way is not very convenient because the Departmental work has to be carried out during the summer and in September -conflict with annual meetings -

The involvement of country teams in the review of supervision ratings is very good. We implemented it in the Region for last year's ARIS. This is a very useful independent check on the ratings. In our case, it resulted in a systematic downgrading of the performance of the portfolio.

* Para. 77. The requirement that reallocations could take place only in the context of an SAL is too restrictive. SECALs should also qualify provided that the adjustment program is on track.

* Para. 78. Quantified targets for improving key indicators other than ratings were incorporated in our Regional CAM process (Regional CAM's instructions issued on March 1991)

* Para. 79. As this is the first reference to the "portfolio performance index", should may want to define it.

* Para. 80. I suggest that you add CDirectors at the end of the para. (questions should be answered by CDs/RVP).

* Para. 83. The idea of the country portfolio indexes is intellectually very appealing but it seems to me that we need more discussion within the Bank on the methodological/practical issues associated with its implementation. Ways of improving in the current rating system should be explored first, for example the involvement of country teams in the review of the ratings, with differences of opinion with the managing division referred to the Departmental management team. In my opinion, before implementing Bank-wide a radical change like the one proposed, it is necessary a good testing of the system on a pilot basis.

* Para. 89. Some practical ideas on how to develop/assess country commitment would be very useful. Workshops involving beneficiary participation could be a powerful tool.

As with regards to peer reviewers, we issued regional guidelines last year including in addition to the points raised in this para. recommendations on the performance evaluation of PRs and on the Camming of their time (memo dated December 1991.

* Para. 91: The ideas about implementation plans and key quantitative indicators are very good. We incorporated them last year in our guidelines for project preparation.

The reference to the timing of the ICP does not seem consistent with the requirements in para 107 (ICP to be issued within six months of final disbursements).

* Para. 92. I strongly support the idea of simplifying the form and content of the SAR. We spent a lot of time "massaging" the SAR just to please the Board. In my view, the SAR should be turned into an implementation manual which would stay as a working document. Only the MOP should be sent to the Board. As with regards to the MOP, and in the context of our ARIS Action Program, all operations submitted to the Board in FY93 should include an attachment to schedule D discussing disbursement problems in the implementation of the on-going projects and relevant actions taken/being taken to improve the situation.

* Para. 94. I have problems with the recommendation at end of this para. A supportive policy framework is crucial for the success of the project. A clear lesson from experience is that this conditionality should be upfront, conditions for Board or effectiveness.

* Para. 95. We should streamline and simplify the procedures for suspension of disbursements. The "red tape" in this regards is a major deterrent for the use of this tool of portfolio management.

* Para. 97. Project launch workshops are an effective tool for smooth project star-up. We organized last month a Regional workshops to share experiences with the organization of these workshops (main conclusions in our on-line regional directives-supervision module).

* Para. 99. What would the criteria for determining when a project becomes a "problem project" ?

* Para. 100. We are experimenting with the formulation of a detailed action plan for problem projects with specific "trigger" events for remedial actions.

* Para. 101. I have problems with the last statement. Mid-term reviews are a powerful instrument to reassess the project design/objectives. We developed guidelines for these reviews last year and on March we organized a Regional workshop to share experiences on the design/results of mid-term reviews (guidelines and summary of the discussion at the workshop in our on-line directives - supervision module).

* Para. 102. I agree with the recommendation, but are we talking of additional staff ?; if not, what else should give up ?

* Para.103. Lessons learned/dissemination of good practices seem to be missing. This is a key element in our on-going Action Plan. We have monthly Regional Implementation Workshops to share experiences/best practices; Group Teams formulated sectoral lessons in the context of last year's ARIS (Regional ARIS Report and on-line directives, module on supervision), and a check list of best practices was issued following Mr Jaycox semiannual ARIS meetings with each CD and GT (in the on-line directives, supervision module).

* Para. 107. There seems to be a contradiction between the first sentence and later in the para when it is stated that the ICP should be produced within six months of final disbursement.

* Para. 117. I have problems with the recommendation regarding the creation of the OPRC. The current informal system of consultations with COD and legal is working very well in our case and we don't see any reason to centralize again the process.

* Para. 122. Same comment as in para 102 above.

* Para. 124. I found surprising the remarks at the beginning of this para. In the case of our region, we have an important field presence of agricultural staff which is crucial for the supervision of the agricultural portfolio (mostly extension projects). The Budgetary incentives regarding RMs have to be revised. More use of local staff should be encouraged. RMs should play a key role in the organization of Country Implementation Reviews.

* Para. 134. One of our Departments is experimenting with streamlining supervision documentation (see FY91 Regional ARIS).

* Para. 136. I understand that the EDI has developed a computer assistance project management system which could be useful for monitoring project implementation both in headquarters and in the implementation agencies.

* Para. 138-140. I found surprising the conclusions of this section. I fully share the concerns expressed in the discussion on this topic at the retreat. 1?

* Para. 146. I have problems with this recommendation. Is OED going to carry out an "audit" of the APPR ? I fail to understand the rationale for this recommendation. The comparative advantage of OED is in impact evaluations and reports on special topics and/or generic issues, like the recent reports on supervision and on TA in Africa.

CC: Ian Scott	(IAN SCOTT)
CC: Hans Wyss	(HANS WYSS)
CC: Africa ISC Files	(AFRICA ISC FILES)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: July 10, 1992

TO: Mr. Willi A. Wapenhans, EXC

FROM: Sri-ram Aiyer and Edilberto Segura

EXTENSION: 39003, 38579

SUBJECT: Draft Report of the Task Force on Portfolio Management

1. This memorandum contains some of the main comments that we had conveyed during the review meeting of July, 9 1992.

2. **Analysis of the Portfolio Problem** (Sections II-IV). As mentioned by several speakers, the report presents a view of the Bank's actions and role that, on balance, is too negative. The evidence of the deterioration of the portfolio is clear. However, the report should also recognize the major improvements that have taken place over the last few years. For example, recent reviews in LAC have shown that LAC projects have now better country focus and are now more responsive to the priorities of the Governments. They are also more consistent with the Bank's strategy across sectors. As a result of the major adjustment efforts being implemented throughout the region, portfolio performance in adjusting countries has improved considerably. The major portfolio problems are concentrated in countries that have not moved energetically with adjustment, or where the adjustment process is still incipient (such as Brazil, Guatemala and Peru, the last two being in non-accrual status). In FY91, Brazil and Guatemala comprised 48% of the problem projects in the Region; but with negative transfers, they absorbed only 18% and 15% the Region's lending program for FY91 and FY92, respectively. Their share in the Region's portfolio was 32%. Based on these factors, we feel that the Report should have a more balanced discussion of the nature of the problem and the evolving situation.

2. **Quality at Entry.** A key recommendation of the report is that Government commitment should be established early in the project cycle. We agree. It would be useful if the report were to provide better guidance on means to assess government commitment, some of the lessons of experience in terms of best practices, the actions and measures that staff can take to improve government commitment and involvement, etc. Without this discussion, the recommendation becomes too superficial. We would propose that this discussion be accompanied by a clear recommendation that the Bank should be prepared to accept large swings in the total level of commitments from year to year, to ensure that quality is the top priority.

3. **Project Preparation.** This is another section where more elaboration is needed. The report indicates that there is weak analytical work to underpin project quality. At the same time, it recommends that the Bank should be less involved in preparation. The report should indicate how to bridge the gap in preparation. Should the Bank insist on feasibility studies? Should we make more extensive use of project preparation facilities, technical assistance, etc.? These issues should be discussed in greater detail. This is where the "change agent" role of the Bank also needs to be recognized, implying a tension between borrowers being left to choose the scope, design and conditions to be put in place for a successful operation, and the Bank's desire to set targets that are challenging, albeit achievable.

4. **Policy Lending and Policy Framework Papers.** As agreed during the meeting, the proposal to have PFP on all IBRD countries should be dropped. Similarly, the reference to "ten years" as the time frame for policy loans

should be changed to long-term. We do endorse the recommendation that portfolio restructuring should be considered; this consideration should be independent of whether or not a SAL is being proposed.

5. **Restructuring.** Given the existence of over 60 operations which have been problem projects for 3 years or more, the report should recommend that the Country Departments with such problem projects adopt a "clear cut strategy". In fact, such a strategy should encompass all operations which have serious non-compliance problems for over 12 months. The strategy should include an action plan to restructure these problem projects within the next fiscal year. The incremental resources required for such a clear cut strategy should be estimated and given to the Department. The recommendation should be complemented by urging Departments to apply remedies much more readily that at present, to deal with non-compliance.

6. **Budgetary Implications.** As noted during the meeting, the report should recognize that many of the proposals will have incremental costs. Their budgetary implications should be discussed more explicitly.

7. **Advisory Operations Procurement Review Committee.** We agree that there is a need for better exchange of information across the Bank on procurement practices. We do not believe, however, that a central review committee is the best way to achieve this goal. As proposed in the meeting, the concerned region should chair a meeting on major procurement packages and invite the Bank's procurement policy adviser to this meeting to ensure consistency and cross fertilization across regions.

8. **Training and incentives for Staff.** Many of the issues identified by the Task Force requires better training of staff and changes in the use of incentives. These two subjects should be elaborated in the report.

9. **Mid Term Reviews.** Mid Term reviews in LAC vary in nature and follow annual reviews. We believe their use should be left to the Regions and not be included in the recommendations. It only detracts from the more significant ones.

10. **Recommendations.** The report should contain a final section with a concise list of key recommendations. It would be useful to prioritize these.

cc: Task Force Members

Record Removal Notice

File Title EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	**Barcode No.** 30024557
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Correspondents / Participants To: W. Wapenhans From: Andres Rigo, LEGOP	
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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

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

DATE: 09-Jul-1992 06:23pm

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

FROM: Inder Sud, CFSDR (INDER SUD)

EXT.: 31190

SUBJECT: Portfolio Management

I appreciated the opportunity to participate in the meeting this morning. I found the discussion and exchange of views very stimulating. I was sorry to not be able to stay for the rest of the discussion. I look forward to seeing where we come out in the final report. I think a lot of very good work has gone into this report. I hope the recommendations that emerge would reflect some major changes in a few selected areas.

If you decide to include the section of cofinancing -- something I do not recommend in view of my personal bias towards keeping the recommendations to a very few major and focused recommendations -- I would like to offer following observations on paras. 109-113.

The report recommends: (1) limiting cofinancing to only where it is necessary, and (2) the preparation of an OD to sort out some of the confusion. I think these recommendations need to be considered a bit more in light of what we say and do elsewhere.

At present, the Bank's stated policy is to maximize cofinancing to get the Bank to leverage its funds. So the policy envisages a proactive role to minimize Bank financial commitment and maximize financing from other sources. The practice however is much closer to what is recommended in para.111. If the report is intended to bring the policy closer to the practice, we need to be careful as to how we approach it. At minimum, there is a need for a fuller study of cofinancing which: (1) clarifies what our objectives are/should be; and (2) what is the most efficient (and least problematic from an implementation point of view) to achieve it. This subject lends to a detailed study, something which IAD has recommended in a recent report to the Board. I think you may also want to take this approach instead instead of taking a hard and fast view indicated in para 111. So far, your group has not done the underlying work in this area to support the recommendation being made (I have seen Jim Chaffey's paper which, I do not think provides a good basis for the recommendation). So I would suggest the report define the problem and contradiction in Bank policy and suggest a study. CFS can take a lead in this area (we may need to do this in response to the IAD report anyway).

We should also be careful to not lump all cofinancing together. Here I think we are talking of official cofinancing. The approach to private cofinancing may be entirely different.

Second, while an OD is definitely needed, this is not the tool to make new policy. An OD written today, in the absence of the kind of study I have mentioned above, would be rather bland. It will have to set out what we are supposed to do rather than what we should do. So I think an OD should follow the study I have mentioned. But if we decide not to do the study, we indeed are committed to writing the OD. No problem. All I wanted to say is that the OD is not the solution to the problem we are grappling with.

I will be happy to discuss this and other issues with your group should you so desire.

Thanks again for involving me in this interesting and very important discussion.

CC: Ian Scott (IAN SCOTT)
CC: Charles Meissner (CHARLES MEISSNER)

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

DATE: 08-Jul-1992 03:42pm

TO: Ian Scott (IAN SCOTT)

FROM: V.S. Raghavan, LOADR (V.S. RAGHAVAN)

EXT.: 84116

SUBJECT: Portfolio Management Task Force Report

I have quickly read the discussion draft which you sent out on July 7. As I will not be at the Mini Retreat tomorrow, I thought I would send you my comments.

Paragraph 118: Bank staff are not expected to perform the audits of SOEs; they are expected to review a sample of the SOEs. All claims against SOEs must be reviewed by independent auditors in accordance with provisions in the legal agreements. You may, therefore, like to change para 118 as follows:

"118. Verification and Certification. The Bank staff do not perform the audits of Statements of Expenditures (SOEs). All claims against SOEs must, however, be reviewed by independent auditors in accordance with the legal agreements. Under current instructions, Bank staff are expected to make sample checks of documentation during supervision missions, but the Bank is not adequately staffed to perform this function. This function, therefore, tends to be neglected and seen as a distraction from more substantive tasks. And 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 poorly positioned to assess and verify adherence to local procurement procedures. In light of this, the Task Force recommends that independent reviews of local procurement practices as well as SOE claims and related disbursement documentation should be made by a third party agency acceptable to the Bank. At regular intervals, the acceptability of local procurement procedures should be certified, in accordance with approved TORs, by parties acceptable to the Bank."

Paragraph 119: I believe SALs and SECALs are sometimes subject to positive lists and not "only negative lists". It would be more correct to say that they are normally subject to negative lists.

Paragraph 120: In order to simplify documentary requirements for SAL/SECAL operations, I personally support the Task Force's recommendation that review of customs documents by the Bank should be replaced by certification by an independent auditor. You may recall that this was LOA's view when we reviewed this issue, but the new procedures were a compromise to accommodate the views of several experienced Task Managers, Project Operations Advisors and senior staff in COD and Legal.

Paragraphs 121 and 122 should be removed from the heading of Disbursements since they deal with audit and financial covenants. The last sentence of para 122 says that the auditor should be required to furnish a copy of its report to the Bank. I think the current arrangement, whereby the auditor provides the report to the borrower and the borrower forwards it to the Bank, is more appropriate since we do not and should not have a direct relationship with the auditor.

The other change which I would suggest is in line 6 of paragraph 1. The figure for disbursements in FY92 is US$16.5 billion.

CC:	W. Wapenhans	(W. A. WAPENHANS)
CC:	Peter Richardson	(PETER RICHARDSON)
CC:	Khurshid Ahmed	(KHURSHID AHMED)
CC:	Francis H. Mayer	(FRANCIS MAYER)
CC:	Senga Sengamalay	(SENGA SENGAMALAY)
CC:	Suzanne Morris	(SUZANNE MORRIS)
CC:	Daryl Reinke	(DARYL REINKE)
CC:	Constance Ely Hachana	(CONSTANCE ELY HACHANA)

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

DATE: July 8, 1992 04:03pm

TO: See Distribution Below

FROM: W. Wapenhans, EXC (W. A. WAPENHANS)

EXT.: 80121

SUBJECT: Draft Report of the Task Force on Portfolio Management

I am looking forward to tomorrow's discussion of the Draft Report. It is our intention to revise the report in the light of your comments and reactions before sending it to the MDs. I realize that the time for reflection is short but I do hope that you will find the material relatively easy to digest. In order to focus our discussion I suggest that we concentrate on the clusters of recommendations in Chapter V:

I. ~~Current~~ COUNTRY Portfolio Performance Management:

- Introduction of annual Country Portfolio Performance Reviews (CPPR)
- Linkage of CPPRs to the central business processes i.e. Country Assistance Strategy Articulation, Creditworthiness and Lending Allocations Review, Business Planning and CAM process, and the Annual Report on Portfolio Performance (ARPP) to the Board
- Bank Portfolio restructuring on accelerated approval process (para. 77)
- The use of the ARPP process for guiding OSP work program of special studies (para. 82)
- Development of portfolio performance indices.

II. Project Performance Management:

- Recommendations on Bank role and attitude during identification to negotiations and during implementation (para. 35)
- Review of OD 10.40 to modify appraisal methodology and practice, to set out a program of action for implementation and to set the indicator tracking system for each project
- Assessment of local commitment and the identification of roles and responsibilities at the stage of the IEPS
- The introduction of letters of implementation (along the lines of the old OPN 1.04) as programs of action for implementation
- The establishment of a covenant data base as a electronic reference library

- EDI training for borrowers
- Identification of monitoring indicators of appraisal to inform supervision ratings and modification of 590 to accommodate supporting analysis
- Problem Projects should have written justification for not exercising remedies after 12 months
- Interim Reviews (mid-term) should not be made mandatory
- Financial and managerial skills be strengthened as a matter of urgency
- Training to be strengthened and proficiency testing to be introduced (para. 103)
- Inclusion of Policy Loans/Credits in regular portfolio performance management practice (para. 105), annual macro-performance review, and Borrower's role in tracking adjustment performance (paras. 106 & 107)
- Refocussing the PCR and making it into an ICR (para. 109).

III. Efficiency Measures:

- Co-financing OD to be issued and the relative priority and criteria therefore to be established
- Procurement to be rationalized by mandatory introduction of standardized procurement documents and the requirements in contracts of clauses relating to (i) operational dispute resolution, (ii) contractor quality assurance programs, (iii) incentives for timely completion, and (iv) the use of independent engineers
- Third party verification and certification to replace staff input for procurement, disbursement documentation and related requirements
- Prudent use of Financial Covenants
- Enhanced role and use of Field Offices
- Rationalization and expansion of IT use in implementation surveillance
- Budget practices to retain flexibility and fungibility with the prospect for selective and justified expansion

I' Accountability and Independent Evaluation

- OED role in APPR process
- Added focus on Impact Evaluation

- Inquiring into sustainability of development impact

- Strengthening of Borrower capacity for ex post evaluation

- Current use of threshold value for existing portfolio

This is not to suggest that other issues arising from your review should not be tabled. This clustering is intended rather to convey the need to think in packages of measures for the introduction of some of the more prominent changes the Task Force has in mind.

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The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: July 7, 1992 09:47am

TO: Ian Scott (IAN SCOTT)

FROM: Samir K. Bhatia, PBDPR (SAMIR K. BHATIA)

EXT.: 37065

SUBJECT: **Effective Implementation: Key to Sustainable Development Impact**

Ian,

Congratulations! On the whole, the report is in very solid shape.

As I told you yesterday, I was unfortunately not able to attend yesterday's important meeting to discuss the draft. I am sure that by now most of the important points/suggestions have been covered. However, there are a couple of points that I would like to bring up for consideration; I hope it is not too late.

The "Mea Culpa" Approach of the Report

1. I fully agree that the Bank has to take major responsibility for the present state of affaires in portfolio management. However, as we all know, the Borrowers have also played a part in it. More important, to place portfolio management on a sound footing for the future, the Borrowers must carry out their responsibilities fully and effectively.

2. At present, the report, in my opinion, fails to bring out this message. There should be a few paragraphs setting out the present shortcomings in the Borrowers' approach and commitment and suggestions for improvement: I do recognize that by involving the Borrowers more in the identification and preparation of the projects, they will develop a greater sense of ownership. But that is not necessarily sufficient to ensure their essential commitment for successful implementation. In brief, the Borrowers' present and future role/responsibilities should be clearly defined.

Definition of "End-Use Supervision and Compliance Monitoring" (p.44)

3. One of the most important recommendations of the Task Force is the introduction of the End-Use concept. However, neither the concept nor the term is clearly defined. Both the rationale and the details should be spelled out.

Editorial

4. The report could be shortened considerably by putting in-text tables and other details present in the text in an annex (paragraphs 37-41 come to mind in this context). I am forwarding my marked-up copy to you.

5. Again, I'm very sorry I couldn't get these comments to you earlier. In any case, if time permits, perhaps you will be able to consider them. Thank you.

Samir

CC: W. Wapenhans (W. A. WAPENHANS)
CC: Peter Richardson (PETER RICHARDSON)

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

DATE: 07-Jul-1992 00:33am

TO: Ian Scott (IAN SCOTT)

FROM: Joanne Salop, CODOP (JOANNE SALOP)

EXT.: 84005

SUBJECT: **WTF: Index etc.**

Ian,

I left the other material under the door. I still owe a para on the index and a para on the supervision ratings. I assume that you will incorporate some of the ECON appraisal recommendations. If you want language from me, kindly let me know.

Index Para -- Replaces para 87 (version with TOC)

87. The Task Force recommends that a set of country portfolio performance indices -- for growth/efficiency, poverty reduction, environment, and institutional development -- be developed as a basis for discussion of the status of the country portfolio. These indices would be based on individual project ratings, weighted by the dollar value of the respective projects in the country portfolio. (The deatails of the indices -- and their linkages to the other stages of the project cycle -- are elaborated in Annex G.) Quantitative indices would provide the basis for a dialogue on the country portfolio focused on the year-to-year changes and the reasons for those changes. The dialogue, for example, could focus on whether the changes reflected changes in countrywide factors -- and whether they were performance-related or exogenous -- or whether they reflected in the Bank's reading of unchanged evidence. It would also be useful to discuss the country indices in comparison with PCR ratings for projects completed in the year.

Ratings Para -- Insert after para 97

98. Supervision ratings need to be made more reliable if they are to serve a meaningful function in signalling problems in a timely fashion. They will need to be based on a sound, transparent, and analytically-based system if they are to provide meaningful data for tracking the performance of the country portfolio. To this end, the Task Force recommends that the monitoring indicators identified at appraisal be used to inform the project supervision ratings in the Form 590, and that the Form 590 should be suitably amended to accomodate the supporting analysis.

Joanne

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

DATE: 07-Jul-1992 02:14pm

TO: Ian Scott (IAN SCOTT)

FROM: Joanne Salop, CODOP (JOANNE SALOP)

EXT.: 84005

SUBJECT: **OD 10.40**

Ian,

I propose the following after para 89 (with TOC draft):

90. Drawing on the analysis of the ECON Report, the Task Force also found that the Bank is not using evaluation and economic analysis as effectively as it might in project identification, appraisal, and supervision. We are not systematically considering macroeconomic and institutional risks to program/project success. As a result, we are not systematically rejecting designs for which these risks make the economic returns or cost effectiveness too low. Nor are we identifying the key variables for inclusion in the legal covenents and for monitoring during implementation. During supervision, we also fail to evaluate objectively, with many projects being rated satisfactory throughout the implementation period, only to be downgraded to unsatisfactory on completion.

91. The Task Force believes that project/program design can be enhanced by adopting more realistic and risk-conscious appraisal techniques. Even better, sensitivity to macroeconomic, financial, and institutional risks can be considered during project identification, thereby influencing project selection early on. During implementation, early diagnosis of problems could trigger remedial actions to solve problems or, in the extreme, to signal the appropriateness of cancellation.

92. To these ends, the Task Force recommends the inclusion of the following in OD 10.40 ... (Per para 6 in my Chapter IV notes.)

* Upgrade ...
* For operations ...
* etc.

Joanne

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

DATE: 07-Jul-1992 02:26pm

TO: See Distribution Below

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: **Implementation Lessons : A Task Manager's Perspective**

I commend the attached statement by Max Pulgar Vidal to your attention.

It is a thoughtful perspective on the need for cooperation and disciplin in the partnership between the borrower, project consultants, the auditors and the Bank -- a partnership without which developmental results cannot be achieved. The comments on the "implementation culture" are especially apt.

This could provide the basis for a useful box for the Wapenhans Task Force Report. The procedural issues raised with respect to suspension of disbursements and selection of auditors are interesting and might be addressed by COD and the Legal Department, if they have not been already.

DISTRIBUTION:

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CC:	Hans Wyss	(HANS WYSS)

Katherine:

As per our conversation concerning Mr. Picciotto's forthcom visit to Mali, attached is the text of the presentation I made last the Third Africa Implementation Workshop.

Max

September 13, 19

LESSONS FROM THE IMPLEMENTATION OF THE INFRASTRUCTURE PORTFOLIO IN MALI

I would like to thank Miguel Martinez for the opportunity he afforded me to share with you some of the lessons we have learned i the infrastructure sector in Mali. These lessons might be useful t other Task Managers working in other countries and sectors.

THE MALI HIGHWAY PROJECT

To begin, I would like to tell you about our experience with "problem project", the highway project in Mali. I will briefly des the project, the main implementation issues, and the steps that we to address them. A note of caution is in order: although we have already made a lot of progress, the project is not yet out of the w Therefore the efficacy of the steps we took has not yet been fully verified. But the results are so far encouraging.

Brief Project Description

The project was appraised in 1985. Its main components are similar to those of many other investment projects dating back to t time:

- routine maintenance of 8,200 km of high priority roads, entirely by force account;
- periodic maintenance, rehabilitation or reconstruction o paved and earth roads (about 1,200 kms), 5 by contractor and 2 by force account;
- overhaul and maintenance of road construction equipment owned by Government; and
- a significant amount of long-term technical assistance f supervision of civil works and to improve transport sect planning, programming, budgeting, technical and economic studies.

Two major characteristics of this project are worth noting. the one hand, the project was designed to take into account one of major concerns of the Ministry of Transport and Public Works, which wanted to demonstrate that it was able to execute civil works as efficiently as the private sector. In view of this, the project pr for many civil works to be carried out by force account. On the ot hand, the sectoral aspects of the project were somewhat limited by fact that there was little information available on the sector. Th project included the preparation of a multi-year investment program and, in the meantime, investment limitation covenants were introduc in the legal documents mainly to prevent white elephants.

Problems that Appeared during Implementation

The problems that appeared during implementation are similar those that have the habit of appearing in many other projects in th region:

- **Works by force account were implemented much more rapidly than works by contract.** By mid-1990 only one of the five roads to be executed by contractors had been executed, whereas the two roads to be executed by force account had been under implementation for several years. Two explanations appear to be plausible. On the one han the Government wanted to keep its civil servants and its road construction equipment busy. On the other hand, works to be executed by contract moved slowly because of delays in reaching agreement over construction standards delays in preparing acceptable bidding documents, and occasional disagreements between the Government and the Bank over procurement decisions.

- **Project implementation delays had a major impact on the scope of the project** because, during that period, the SD devalued vis-a-vis the CFA Franc. Two of the five roads be rehabilitated by contractors had to be dropped for la funds.

- Force account works were supervised by consultants financed under the credit. Bank supervision missions co not always make detailed field visits because of the spa distribution of civil works and the number of issues tha to be dealt with in Bamako. As a result, the Bank increasingly relied on consultants' verbal and written r to monitor progress and quality of force account works. The consultants, however, were kept on a tight leash by Director-General of Public Works, who did not allow them to make unannounced site inspections, did not always fol their technical recommendations, and took the habit of systematically sanitizing their progress reports before sending them to the Bank. **The Bank could not fully rely consultants' progress reports to provide a meaningful picture of what was actually happening with in the field**

- It was difficult to get an accurate picture of the cost account works because, among other things, the **Governmen did not keep adequate project accounts.** Instead, the Minister of Transport and Public Works kept a room full invoices and payment orders which was manned by a picturesque individual past retirement age who could fin within minutes any given piece of paper, but who was unable to prepare real accounts.

- The selection and **appointment of an auditor was delayed**

several years and, when his first audit report finally c in, it was judged to be unsatisfactory.

- The **Government failed prepare the multi-year transport sector investment program** because three years after havi chosen a consultant, it had not yet been able to negotia contract with him.

- The **Government did not comply with an investment limitation covenant** calling for consultations with the B connection with transport sector investments costing mor than US$1 million.

- Finally, the Government's decision to split the Ministry Transport and Public Works into two separate ministries made coordination between investment planning and works execution more difficult.

The extent of problems found during project implementation seemed to indicate that there was no real meeting of the minds betw the Government and the Bank with respect to the priorities in the transport sector.

Steps Taken to Address these Problems

Suspension of Disbursements. The first thing we did was to explain to the Government that, barring improved project performanc we would find it necessary to suspend disbursements. Legally speaking, this was possible because the Government had not complied with several DCA covenants (investment programming, investment limitation, and auditing). Continued lack of compliance led to suspension of disbursements, which we generally regard as the most drastic step the Bank can take. **The impact of suspension was equal dramatic. It created an environment in which the Government was willing to engage in meaningful dialogue with the Bank.** Lesson no. suspension of disbursements should be regarded as a tool available Task Managers to improve project implementation.

I would like to paraphrase Mr. Jaycox who, at a meeting earli this year wondered why are Task Managers reluctant to propose suspension of disbursements for non-performing projects. He inquir if it was because Task Managers may feel incorrectly that suspensio will reflect poorly on their own ability to manage their projects. reminded us that he had never turned down a request for suspension disbursements coming from one of the departments.

A **point for discussion:** many Task Managers are concerned by the time and effort required to suspend disbursements. **Both formal informal suspension involve a procedure that, under normal conditio takes about two weeks.** The purpose of this procedure is to protect Governments against arbitrariness on the part of the Bank. However would be worth reflecting if the same protection and fairness can b reached by means of simplified procedures.

Another **point for discussion:** we considered the types of suspension provided by the Operational Directives, formal and informal. But it turned out that, while they both require almost e thorough procedures, formal suspension provides a lot more leverage than informal suspension. **What is the rationale for having two typ suspension?**

Combined Technical and Financial Audit. The second step we took was to launch a **combined technical and financial audit in orde get a reliable picture of the project (its achievements and shortco in physical and financial terms.** We wanted to make sure not just t the disbursements from the credit had been based on adequate supporting evidence, but also that the goods and works thus finance were of adequate quality.

To do this, the Government retained, with our agreement, an engineering firm and an accounting firm that were both competent an independent (both qualities are necessary for an audit). The engineering firm selected for this task was a firm exclusively dedi to technical audits: it was not a consulting firm, which could have impaired its independence vis-a-vis the Government. The two audit firms worked in close coordination. Their findings provided the ba for project restructuring. One of the major findings of the techni audit was that periodic maintenance performed by force account had to lower quality and higher costs than would have resulted had the works been contracted out. This finding provided the basis for one the pivotal aspects of project restructuring: that no more periodic maintenance be carried out by force account. Lesson no. 2: **a combined technical and financial audit can be very useful for takin stock and restructuring projects** (as part of a mid-course review or whenever needed), provided that the auditors are not only competent but independent as well.

A **point for discussion:** some Task Managers feel that the **procedures currently used to select auditors do not always lead to selection of independent auditors.** The procedures now employed are the Guidelines that are used to select consultants financed by the which are designed to secure that the best (most competent) consult is chosen. An auditor, however, should not be chosen on the basis competence alone. His independence, without which he cannot be deemed to be reliable, is much more difficult to ascertain than competence. In theory, the Task Manager can prevent the selection a non-independent auditor by having him removed from the short list proposed by Government. In practice, we have seen situations where the audit firm itself is "connected" with powerful political figure the Task Manager cannot resist the Government's insistence that the audit firm be included in the short list.

To address this issue, some Task Managers consider advisable institute an service charge applicable to all loans and credits app by the Board. The purpose of this service charge would be to cover cost of the audits required for adequate project implementation. I important to note that, under the proposed scheme, the audit would be financed out of the proceeds of the loan or credit (whose amount legally belongs to the borrower). Therefore, the audit process (selection of auditor, determination of the scope of the audit, rev the audit, etc.) could be managed by the Bank. This would give Tas Managers as much say in the audit process as they have when they hi a consultant (paid by the Bank's operational budget) to help them prepare or supervise a project.

Letter of Transport Sector Policy. The third step we took wa widen the focus of our dialogue with Government to include a broad discussion of transport sector policies. The end product of this d was a Letter of Transport Sector Policy signed by four Ministers (Public Works, Transport, Planning and Finance). In it: the Government adopted specific criteria for selection of projects in t short term; adopted general criteria for project ranking in the med term regardless of the source of financing; declared the need to in the role of the private sector in the execution of civil works; lim use of force account to routine maintenance; and committed itself t minimum budgetary allocations for routine maintenance.

Although these policy decisions were reached in the context o project supervision, it is important to note that their scope goes beyond the boundaries of the project itself. They constitute a sec policy framework on the basis of which we can go ahead with the preparation of the next transport sector project. Lesson No. 3: **Pr supervision can be used to discuss major policy issues, even ones t surpass the confines of the project itself.** Task Managers need not into a minimalist approach that constrains them to limit the scope dialogue with Government only to items that are explicitly mentione the project description or in legal documents. Such a self-imposed constraint would be particularly harmful in the case of projects wi long implementation periods, during the course of which new issues may appear that could not have possibly been envisaged at the time appraisal.

GENERIC PROJECT IMPLEMENTATION ISSUES

I would now like to discuss three issues that come from our general experience with project implementation. They are not limit to any single project, and probably resonate in the minds of many T managers.

Independence of Technical Assistance

The efficacy of technical assistance is the subject of much d in the Region, particularly as it regards long-term consultants. T debate is fueled by the realization of the vast amounts of money sp every year on technical assistance financed by the Bank. Some Task Managers take a dim view of technical assistance in general. Some them have concluded that the Bank should not finance long-term consultants.

Our experience, however, suggests that without Bank-financed (long- and short-term) consultants it would be extremely difficult monitor the implementation of all project components and sub-components. In many cases, consultants have become our eyes and ears away from Headquarters. The question is to what extent we can rely on the objectivity of their reporting. Depending on the count the project, consultants may be subject to varying degrees of press from their employer (the Government). In order to increase the reliability of consultants, it is important that the Bank help crea consultants an adequate environment where they can be independent a objective vis-a-vis the Government. This, of course, is very complicated because, although the Bank provides the financing for consulting services, it is not a formal party to the contractual relationship between the consultant and the Government.

A **point for discussion:** I would like to suggest submit that **t are ways to encourage consultants to be objective and independent.** The first, and obvious, step is to strengthen the direct dialogue b Task Managers and Bank-financed consultants; the objective is to ge know the consultants, establish a good working relationship, and ob as much information as possible directly from them. Occasional vis to consultants' headquarters can be helpful to establish the same dialogue with the consultants' supervisor. The second way is to en (if necessary, by means of a side letter) that all report prepared consultant (if necessary, even draft reports) are transmitted simultaneously to the Government and the Bank. The third way is to protect the consultant from arbitrary decisions on the part of the Government: for instance, by making sure that the Government will n make any changes in the consultants' team without explicit Bank agreement (this commitment may require a side letter), or by making sure that the Government does not arbitrarily withhold or delay payments due to consultants. These steps will undoubtedly require additional follow-up on the part of the Task Manager, but the pay o may be significant in terms of more reliable reporting and better p implementation. The risk, however, is the possibility of falling i micro-management; prudent judgment on the part of the Task Manager is of the essence.

<u>Efficacy of Training Components</u>

Most Task Managers will agree with the importance of well-designed and implemented training components. The relevance of goo training has been highlighted by the Region's endorsement of human resource development as one of the most important engines of econom growth in Africa. It is also at the heart of the effort to build l capacity.

In practice, however, training components are not usually pai much attention as other project components. A couple of possible explanations come to mind. On the one hand, Task Managers that are very competent in their own technical areas are not necessarily fam with training aspects. On the other hand, there are few training specialists in the Region, and Task Managers may fail to see the potential benefit of requesting their advice at the time of project or supervision.

As a **point for discussion**, I would like to propose **three ways increase the efficacy of training components.** The first, and most obvious way, is that Task Managers make an effort, at the time of appraisal, to identify the training needs of the implementing agenc agree on the objectives of a training component, and to specify an training program for the first year. The training program should include a reasonably cost-effective blend of on-the-job training, f training in the country, and formal training abroad. The program should include provisions to secure that civil servants benefiting training abroad will, upon return to their country, disseminate amo their colleagues what they learned and will use their skills at a s position for a minimum period of time.

The second way is to include a formal training component in m long-term technical assistance contracts. Informal, on-the-job tra is not enough. Formal training component will increase the likelih that, when the consultants assignment comes to an end, there will b local nationals able to continue the job without help from the outs

The third way is to review critically what has become an almo universal feature in technical assistance contracts: the appointmen civil servant as counterpart (or "homologue") to the expatriate consultant. Ideally, such an arrangement should lead to transfer o know-how from the consultant to the local counterpart. But our experience shows that in many cases this is not the case. There ma a couple of explanations for this failure. On the one hand, the lo counterpart, who is supposed to be trained by the consultant, is of the consultant's supervisor; this creates an odd environment in whi the consultant is not in a position to require the local counterpar carry out the tasks that would normally be part of the training pro On the other hand, the local counterpart may not be motivated to ma the additional effort required; in some cases, local counterparts h moonlight to supplement their salaries. One way to address this is would be to radically modify the mechanisms for selection and conservation of local counterparts: first, it must be made clear th purpose of the "local counterpart" arrangement is to secure trainin second, the Government presents to the consultant a list of local c servants interested in receiving training; third, on the basis of interviews, the consultant chooses a small group of trainees; fourt these trainees are placed at the disposal of the consultant; finall consultant retains the freedom to have the trainees replaced if the performance proves to be unsatisfactory.

Need for Greater Transparency

Many Task Managers know cases of lack of transparency in project implementation, particularly in the areas of procurement an auditing. Discussions on this topic have been fueled in recent tim the interesting debate on governance in Africa. An increasingly important body of literature on African development points to publi mismanagement and corruption as major contributing factors to the s state of affairs of the continent.

As a **point for discussion**, some Task Managers believe that

greater transparency in project implementation is not just a moral imperative but a necessary condition of project sustainability. La transparence reduces a project's effectiveness to send growth-orien signals; instead, it runs the risk of fostering rent-seeking behavi reach greater transparency, Task Managers will sometimes have to pa more attention to detail than they are used to. This, however, may construed by the Government as micro-management or interference, an may weaken a sense of project ownership that we want to encourage. This is a very real tension for which there are no easy solutions: one hand, we want to make sure that resources are used efficiently Government officials; on the other hand we must not allow a scrutinizing approach to jeopardize Government's ownership of the project, which is a real condition for long-term project success.

One of the great challenges we usually face is to make sure t the population is well informed about the main objectives and ratio of Bank's projects (particularly their anti-poverty orientation). to **improve the Bank's image in the countries where we operate.** During the March 1991 coup d'etat in Mali, the crowds attacked our Resident Mission and completely sacked the office of the Caisse Centrale de Cooperation Economique. This probably suggests that common people may have seen the Bank and the Caisse as supporters of the "ancien regime". Steps to improve our public image may requ certain skills that are not normally available for project supervis

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PERSONAL OBSERVATIONS ABOUT THE "IMPLEMENTATION CULTURE"

I would like to close this presentation with a few personal observations about what is now called the "Implementation Culture". All large organizations tend to generate their own jargon, and the is certainly no exception. The term "implementation culture" surfa about two years ago. When I first heard it, its meaning was neithe evident nor transparent. Even nowadays, some Task Managers regard it as something that has little to do with their work. They may ev consider it with some cynicism. Such a misunderstanding is unfortu and needs to be redressed. Although there is not a unique agreed definition for the term "implementation culture", it generally refe the values and attitudes that lead to good implementation of projec other operations.

A few points are in order. First, while the term is relative in the Bank, it is crucial to recognize that **most staff members hav always made an effort to secure the good quality of our projects an operations**. We pride ourselves in being competent people. Althoug we are keen observers of our own deficiencies, most of us agree tha the "ethos" of the Bank is one in which people strive to do their b

Second, it is important to realize that the term "implementat culture" refers more to a way of doing things than to some specific knowledge acquired by learning. The emphasis is on doing not on knowing. A popular definition of culture has it that culture is wh remains after one has forgotten what one learned. The implementati culture is not so much a goal to be reached or a knowledge to be acquired, as it is **daily effort to enhance the quality of our work.** matters is not whether we use the term but whether we apply the concept.

Third, "implementation culture" is closely related to another relatively new word, **sustainability**, which refers to projects that, result of good implementation, attain objectives that outlast the p themselves.

Fourth, it is very important that **Regional Management has explicitly endorsed the need for better implementation**, and has strengthened this commitment with specific actions and signals. Si FY91, supervision has been fully funded. Annual performance review are supposed to include a discussion of supervision tasks. Personn actions, including salary increases and promotions are supposed to into account the quality of supervision. The explicit commitment o Regional Management has been very important to counteract the notio that it is mainly appraisals and board presentations that are rewar the institution.

Fifth, good implementation does not only mean good supervisio Good implementation covers all phases of the project cycle. Upstre in the context of **good project design**, it means: fostering from the beginning a sense of ownership on the part of Government; defining clearly the project's objectives, particularly its desirable sustai impact; not being unrealistically ambitious about what can be achie in the context of one project; defining as clearly as possible the procedures to be followed by the implementing unit; resisting the u to have too many components; and resisting the self-imposed tyranny attempting to include to many initiatives in a single project. Downstream, in the context of **good project supervision**, it means: paying attention to all components and making sure that you have al the resources you need for good supervision; pondering during every supervision mission whether the project objectives are indeed being or not; and focusing on the expected lasting, sustainable impact of project as a measuring rod for quality.

Sixth, while quality improvement methods coming from the manufacturing industry cannot be directly applied in an institution the Bank, some of the basic principles can. Much progress has alre been done in terms of **adapting the old "quality control" principles service industries.** There are probably things we can learn from it

Finally, **good implementation is everybody's business.** It mus rely on additional layers of control within the institution, but ra creating an environment where good quality is encouraged and effectively rewarded. It is important to agree on a definition of

It is important that Regional Management continue to encourage and pay attention to this effort (for instance occasional meetings with returning supervision missions). It is important to listen to staf members and clients: their remarks, even when they appear to be onl nagging complaints, usually contain a kernel of truth, thus the pot for quality improvement; country teams and opportunities such as th Implementation Workshop can provide a fertile ground for exchange o ideas within the Region.

[\IMPLMENT\910916.REV,MPulgar-Vidal]

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

DATE: 02-Jul-1992 05:57pm

TO: Ian Scott (IAN SCOTT)

FROM: Peter Richardson, CPBVP (PETER RICHARDSON)

EXT.: 84571

SUBJECT: **Terminology**

Ian:

Perhaps it would be a good idea before the long weekend to reach a crystal clear agreement with Willi on terminology. (One of my comments to him -- handwritten -- addressed the subject yesterday or the day before).

We need to know whether we will use -- and exactly what we mean by --

implementation surveillance

portfolio management

portfolio performance management

country portfolio performance management

"supervision"

supervision

core supervision.

I think he sometimes uses implementation surveillance to mean what used to be called superivsion of one project; and portfolio performance management to mean what used to be called supervision, but not of one project -- i.e. of a whole country's portfolio or the whole world's. I don't think he likes portfolio management -- although if we use portfolio performance management it is bound to get shortened in everyday usage to portfolio managment. On occasion, he has used "implementation surveillance and portfolio management."

<u>To avoid confusion, while getting the Bank to adopt new terminology, I see no alternative to setting out the preferred terms and definitions at the outset and then using them in the report.</u> It could be done in a preferatory "note"if not in the text. The note would expain why "supervision" is a poor term.

(It is not a poor term for the leftmost activities on Willi's graphic, but if we use it to mean just that and not its traditional meaning, no one will understand and counterproductive confusion will result. For that limited part of "supervision," I see no problem using "core super

While I'm not urging any particular outcome, I do think clarity will be essential.

July 2, 1992

Mr. Willi Wapenhans

Willi,

I have only made very minor changes to accommodate Task Force comments.

Ian

Ian

Report of the Portfolio Management Task Force

EFFECTIVE IMPLEMENTATION

KEY TO

SUSTAINABLE DEVELOPMENT IMPACT

EXECUTIVE BRIEF

I. CONTEXT AND GUIDING PRINCIPLES

1. In his memorandum of February 7, 1992, establishing the Task Force on Portfolio Management, Mr. Preston stated: "Successful implementation of approved operations outweighs new annual commitments as an indicator of the Bank's development effectiveness."[1/] The Bank and IDA currently have close to US$140 billion in lending commitments helping to finance about US$360 billion worth of projects and programs under implementation. Annual disbursements against 113 country portfolios containing some 1840 projects are estimated to have reached US$17.2 billion in FY92.[2/] In FY93, total disbursements are expected to increase to about US$20.4 billion.[3/] The Bank's support for the effective implementation of its portfolio is one of the most important forms of development assistance it can render.

2. The Task Force[4/] interpreted its mandate to cover a review of the current status of the existing portfolio and of the policies and practices employed to manage the downstream stages of the project cycle (i.e. from negotiations through impact evaluation). In the course of its work, the Task Force found the implicit identity between portfolio management and "supervision" (and by extension "evaluation"), quite restrictive because strong links exist with

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1/ Circulated to the Board on March 12, 1992, see Attachment 1.

2/ Data refers to both IBRD and IDA unless otherwise indicated.

3/ Review of World Bank Programs and FY93 Budgets, May 8, 1992, Annex A1 and Annex A3.

4/ For composition see Attachment 2.

upstream stages of the cycle. Accordingly, the enquiry was extended and set in the context of the country universe.

3. Policy advances during the past decade, declining trends in implementation success, and the shift to more challenging and complex projects in the lending program, have combined to make questions of "how to get it done" more pressing than questions about "what to do". While the Bank does not control and cannot be responsible for the actions of owners -- its influence must be as much *through* the Borrower as *on* the Borrower (and/or the Guarantor) -- one of its most pressing challenges in the medium term will be to ensure sustainable benefits results from the resources it provides. That is why the Bank must now focus its attention on implementation and must adapt its processes, incentives and skills to the management of the performance of the portfolio it supports. This Executive Brief outlines a program to do that; a program built on initiatives and changes underway in many parts of the Bank. It is designed to enhance the development quality of the portfolio; the effectiveness of its implementation; the efficient management of its performance; and a soundly based, independent and credible process of evaluation.

4. In its deliberations, the Task Force was guided by six principles:

First - The country context of policies, regulations and institutions for sustainable growth and poverty reduction provides the basic framework for the Bank's assistance strategies and for the implementation of the projects and programs it supports[5/];

Second - The Bank's development impact is largely dependent on the successful implementation of soundly conceived, high priority projects and programs;

Third - Specific projects or programs remain the basic operational units of action on which implementation support is focussed;

Fourth - The principal accountability of the owner for project and/or program execution should be disturbed only exceptionally in areas other than those prescribed under the Articles of Agreement;

Fifth - The Bank's portfolio must mirror its institutional development priorities as well as prudent risk taking; and

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5/ For purposes of this discussion the term "program" includes SALs, SECALs and SILs.

Sixth - In discharging its defined role in support of project/program implementation, the Bank should not be constrained by budgetary considerations.

5. Finally, throughout its work, the Task Force was mindful of the need to meet credibly the requirements of managerial accountability to the Board and institutional accountability to its shareholders.

6. These considerations led the Task Force to propose a number of changes in the ways in which the Bank renders implementation support and otherwise enhances the management of the performance of its portfolio. The Task Force wishes to stress that these changes are evolutionary; that they are consistent with prevailing trends in host countries and among the staff; that they support the development mandate the Bank has defined in its policies; and that they reflect the need for efficiency and effectiveness. The proposals address five broad areas of change, namely:

- The respective mandates and accountabilities of the owner and the lender;

- The introduction of the concept of country portfolio performance management and its linkage to the core business processes of the Bank;

- Project performance management;

- Specific efficiency measures;

- Systemic incentives to managers and staff; and

- Operations evaluation.

7. The specific recommendations of the Task Force are grouped against these functional proposals in Chapter V of this Executive Brief.

Ian (o/r)

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

DATE: June 29, 1992 11:19am

TO: Ian Scott (IAN SCOTT)

FROM: James Kearns, ORGHD (JAMES KEARNS)

EXT.: 82591

SUBJECT: **Comments TF Current Version**

Ian:

I very much like the new version of the Task Force report. It is, in my opinion, especially well crafted. The writing is straightforward and lively. I read through all of it with interest and ease. I liked, as you might expect, the absence of triangles and half-moon-circles. I admire what you've done. In spite of the points made below, the presentation strategy may be perfect.

The crispness and liveliness is accomplished at the rifice of thoughtful consideration of this very complex ter, and without a presentation of options and alternatives. Interesting how the report criticizes Bank projects for not having options and alternatives, while omitting them in its own work! Nevertheless, the desire for options is, in my opinion, part of our rationalistic past. What one needs to do is to present a coherent proposal to someone which shows commitment to a course of action --the alternatives having been considered and rejected previously and perhaps mentioned in passing in the introduction but not fully developed as real choices.

The crispness of style may appear as somewhat cryptic sound-bites to a reader not enmeshed in the totality of the work. I found myself going back and forth from agreement to challenge as I read the various parts, not just once but several times. The underlying problem is more with me the reader, I suspect, than the coherence of the proposals. One thing you need to be sure is that your target readers don't have the same reactions I have. Perhaps you have talked enough to them about the distinctions, meanings and vision that underlie this text for the language choices to trigger the response you want. If not, some more work is needed.

I must say you've have done an excellent job in grounding sad shape of the Bank's portfolio. OED is scoring 45% the most recent projects as "unsuccessful" (i.e., failures"!). Wow! Regardless of whether you take the ARIS measure or the OED measure, these data are dire as they show deterioration at rates of two to three times worse than ten or so years ago. Preston and others should be in the mood to act. However, some may be in the mood to defend.

As to causation, the text as it now stands does not give enough careful attention and consideration to causation for my taste. It sound-bites causation as exogenous factors, ambiguous relationships with borrowers, excessive lending zeal, lack of zeal for implementation, and internal actions that get in the way of seamless working and feedback for learning.

Given the seriousness of the state of the portfolio, it may be wise and possible to avoid dwelling on causation because it just makes the Bank look worse. Moreover you may already have a sufficient coalition for change and can move quickly through the text. I don't know and suggest pragmatism here: write only what's necessary to generate effective change. A private memo or an undocumented briefing might be used to get the "full" picture across.

Nevertheless, you put a lot of weight on exogenous factors, stating that they alone explain almost all of the deterioration. And the world economy has indeed been especially horrid of late. But placing blame here does not n possibilities for new actions as there is virtually hing you can recommend about managing the world economy in the TF report.

Another way to interpret the bad times that the developing countries are experiencing is to recognize that they have been following governance, economic management and administrative practices that were unsustainable. The world economy is after all cyclical. It's only a question of time before it becomes necessary to face up to the failed internal behavior in a cyclical down-turn, and then blame the down turn for the catastrophe instead of the wrong internal behaviors.

As to the Bank, it's culpability was heavy and continuous lending into the failing internal practices of the borrowers. Here the Bank was either incompetent or taking the only available course of action. I say the latter, and illuminate it with the cold-war understanding of how the "game of development assistance" could only be played. You can't make such case quickly with "sound bites." It will take a reasoned, well argued, presentation. But doing so establishes a firm base for the kind of behavior you advocate in the future. The question is whether that's necessary to produce the kind of change you are advocating.

] ctly what is the vision you hold for the future? For me it's hidden in the presentation and I have to work like hell to dig it out. What emerges after my digging is a vision of a seamless, transparent management of the total portfolio of the Bank's work in each developing country: ESW, lending and implementation, cofinancing and aid coordination so that the objective of sustainable development is attained and its indicator is the elimination of absolute poverty as measured by objective facts about the country as a whole. One question I have is why not make your vision --whether it's the one I interpret from digging and reading between and beyond the lines, or another one-- crystal clear in the report?

As to the recommendations, there are so many of them but I only get a very partial glance at each and become underwhelmed by each. Is this the best strategy for the introduction to what will be a very thick and meaty total report? Another strategy is to use the introduction to focus only on the few things that really, really count, and make their acceptance indisputable. Again if the coalition for change is already present and strong, then what you are have done may not only work, but might be the best choice. Again, I don't know from where I sit.

As to the recommendations, I have two primary concerns which might be overcome if the text presented a clear vision of how you see the future.

is the recommended shift to the borrower identification and preparation of projects. In terms of how the Bank works --macro economic study and dialogue; sector study and dialogue; generation of project ideas; preparation of projects that solve problems identified in ESW and dialoguing; and then implementation, chairing CG's; being THE AID COORDINATOR for the country, etc., etc. indicates seamless, total involvement. I find it hard (except for the Korea's) to chunk this process into borrower autonomy for identification and preparation and Bank autonomy for appraisal. I just don't see this working. And I don't trust "men-from-Mars" parachuting in to do appraisals, particularly of social projects. This is the old Warren Baum, rationalistic notion of how the world works. You know the world doesn't work this way and mention it in many parts of the report. Yet I still end with the interpretation that what I said above is embedded importantly into this report.

If we are to shift preparation to a participatory method that has blueprinting follow vision and commitment, then what strikes me as a "throw away" recommendation is that EDI teach everyone how to do it. That just won't work, in my opinion, and is an inadequate response to an important matter.

e final thoughts,

--if this is to be the decade of implementation and our past sins were generated by everyone wanting to lend only, then why doesn't the report at least mention and discuss the fact that both the ADB and IADB (last time I looked at least) hand over implementation to people who do nothing else but implementation. That certainly gets the attention focused, but for other reasons, may not be a good idea.

--no mention is made of the absence of loan officers participating with project teams in doing projects and handling many of the factors that get in the way of implementation problems generated by the way core ministries of government work. From my experience in developing countries as an "institutional expert," the problems are mainly at the core and not at the implementing ministry. You can't touch these problems through the project -- and I detect this is recognized in the report. But someone in the project team has to be aware of how government works overall. Project teams are sector teams working in parts of many countries and "no-one" on the teams knows the fullness of the country. Steve Denning's use of Country Teams as the main, de facto organization of his department takes care of the problem. Most others are not doing what Steve is doing. Loan officers would help as a second best solution to teve's country team approach or a discussion of what appened when loan officers were abolished could push the concept of organizing work by country teams.

--if the Board gets out of approving projects and we cut back on the paper work, many years of staff time will be available to do the things that produce sustainable development.

PMTF

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

DATE: June 27, 1992 05:24pm

TO: Ian Scott (IAN SCOTT)

FROM: Mervyn Weiner, ORGHD (MERVYN WEINER)

EXT.:

SUBJECT: **PMTF DRAFT REPORT dated 7/1/92**

Ian,

I've just finished reading the draft Peter arranged for me to get hold of after you left. I am impressed with both the content and the presentation. A medal to Mavourneen for setting new standards in desktop publishing; and to you for the way you have sought to capture Preston's attention. I also happen to agree with the contents, which may make me biased.

As you will note below, my comments are all "nits"; but I will note them anyway to try to be of some help.

Chart #3 is not helpful: perhaps because it is too compressed; also, the reader isn't told what each bar represents. The chart 2 legend can't be used because the chart 3 bars are shaded differently. The para. 16 reference to chart 3 thus hangs loose, for the assertion in the text doesn't stand out in the chart.

Page 11 -- the font size in the OED Ratings title should be made uniform.

Page 18, line 7 -- I would suggest adding "and analysis" after "plans", to be even more fully reflective of the Bank's culture.

Page 18, para. 35, lines 3 & 4 -- it is not clear how one can track development impact "throughout the implementation period"; benefits only begin to flow after implementation is completed (unless you are redefining "implementation").

Page 18, last line -- "manager's" should read "managers'".

Pge 32, footnote 10 -- a verb is missing from the last sentence.

Para. 66 -- this is the one para. that is not self-contained, as the report is supposed to be. You might mention briefly what was recommended in the two reports referred to.

Para. 71, line 7 -- delete "on" after "Bank".

Page 37, last line -- delete the second comma.

Para. 87 -- the text should clarify what the portfolio reviews will cover. The larger emphasis on results implies that they will include projects under operation as well as projects being implemented, but the lack of specificity makes this unclear.

Para. 105, last line -- change "be" to "by".

Page 59 -- delete the square brackets in items 4, 5 & 6.

Page 61, #14, item 3 -- what does "encourage use of Bank staff time" mean?

The replacement for ARIS may call for changes in OED's approach to its annual reviews. Do you think this should be noted, perhaps in a footnote, even though that will be the DGO's decision in the end?

File

THE WORLD BANK

ROUTING SLIP	Date 7/1/92

OFFICE OF THE PRESIDENT

Name	Room No.
Portfolio Management Task Force	
Members	

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

Remarks

For comments for Mr. Wapenhans by c.o.b. today, July 1, 1992.

Thanks,

From

Marie T. Zenni

Report of the Portfolio Management Task Force

EFFECTIVE IMPLEMENTATION KEY TO SUSTAINABLE DEVELOPMENT IMPACT

EXECUTIVE BRIEF

I. Context and Guiding Principles

1. In his memorandum of February 7, 1992, establishing the Task Force on Portfolio Management, Mr. Preston stated "Successful implementation of approved operations outweighs new annual commitments as an indicator of the Bank's development effectiveness."[1] The Bank and IDA have currently under implementation close to US$140 billion in lending commitments helping to finance about US$360 billion worth of projects and programs. Annual disbursements against 113 country portfolios containing some 1840 projects are estimated to have reached US$17.2 billion in FY92.[2] For FY93 total disbursements are expected to increase to about US$20.4 billion.[3] The Bank's support to the effective implementation of its portfolio is one of the most important forms of development assistance it can render.

2. The Task Force[4] interpreted its mandate to include a review of the current status of the existing portfolio, policies and practices employed to

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[1] Circulated to the Board on March 12, 1992, see Attachment 1.

[2] Data refers to both IBRD and IDA unless otherwise indicated.

[3] Review of World Bank Programs and FY93 Budgets, May 8, 1992, Annex A1 and Annex A3.

[4] for composition see Attachment 2.

manage downstream stages of the project cycle (i.e. from negotiations through impact evaluation). In the course of its work the Task Force found the implicit identity between portfolio management and "supervision" (and by extension "evaluation") quite restrictive because of the strong links existing with upstream stages of the cycle. The enquiry had to be extended accordingly as it had to be set in the context of the country universe.

3. Policy advances during the past decade, declining trends in implementation success, and the shift to more challenging and complex projects in the lending program, have combined to make questions of "how to get it done" more pressing than questions about what to do. While the Bank does not control and cannot be responsible for the actions of owners -- its influence must be as much through the Borrower as on the Borrower (and/or the Guarantor) -- one of its most pressing challenges in the medium term will be to ensure sustainable benefits results from the resources it provides. That is why the Bank must now adjust its priorities and adapt its processes, incentives and skills to the management of the performance of the portfolio it supports. This Executive Brief outlines a program to do that, a program that is built on initiatives and changes underway in many parts of the Bank. It is designed to enhance the developmental quality of the portfolio, effectiveness of its implementation, efficiency in the management of its performance, and a soundly based, independent and credible process of evaluation.

4. In its deliberations the Task Force was guided by six principles:

<u>First</u> - The country context of policies, regulations and institutions is the paramount framework for setting priorities and for the implementation of projects and programs.[5]

<u>Second</u> - The Bank's development impact is not exclusively but overwhelmingly dependent upon successful implementation of soundly conceived, high priority projects and programs.

<u>Third</u> - Specific projects or programs remain the basic operational unit of action on which implementation support is focussed.

<u>Fourth</u> - The principal accountability of the owner for project and/or program execution should be disturbed only exceptionally in areas other than those prescribed under the Articles of Agreement.

<u>Fifth</u> - The Bank's portfolio must mirror its institutional development priorities as well as prudent risk taking.

<u>Sixth</u> - In the discharge of its defined role in support of project/program implementation the Bank should not be constrained by budgetary considerations.

Finally, throughout its work the Task Force was mindful of the need to meet credibly the requirements of managerial accountability to the Board and institutional accountability to its ~~share~~ stakeholders.

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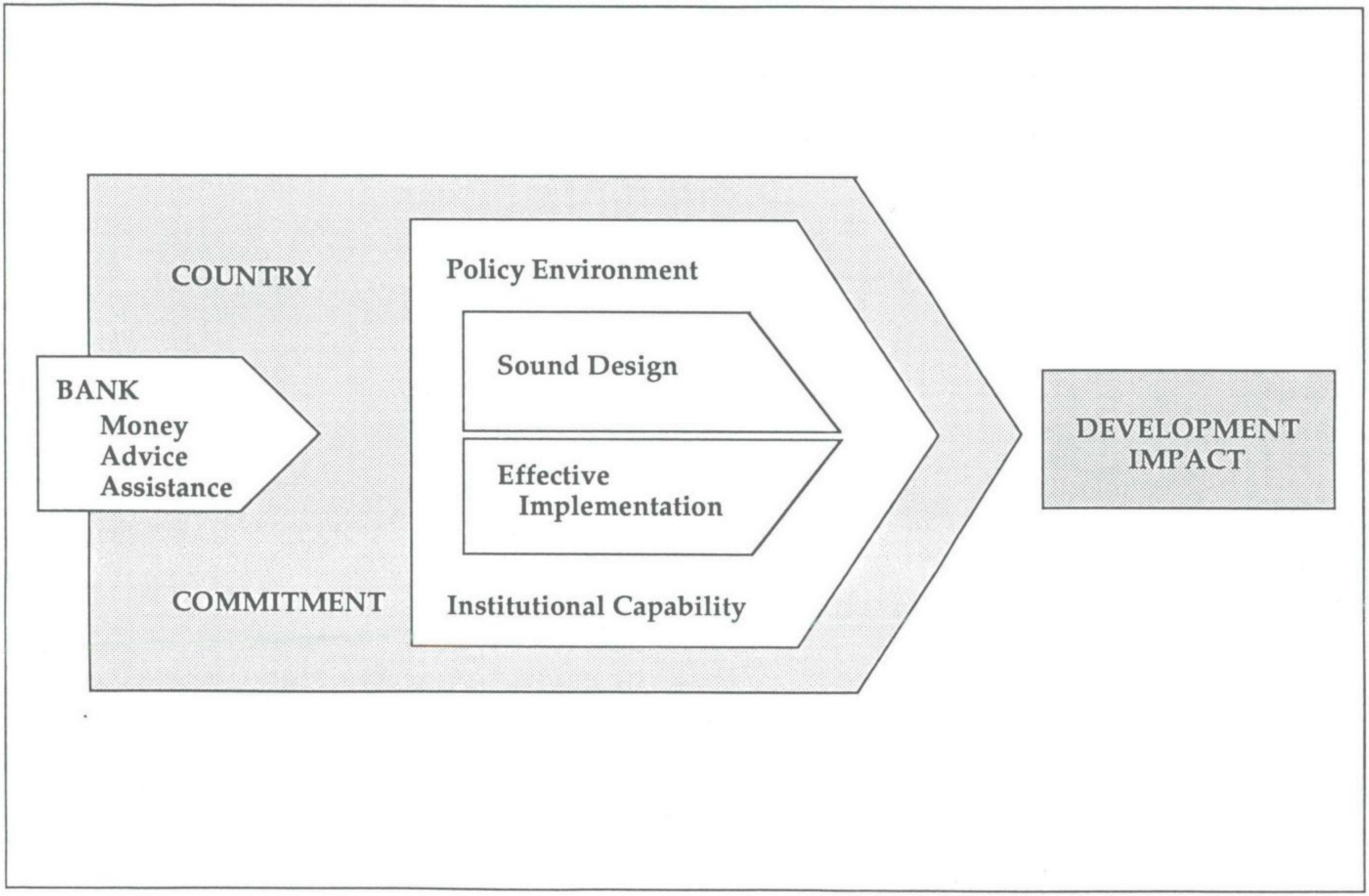
[5] for purposes of this discussion the term program is meant to include SAL, SECAL SIL.

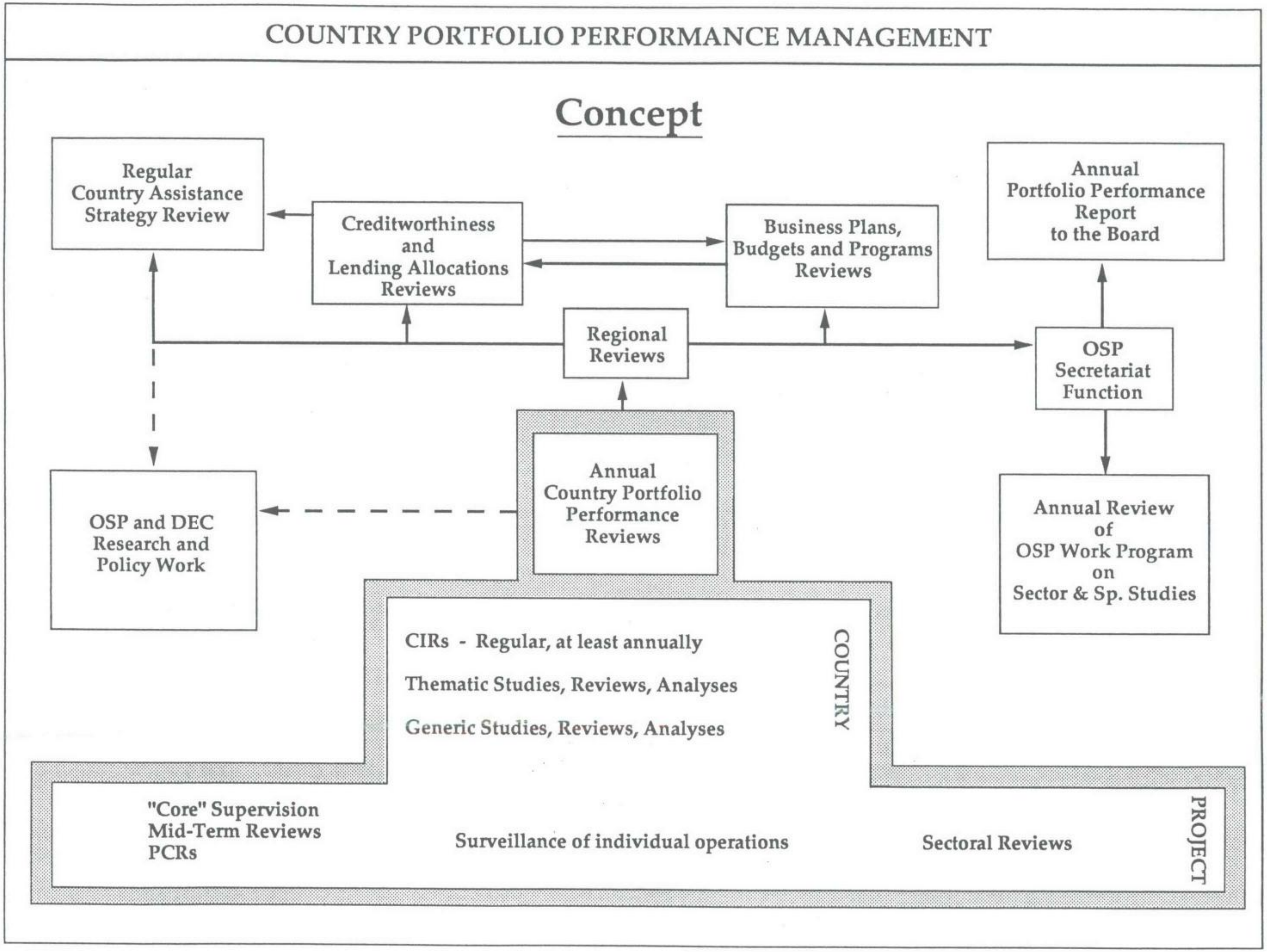
5. These considerations have led the Task Force to propose a number of changes in the ways in which it renders implementation support and otherwise enhances the management of the performance of its portfolio. The Task Force wishes to stress, however, that these changes are evolutionary, consistent with the trends prevailing both in host countries as well as within the staff, supportive of the developmental mandate the Bank has defined in its policies, and conscious of the need for efficiency and effectiveness. The proposals address five broad areas of change, namely:

- the respective mandate and accountability of the owner and the lender:
- the introduction of the concept of country portfolio performance management and its linkage to core business processes of the Bank;
- project performance management;
- specific efficiency measures;
- systemic incentives to managers and staff; and
- operations evaluation.

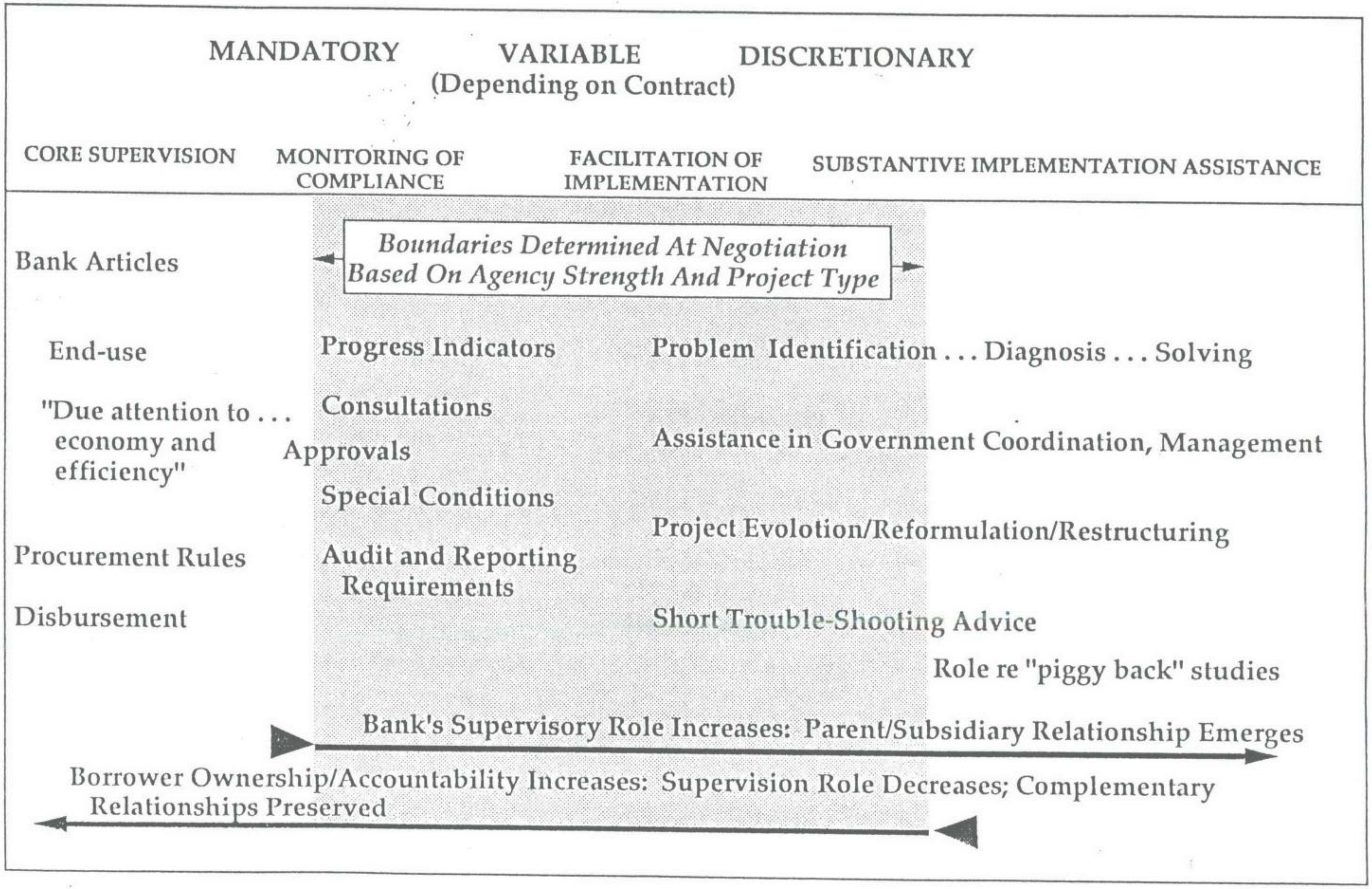
The specific recommendations of the Task Force are grouped against these functional proposals in Chapter V of the Executive Brief.

FOR MAXIMUM DEVELOPMENT IMPACT, BANK's ROLE MOST BE SUPPORTIVE, BUT NOT PREEMPTIVE . . . . .




COUNTRY PORTFOLIO PERFORMANCE MANAGEMENT
Concept
Regular Country Assistance Strategy Review
Creditworthiness and Lending Allocations Reviews
Business Plans, Budgets and Programs Reviews
Annual Portfolio Performance Report to the Board
Regional Reviews
OSP Secretariat Function
Annual Country Portfolio Performance Reviews
OSP and DEC Research and Policy Work
Annual Review of OSP Work Program on Sector & Sp. Studies
CIRs - Regular, at least annually
Thematic Studies, Reviews, Analyses
Generic Studies, Reviews, Analyses
COUNTRY
"Core" Supervision
Mid-Term Reviews
PCRs
Surveillance of individual operations
Sectoral Reviews
PROJECT

THE BANK'S ROLE DURING PROJECT IMPLEMENTATION



PRINCIPAL RECOMMENDATIONS IN RELATION TO MAJOR PROCESSES

STRATEGIC FRAMEWORK → IDENTIFICATION & PREPARATION → APPRAISAL → NEGOTIATIONS → START-UP

STRATEGIC FRAMEWORK

Country Portfolio Perf. as Input to:

- Creditworthiness Assessments
- Lending/IDA Allocations
- Country Assistance Strategy
- Business Plans

Country Portfolio Mgt. Strategy

Top Mgt. to Emphasize Portfolio Performance

IDENTIFICATION & PREPARATION

Identification Done Collaboratively

Bank Less Dominant, Borrower Commitment Essential

Implementability a Primary Criterion

Implementation Plan Prepared

Borrower Capacity Building Emphasized

APPRAISAL

Realistic, Objective; not Promotional

Risks Assessed- - Especially Managerial Ones

Implementation Plan Assessed (incl. Procurement Plan)

Key Indicators Identified

Supervision Planned

Timing set for "Disbursement Completion Report"

Audit Arrangements Assessed

Cofinancing Only When Necessary

Review Opportunities for Streamlining SARs

NEGOTIATIONS

Implementing Agency Represented on Borrower Team

Objectives Clearly Specified

Only Use Covenants That Would Be Enforced

Highlight Covenants Critical to Success

Avoid "Approvals" Where Possible

Avoid Macro Conditions in Investment Loans; Prefer Conditions of Negotiation, Hybrids with Tranches

Agreed Progress Reporting Formats (incl. those for Cofinanciers)

Mandatory Consultations Tied, as Appropriate, to Indicators

START-UP

Ensure Understanding of:

- Projects
- Loan Documents
- Bank Requirements

EDI Training in Pjct. Mgt. Training by Consultants in Bank Rqmnts.

"Launch" When Many Actors

Mandatory Standard Bid Docs (Adapted By Country)

Procurement Review Committee

BALANCE AMONG ELEMENTS IN BANK ROLE SHOULD DEPEND ON COUNTRY/EXECUTING AGENCY NEED

Role:	Assertive	Collaborative	Distant
Executing Agency Skills:	LOW	MEDIUM	HIGH
Mode:	Doing	Coaching	Checking

PROJECT IMPLEMENTATION → OPERATIONS/BENEFITS →

IMPLEMENTATION SURVEILLANCE → TRANSITION → EVALUATION

COUNTRY FOCUS

- Country Portfolio Performance Mgt.
- Director's Accountability; Portfolio Performance Index
- Country Implementation Reviews
- Thematic Reviews/Missions
- Portfolio Adjustment in Connection with SAL
- President's Annual P.M. Report
- Standard Contracts
- Approved Audit Arrangements

PROJECT SPECIFIC

- Borrower Responsible, Bank not Dominant
- Special Rvws. of Problem Projects
- Flexibility When Appropriate
- Greater Readiness to Suspend, Cancel
- Facilitation OK, But Avoid "Heavy" Implementation Assistance
- Input to Covenant Data Bank
- For SALs, Link Surveillance with ESW Dialogue; Simplified Disbursement Rqmts.
- When Cofinancing, Have Lead Manager
- Country Team Reviews Ratings

"ICRs"

Forward Looking

Transition Plan Agreed

Cost Base for Evaluation

OED, Board on Request

EVALUATION

Greater Focus on impact by Bank & OED

Feedback to Sector Policy

Covenant Data Bank

INFORMATION: Critical indicators; improved information technology and systems for borrowers and bank; revised Form 590; improved filing practices

FIELD ROLE: Presumption of 2 field staff; role in routine procurement approvals; facilitation; liaison

SKILL MIX: Need more financial, institutional, managerial skills; emphasize managerial experience; field experience for YPs

PERSONNEL: Importance of proficiency in matters related to portfolio performance; continuity; orientation and PPM training for operational staff, portfolio management handbook

June 29, 1992

File

ROUTING SLIP	Date 6/30/92
NAME	**ROOM NO.**
PMTF	
cc Mr. Wapenhans	

URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	Information/Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial

RE:

REMARKS

This reflects the rearrangement of Sections I-III discussed this morning.

(Also, find letter from Kenya.)

From	Room No.	Ext.
[signature]		

P-1862

Draft: 6/30/92

Report of the Portfolio Management Task Force

EFFECTIVE IMPLEMENTATION --

KEY TO

SUSTAINABLE DEVELOPMENT IMPACT

Executive Brief

OUTLINE

I. The Problem -- Evidence (DL, w. MP)

OED and ARIS success data (including country concentration)

Most common types of problem

Covenant data

Problem projects seldom (almost never?) recover; no additional effort in many cases; sometimes additional effort does not help

Disbursement ratios

Procurement (staff time, fewer bidders, quality)

Suspensions and cancellations (IDA and Bank)

SAL data?

Borrower perceptions (seal of approval, promotion, etc.)

Other data

II. The Problem -- Causes

A. Global factors (MP)

- Uncontrollables (e.g. prices, trade)
- Bank doing more institutionally complex projects (social, evolutionary, policy-related)

B. Country factors (MP)

- Debt crisis
- Stringencies (e.g. related to adjustment) make local currency unavailable

- Institutional weaknesses

- Inimical policy and regulatory environment

C. Project-related factors

- Macro factors neglected in project analysis (JS)

- Executing agencies often have insufficient capability to implement well; inadequate audit capacity; (DL?)

- Little serious implementation planning (JS)

- Bank bias for complexity in preparation and appraisal

- Cofinancing adds complexity

- Low Bank realism about implementability (sensitivities/risks not well weighed, optimism, etc.) (JS)

- Excessive use of covenants

- Broad policy conditions (not directly related to project) can add complexity and at times penalize project execution (trade-off: constraint to enforcement)

- Quality at entry: preparation, appraisal and negotiation (MP, JS) -- Data?

- Implementability less a concern than salability ("promotion," reports more than results)

- Poor owner understanding of (commitment to) responsibilities under loan documents and of required procedures

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

A. In general

- Role ambiguity: In general, Bank "crowding" of borrowers can weaken their commitment and dilute their accountability while increasing the Bank's. Bank tends to expand role, be too assertive; weakens local commitment -- with affected parties not involved, supportive coalitions lacking. Bank responsibilities vis a vis various types of "supervision" work not well understood/adhered to. In implementation surveillance stage, role confusion vis a vis core (mandatory) supervision, compliance monitoring, facilitation, implementation assistance sometimes leads to inappropriate involvement

- Project-by-project focus,with weak "country focus"

- Board and managers overwhelmingly perceived to give substantially more attention to lending than to implementation -- signalling lower priority for the latter (DL)

- Weak incentives for staff

- Rating system suspect (given OED divergence)
- Lack of certain key skills (MP)

B. Quality during implementation

- Lack of Bank flexibility, as circumstances change
- Bank slowness in addressing problems
- Lack of country focus (with some exceptions) -- e.g. re generic problems
- Lack of managerial interest, accountability (MP)
- Assertiveness/role confusion (see III. A, above)
- Reluctance to deal decisively with problem projects (DL)
- Frequently, financial covenants not enforced (DL)
- Lessons of implementation stage not significantly incorporated in Bank's key management processes (evidence?)

D. Operational Phase

- Lack of focus on impact; sustainability of operations not subject to review
- Supervision normally stops before operational phase -- i.e. often before benefits flow
- PCRs, a backward-looking chore with limited value (except as necessary building blocks for OED), can usually only speculate about likely benefits; need for refocussing

MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES

Telegrams: "ASILI", Nairobi
Telephone: Nairobi 229261
When replying please quote

Ref. No. ....
and date

Please address your reply to:
The Permanent Secretary for
Environment and Natural
Resources.

KENCOM HOUSE
MOI AVENUE
P.O. Box 30126
NAIROBI

10th June 1992

Mr J. C. Peter Richardson
Secretary
Portfolio Management Task Force
The World Bank
1818 H Street N.W.
Washington D.C., 20433
U.S.A

Dear Mr Richardson,

It was indeed a pleasure meeting you and your colleagues at the recent workshop on Portfolio Management.

At the conclusion of the workshop I indicated to Mr Wapenhans that I would be submitting some notes that I had put down on paper prior to my arrival in Washington. I was not able to submit the notes then as they were only in rough draft. The notes have now been typed and I enclose a copy of the notes.

I take this opportunity to thank the Bank once again for inviting me to participate at the workshop. It was a very useful workshop and I believe the other participants have expressed similar sentiments.

My Best wishes to you, Mr. Wapenhans and indeed your colleagues who participated at the workshop.

Sincerely yours

WMayaka

William P. Mayaka
Deputy Secretary

BORROWER'S WORKSHOP ON PROJECT IMPLEMENTATION

(Washington DC, 28 -29th. May, 1992.)

1. Introduction.

For those of us who have been intimately involved in handling Bank funded projects, it is clear that this Workshop has come at the right time. It is about twelve years since the Bank in its own initiative made a study of the effectiveness of programme and project supervisory process with the view to bringing together the needs for internal Bank's administrative and management processes and the borrowers needs and perceptions about the role of the Bank's funded programmes in the overall development efforts in the developing countries.

In this respect one takes note the comprehensive and candid manner with which the Bank has made the position clear to the Workshop about their successes and failures in project implementation shown in the the documents presented.

Whereas this workshop focuses on the supervisory process in the context of project implementation, it is our view that this be seen in the context of the "project cycle" i.e from project identification, preparation, appraisal , negotiations, implementation and monitoring and evaluation.Each stage n the "cycle" is as critically important in the successful implementation of projects, however, supervision is key to project success or failure in the lifetime of the project.The success of a project is both a joy to the Bank and the borrower, while project failure and cancelation causes pain and misunderstanding for both and might lead to disillusion among the project beneficiaries however well intended.

Section 1 - Framework for Project Implementation.

1.1. Respective Roles of the Bank and the Borrower.

In general our experience is that in all cases, there is need for close collaboration and understanding between the Bank and the borrower at all stages in project implementation. Given the tremendous resources the Bank has at its disposal, there is no doubt that it would be able to meet its share of the bargain. However, for many developing countries this may prove a little difficult is the project if complex i.e if it is aimed at multiple objectives and requires collaboration of agencies and institutions. In most cases local institutions are not adequately developed to handle complex programmes and projects and this calls for the Bank's understanding and appreciation.

1.2.Roles of the Bank and the Borrower in the "Project Cycle".

In our experience, the evolution of Bank funded projects from identification, preparation, appraisal, negotiation, implementation supervision and completion reporting is a lengthy and protracted process involving volumes of documentation (numerous covers), and many hours of discussions and negotiations that at times places severe tests on the endurance and patience of the borrower and its agencies personnel.

In view of the serious lack of qualified personnel, it becomes imperative that the Bank and the borrower develop a collaborative understanding in project identification, preparation and appraisal. At this stage, other non-economic i.e social, cultural and political aspects of the project be understood and fully appreciated. In our experience the fact that the composition of the missions at every stage might change, leads to a situation where these non-economic factors are lost sight of. In particular one needs to mention the fact the negotiation process is one in which the borrower is at serious disadvantage since from the Bank's side there will be qualified personnel in the areas of law and finance, whereas from the borrowers side these talents might be totally absent.

In general, most of the borrowers view the Bank's involvement in the project process from identification to completion as guided by a "blueprint".This introduces serious rigidities which leads to the undesirable attitude among the borrowers of " if that is how the Banks wants it, so be it".An evolutionary approach might be better understood depending on each county's level in manpower and institutional development.

From what has been stated in the above paragraph it is clear that the voluminous nature of documentation does not allow for full reading and full review of such documents.Loan documents are often full of conditionalities and implementation plans though prerequisite to successful implementation, takes little account of actual implementation capacities, non-economic factors nor practical sequencing.

Section 2 - Conduct of Banks Supervisory Work.

2.1. Specific Aspects.

The perceptions with regard to supervision emanate right from project identification. In general one would expect that the borrower would lead in project identification before requesting the Bank for assistance. However, in many cases this is not the case, since most of the borrowers in the developing world have only the vaguest idea of what their people want and how to formulate strategies and programmes in achieving those objectives.

To most borrowers the need for funding might be so urgent that the long time they have to wait in the administrative processing between loan approval and first loan disbursement is indeed agonizing. Even when the Board has approved bidding and procurement procedures are often very cumbersome as these are carried out in "blueprint" type of framework. However, for the purposes of monitoring and evaluation of the Bank's projects on worldwide basis one can see the need for standardization. The standards should either be fully explained at the very beginning of the process or simpler versions should be adopted to fit the situation.

Whereas in the context of the above, the need for Bank headquarters to audit projects through missions, the frequency of these missions could be counter productive to the borrower as this demands too much time from the administrators directly involved in addition to being expensive to the bank. In this respect, there is clear advantages in appointing local auditors (approved by the Bank) audit and supervise continuously throughout the project and to ask for specific missions when things have gone wrong.For normal project reviews, we believe that an agency within the government (eg. Ministries of Finance and Planning, or the Auditor -General's Office) should be preferred to serve as the link between the borrower and the Bank. The units of departments in these agencies should receive appropriate training through short term courses at EDI and other seminars and workshops to bring them up to date on Bank proceedures and current review practices.An alternative to the more frequent high powered mission from Washington should be a framework understood by all parties at negotiations is the cost effective use of resident missions. The role of the resident missions would promote facilitation in the supervision and review process.

The question of the use of consultants is an interesting and one. In the past, the Bank has tended to hire consultants as part of the review and supervisory teams. This has the advantage of assembling a highly qualified team in terms of expertise. However, in most cases the consultants in spite of their high qualifications are really not familiar with the local conditions in the borrower's country and therefore tend to propel discussions on project performance along prejudged lines according to their pre-mission briefings. The remedy to this is to try to retaining the same consultants for the same set of borrower's or region. Secondly, though this may be difficult in countries where qualified and experienced consultants as so scarce, it is important for the Bank to begin to employ local consultants in order to build up local pool of consultancy capability over time.

Section 3 - Leaning the Lessons During the Implementation Process.

From the documentation we now have, it is clear that both the Bank and the borrowers have a lot to learn from various types of reviews, audit reports and supervision reports. What is important is that both parties have to have a rapport on how best the results, negative and positive need to be incorporated in future project implementation process.

Section 4 - After Implementation.

Ex-post evaluation in the form of project completion reports or across the board "country implementation review" are very critical in understanding the underlying factors that make success of projects or not.However, the one area that the Bank and the borrower countries seem to have divergent views is how to measure success or failure. Most often the perception borrowers have is that the Bank measures success in terms of the rate of disbursement, the compliance with conditionalities and the delivery of physical inputs within the time frame agreed on in the operational work plans.

While this may be useful from the Bank's administrative processes, it tends to be myopic in the sense that it does not include an evaluation of the overall impact of programme implementation on local institutions and the particular problems associated with issues of shortage of counterpart funding and shortage of required personnel. As is the case with Africa over the last half decade, the non-economic , social and political factors have assumed important dimensions that aught to be taken into account in defining the levels of success or failure.

In Summary, the following additional points need to be taken account of:

1.To effectively evaluate projects, there is need in the first place to ensure that the project was well designed and that the objectives and the required resources are clearly understood and quantified. In our experience, there have been several World Bank funded projects that have failed to clearly define these objectives and level of expenditures. The World Bank should provide very clear schedule of expenditures and physical targets, while on the part of the borrower, implementation is greatly enhanced through the preparation of "work plans" based on fiscal years requirements. Most often such schedules and work plans are not required except for a few large projects;

2. Any project that involves major financial and institutional reforms for implementation (e.g. the creation of special accounts) should be pretested on pilot basis to ensure that the flow of funds during actual implementation is smooth and cost-effective.Timing of the project start and closing dates must also be clearly understood by both the Bank and the borrower to enhance the process of funds disbursement process.

3.Timing of the evaluation must also be predetermined in advance. Most often the borrowers are faced with evaluation missions at short notice. In this respect, he Bank often carries out very comprehensive final evaluations (completion audits) but less effective at 'mid-course' evaluations to enable timely corrections to be made in case of difficulties. Such 'mid-course' evaluations should be through continuous dialogue between the Resident Mission staff and government staff instead of the usual stringent interventions an crisis management type of situations;

4. In many developing countries, the arrangements for supervision and evaluation and monitoring guidelines are not well understood. These capabilities need to be part of the project contribution to institutional capacity building and must be incorporated right at project design stages.

1
THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: June 29, 1992

TO: Mr. Ian Scott

FROM: J. C. Peter Richardson

EXT:

SUBJECT: **PMTF Meeting on Your Draft**

Ian:

Here briefly is what happened at the PMTF meeting on your draft.

WW said the draft was "intruiging," but we were not there yet. He worried that the style, tone and focus were not suitable for the audience we have in mind. It was a bit too glossy and "charging" in style. He wanted something more low key . He had three models in mind, all of which he admired: the U. S. IDA X paper, Naim's paper on Board prcedures, and the IDA X Technical Notes. These had an appraisal report style and language. Structurally, he feared it did not hang together, provide a driving, compelling logic. It was too long. Our report had to cover all our recommendations, but need not have details.

PG said the draft was much better than the last one, pretty good. It could be worked on to get what we need.

SB said he did not find it convincing. He said WW's idea to have each member write a chapter (or more) was not a good one. They would not be integrated and consistency of style would be a problem.

DL said she was not convinced by the draft. After reading it, she did not have a clear idea of the "bottom line." We needed something much shorter. Using several writers would be a problem, although several could surely provide inputs for later integration. She found quite a few things missing from the draft (although she did not say what). She feared that the WW outline was more like a full report than an executive brief.

LN supported the WW outline, but agreed that writers should provide inputs, not chapters as such. Basicaly, the sequence should be like a legal brief: facts, issues, recommendations.

(There was a brief discussion by WW of the Landau memo to Preston and of Stern's views. The latter thought flexibility was important to emphasize -- with perhaps more facilitation and lighter appraisal. He thought the Bank should be a coach but be wary of implementation assistance. He was not averse to involving the JAC in discussion of our draft -- which WW thought should not be done until after substantial senior management approval).

JS said that the structure should be very simple: What is the problem? What are its causes? What are the recommendations?

I commented last, along the lines of our talk the morning you left -- i.e. that it had to be concise and a good basis for a protracted dialogue which would build top mangement ownership/commitment, without which nothing much of consequence would happen. I also said having each TF member do a chapter was not a good approach. They asked that the four-page "boil down" of the recommendations be distributed. It was.

We then discussed ideas for an alternative, adjourned at lunchtime, after which I, as requested, did the attached outline. Then we met from 4p.m. to 7:30, going over and discussing alternatives to the outline and discussing (to a degree) the four-page list of recommendations. Over the week-end, I produced another outline which Willi and I mashed up on Monday and which will be discussed Tuesday morning at 9:30.

ww

File

ROUTING SLIP					Date June 29, 1992
NAME					ROOM NO.
PMTF					

	URGENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE:

REMARKS

This reflects Willi's and my changes in response to Friday's meeting.

We shall discuss it at 9:30 tomorrow (Tuesday) morning.

From	Room No.	Ext.
Peter Richardson	F13-027	84571

P-1862

Draft: 6/29/92

Report of the Portfolio Management Task Force

EFFECTIVE IMPLEMENTATION --

KEY TO

SUSTAINABLE DEVELOPMENT IMPACT

Executive Brief

OUTLINE

I. The Problem -- Evidence (DL, w. MP)

OED and ARIS success data (including country concentration)

Most common types of problem

Covenant data

Problem projects seldom (almost never?) recover; no additional effort in many cases; sometimes additional effort does not help

Disbursement ratios

Procurement (staff time, fewer bidders, quality)

Suspensions and cancellations (IDA and Bank)

SAL data?

Borrower perceptions (seal of approval, promotion, etc.)

Other data

II. The Problem -- Causes

A. Global factors (MP)

- Uncontrollables (e.g. prices, trade)
- Bank doing more institutionally complex projects (social, evolutionary, policy-related)

B. Country factors (MP)

- Debt crisis

- Stringencies (e.g. related to adjustment) make local currency unavailable
- Institutional weaknesses
- Inimical policy and regulatory environment

C. Project-related factors

- Macro factors neglected in project analysis (JS)
- Executing agencies often have insufficient capability to implement well; inadequate audit capacity; (DL?)
- Little serious implementation planning (JS)
- Bank bias for complexity in preparation and appraisal
- Low Bank realism about implementability (sensitivities/risks not well weighed, optimism, etc.)
- Excessive use of covenants
- Poor understanding of (commitment to) responsibilities under loan documents and of required procedures
- Slowness in addressing problems
- Role ambiguity: Bank responsibilities vis a vis various types of "supervision" work not well understood/adhered to. In identification, preparation and supervision, Bank tends to expand role, be too assertive; weakens local commitment -- with affected parties not involved, supportive coalitions lacking

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

A. In general

- In general, Bank "crowding" of borrowers can weaken their commitment and dilute their accountability while increasing the Bank's. In implementation surveillance stage, role confusion vis a vis core (mandatory) supervision, compliance monitoring, facilitation, implementation assistance sometimes leads to inappropriate involvement.
- Broad policy conditions (not directly related to project) can add complexity and at times penalize project execution (trade-off: constraint to enforcement)
- Cofinancing adds complexity
- Project-by-project focus,with weak "country focus"
- Board and managers give substantially more attention to lending than to implementation -- signalling lower priority for the latter (DL)
- Weak incentives for staff

- Rating system suspect (given OED divergence)

- Lack of certain key skills (MP)

B. Quality at entry: preparation, appraisal and negotiation (MP, JS)

- Data (?)

- Implementability less a concern than salability ("promotion," reports more than results)

- Cross-reference points under II.C, above

C. Quality during implementation

- Lack of flexibility, as circumstances change

- Lack of country focus (with some exceptions) -- e.g. re generic problems

- Lack of managerial interest, accountability (MP)

- Assertiveness/role confusion (see III. A, above)

- Reluctance to deal decisively with problem projects (DL)

- Frequently, financial covenants not enforced (DL)

- Lessons of implementation stage not significantly incorporated in Bank's key management processes (evidence?)

D. Operational Phase

- Lack of focus on impact; sustainability of operations not subject to review

- Supervision normally stops before operational phase -- i.e. often before benefits flow

- PCRs, a backward-looking chore with limited value (except as necessary building blocks for OED), can usually only speculate about likely benefits; need for refocussing

IV. Conclusions and Principal Recommendations

A. Overall Conclusion. There is reason to be concerned beyond the temporary phenomena of adverse macro-environments, fiscal constraints arising from structural adjustment, shifts in the composition of the project portfolio, and the aftermath of the debt crisis. A number of endemic problems, spanning the entirety of the project cycle and residing with the borrower as well as with the Bank, have been identified and need attention. In totality, they suggest measures which would lead to significant change in how the Bank does its principal business. Many of these changes are already being experimented with in various parts of the Bank. It is time to bundle these various initiatives and to refocus the owners' and the Bank's attention on the paramount importance of effective implementation.

B. Clarify and Adhere to the Bank's Proper Role. In the interest of owner commitment (which is essential to successful implementation) and borrower capability development as well as clear accountabilities, the Bank must more assiduously adhere to its appropriate role vis a vis the owner in identification, preparation, implementation and implementation surveillance. The intensity of the Bank's support should, however, vary with the capabilities of the implementing agency. While most of our recommendations are to improve project implementation. they will need to be brought to bear in conducive country policy and regulatory environments.

- The Bank must satisfy itself of maximum participation by owners and intended beneficiaries (and a sufficient local effort to consult other affected parties) in project identification, preparation and implementation -- all of which are owner, not Bank, responsibilities.

- The Bank should refrain from taking a lead role in project preparation, but should help borrowers obtain needed assistance. When it does provide preparatory support, it should be careful not to prejudice the objectivity of subsequent appraisal.

- Bank "rights of approval" in loan agreements (other than those related to procurement, disbursement and the selection of auditors) create a co-accountability in the Bank. They undermine borrower accountability in the sense that the Bank usurps a managerial function which it should have only in relation to the core supervisory obligations resulting from provisions of the Articles or the General Conditions.

- During negotiations, the Bank should confirm full borrower (especially executing agency) commitment to project objectives, design, loan conditions, Bank requirements, and implementation plans. Negotiations should be focussed on a comprehensive implementation plan setting forth project objectives, measures to be taken and accountabilities, all within a timeframe and against principal milestones. The executing agency(ies) should always be represented at the negotiation.

C. Introduce Country Portfolio Performance Management. Because the overall context of policy and regulatory regimes as well as implementation capabilities and generic and systemic problems infuence the success of project implementation, the Bank must extend its country focus (which was central to the rationale of the 1987 reorganization) by introducing a comprehensive concept of country portfolio performance management. The concept would make the country portfolio and its evolution central to the country assistance strategy. The state of the portfolio performance would influence future programs and their respective priorities. (Performance would be measured in terms of a single line composite index based on relative progress made towards the achievement of principal project objectives). Portfolio performance management would also be linked directly to three core business processes of the Bank: creditworthiness and country lending allocations, ARIS reporting, and budget.

- The experience of country portfolio performance management must be brought to bear on the Bank's key operational management processes -- i.e. country assistance strategy formulation, creditworthiness assessments and lending allocations, and business planning (including the CAM process).

- The President should make an annual report to the Board on the status of the portfolio (in lieu of the current ARIS). It should be based primarily on country portfolio performance reviews (CPPMs). (CPPMs would focus on the trends, the principal causes of delays in implementation, and the generic and systemic issues in the country portfolios). The President's report should contain a statistical annex on performance by sector and areas of special emphasis. OSP should act as the secretariat for submission of the report to the Board, but the responsible CD directors should play a key part in the Board discussion.

- For the CPPMs, measures of country portfolio performance -- built on project-based ratings -- should be applied. Project-based performance indicators should be established at appraisal and reviewed by CD management. Relative progress towards achieving specific and central project objectives should be measured and aggregated into a country index. The current rating system should initially continue until experience with the new system has been assessed.

- Annual Country Implementation Reviews should be mandatory and provide the basis for the country portfolio performance reviews; thematic reviews and sector reviews should feed -- and be planned in the light of -- the country portfolio performance review findings.

[illegible]

- In countries in adjustment, overall public sector investment reviews should be encouraged. The Bank should ~~be prepared~~ to consider reallocation of undisbursed balances of loans to reflect revised priorities within the country portfolio of BAnk-financed projects. Such reallocation should be subject to accelerated Board approval procedures.

D. Strengthen Project Work at All Stages. The principal objective of all project work remains sustainable development through effective implementation of soundly conceived projects and programs. At all stages of preparation, appraisal, negotiation and implementation, realistic experience-based assessments of likely results must constrain optimism and the temptation to promote. Even before Board approval, implementability should be a dominant concern. Loan approval must be treated as an early stage of development assistance work, rather than a culminating event. The prime purpose of project reports should be to document objectively-appraised owner plans for achieving on-the-ground results.

Improve Appraisal

- Risks and sensitivities -- including managerial, policy-related, and beneficiary behavior-related risks as well as cost and price-related ones -- must be explicitly identified and evaluated in the analyses of projects.

- Critical indicators of project progress/success -- based on risk analysis and with insights established through sensitivity testing -- must be explicitly identified at appraisal for use in monitoring during implementation. During a transition period, the existing rating system would be maintained. After a trial period of perhaps two years, a finding should be made as to whether the new and revised system could partially or wholly supersede the existing system.

Agreements

- Implementation plans (including procurement schedules) must be developed before negotiation, carefully reviewed for practicality, and "owned" by the borrower. They should be annexed to the legal documents (or included in a "Letter of Implementation") and treated as current best estimates rather than rigid mandates. The executing agency should be represented at the negotiation. L. N.

- In practice (as well as in principle), substantive covenants (conditions) should not be included in loan documents unless the Bank would be willing to enforce them. The Legal Department should educate staff about the use and misuse of covenants and should exercise quality control with respect to them. Critical substantive covenants should be distinguished from administrative ones in the loan documents, and side letters, attachments, etc. should be used to contain those statements of agreed intent (e.g. schedules) which might need modification as implementation progresses. L. N

- A covenant data bank should be created (in the format of an electronic reference library) -- complete with evaluative and outcome information -- to facilitate consistency of covenants across a country program, review of precedents, and evaluations of covenant effectiveness and to permit recording and retreival of covenants relevant to sectors and areas of special emphasis. The Legal Department should assume responsibility for its maintenance. L. N.

- Because, as a practical matter, 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 ongoing otherwise satisfactory projects, such conditions usually should not be associated with project loans unless they represent principal <u>project</u> objectives. L. N.

Implementation

- To accelerate start-up, the Bank should, where necessary, provide training in Bank procurement and disbursement procedures. In addition and more generally, EDI might increase its provision of courses in project management. "Launch" sessions to clarify and strengthen borrower agency responsibilities should be used where needed.

- Bank implementation surveillance work should focus on key indicators identified and agreed at appraisal. Borrowers should report against them and, where necessary, should be provided assistance in developing the capacity to do so. The critical indicators may need adjustment during implementation and their efficacy should be reviewed at the PCR stage.

- The owner and the Bank need to be more decisive in dealing with problem projects. While it should be firm in enforcing compliance with requirements such as those relating to procurement, audit and policy matters, the Bank should be more ready than it now is to adapt project designs to changed circumstances when that becomes necessary. Problem projects should be considered promptly for restructuring. The Bank should be more willing to (a) suspend disbursements to achieve loan compliance and (b) when unavoidable, and in the absence of agreement after consultation with the borrower, suspend loans which are found (for whatever reasons) to have no likely prospect of achieving their principal objectives, unless the objectives have been formally revised.

- Consistent with the need to give increased attention to the sustainable flow of project benefits after the implementation stage (i.e. during operations), PCRs should be recast to focus on the transition to the operational stage as well as on the success of the prior implementation stage. Implementation plans agreed at negotiation should require the borrower to provide plans for the transition to operations to the Bank. In addition to confirming the baseline of implementation costs and evaluating experience during implementation, the revised PCR should contain (a) the owner's plan for the start-up of operations (b) the staff's assessment of the plan and the likely growth of benefits flowing from the project, and (c) the staff's assessment of the most opportune timing of a subsequent impact evaluation. The PCRs should be renamed "Implementation Completion Reports (ICRs)." Their timing in relation to project execution should be determined at appraisal. The Board should be advised of the issuance of ICRs but there should be no general circulation other than to OED. Upon request, the Secretary should make such reports available to members of the Board.

- Borrowers should continue to provide reports indicative of project impact and benefits during the operational phase, but these should not require information beyond or different from that needed for their own management purposes. the bank should be prepared to help develop internal reporting systems which it would then tap for progress reporting.

Skills Enhancement

- The Bank should give greater emphasis to recruiting staff with previous management experience, institutional development experience, and financial management expertise. New staff should routinely be given orientation in Bank operational policies, methodologies, procedures and practices, including those for implementation surveillance. The operational instructions should be revised in accordance with the task force recommendations and the supervision handbook should be updated. C.N.

E. Increase Efficiency. The Bank should make implementation surveillance and portfolio performance management more efficient. In addition, while not strictly within the task force's purview (except with respect to implementation planning and risk/sensitivity analysis, which have been discussed above), the task force believes that there is room to improve SAR processing, peer review and content requirements.[1]

- For ICB, the use of standard bid documents, with preapproved adaptations to country situations, should be mandatory. Borrowers will save substantial time in their preparation, the Bank will save time (elapsed as well as applied) in their review, and more contractors will be likely to bid. An advisory central Bank Procurement Review Committee should be created to facilitate the consistent resolution of issues. The Bank should be more flexible in waiving ICB for relatively small procurements of items or dispersed services available locally. For L.N.

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[1] The task force also finds anomalous, and a counterproductive signal, the requirement that in Memoranda of the President a schedule of processing events (Section III.C.) but not of key implementation milestones is required.

local Bank-financed procurement, an independent certification should be made of the acceptability of local procurement procedures in accordance with TORs and by parties acceptable to the Bank at regular intervals.

- Satisfactory arrangements for audit should be agreed (and the auditors' qualifications and independence certified) before negotiation, and arrangements for disbursement and independent verification of supporting documentation should be similarly agreed.

- With the two above changes and related savings, field offices will be able to play a greater role in giving routine procurement and disbursement approvals and facilitating nonroutine ones. The (rebuttable) presumption should be in favor of having a resident field presence for every country with a significant responsibility to (a) facilitate compliance and accelerate approvals; (b) conduct general liaison and, where appropriate, facilitate implementation; and (c) especially with respect to the social sectors, provide assessments of executing or potential executing agency capabilities that cannot readily be made from Washington. Terms of Reference would specify the extent of field office responsibilities and authorities, which would vary from country to country. Where suitably staffed field missions are in place, headquarters-based implementation surveillance should be reduced to a complementary role including occasional field visits (as recommended by borrower representatives) and approval of non-routine procurement and disbursement actions.

- For SALs and SECALs, the review of customs documents should be replaced by review of an umbrella certification by the borrower that the value of the goods for which Bank reimbursement is sought is lower than the value of eligible imports during the period.

- Information technology should be used to facilitate (a) borrower project management and reporting keyed to critical indicators and (b) Bank tracking and analyses related to portfolio management. The Form 590 and the related information system should be revised. The filing of project documents (including electronic ones) should be improved.

* * *

Operations Evaluation Department

Consistent with the Bank's need to increase its awareness of and accountability for sustainable development impact, the Operations Evaluation Department should intensify its efforts in three directions. It should (a) annually review and comment on the findings of the President's CPPM review, evaluating the efficacy of the methodology used for rating, assessing and comparing the persistence and significance of generic and systemic issues identified in the CPPM process, and identifying the need for methodological work to improve instruments of portfolio performance; (b) give substantially more attention to long-term impact evaluations at the country, country sector, and project levels; and (c) intensify its efforts, when requested, to enhance the capacities of member countries to undertake ex post evaluation. To free resources for this new emphasis, OED could reduce its PCR audit coverage. The task force sees OED as an instrument of independent and objective evaluation by which the Bank meets its need to publicly account for its work. The credibility of that instrument is precious. Any changes in the TOR of OED should sedulously avoid introducing OED's participation in any action that would be subject to future evaluation.

Annexes

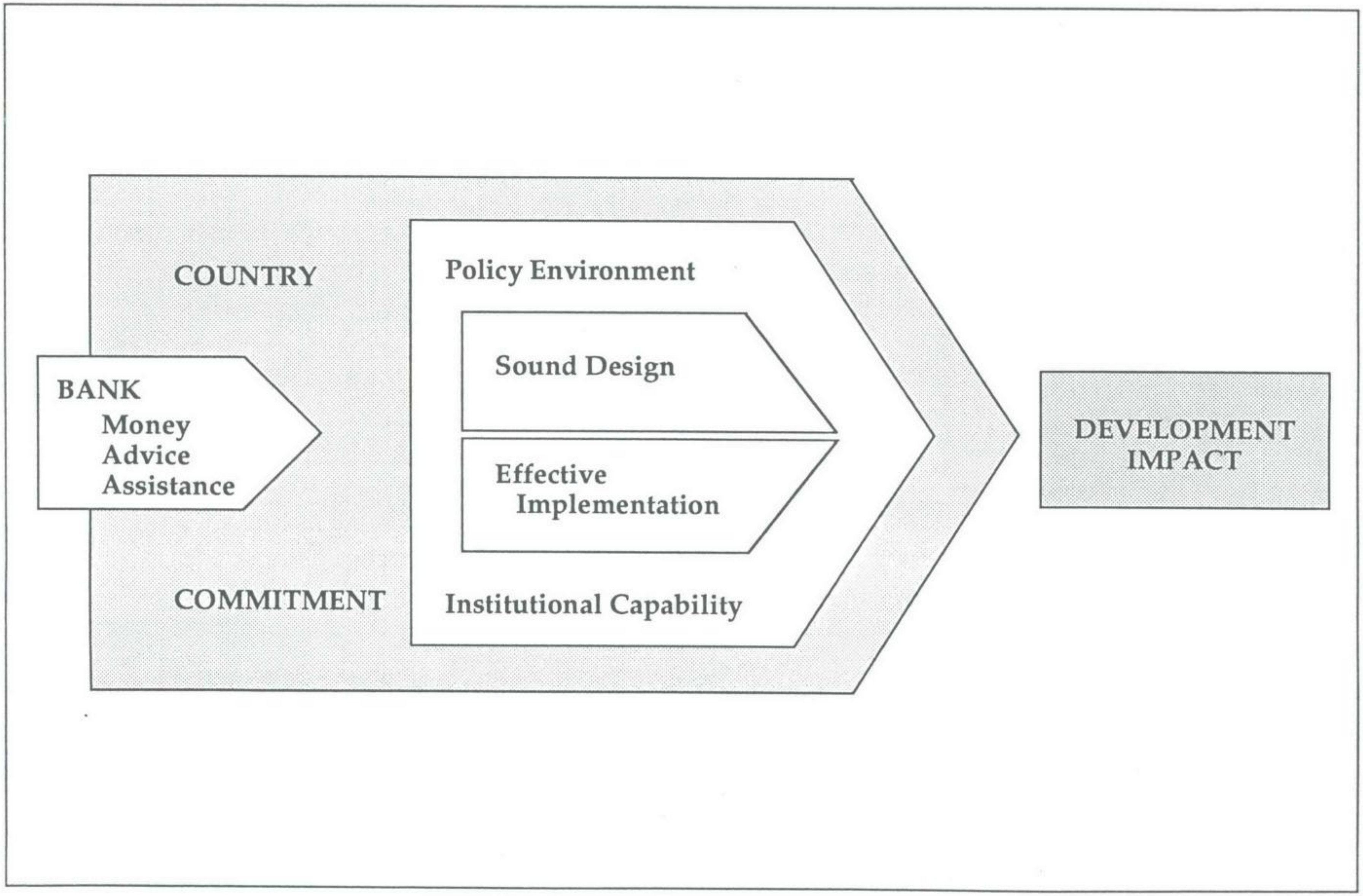
Feeder papers on:

Commitment - Kenneth Paper P.R.
Procurement Fischer
OED P. R. P. Richardson
SALs T. H.
Methodology J. S. to chase
Sample Letter of Implementation L. N.

Dieter Bonke

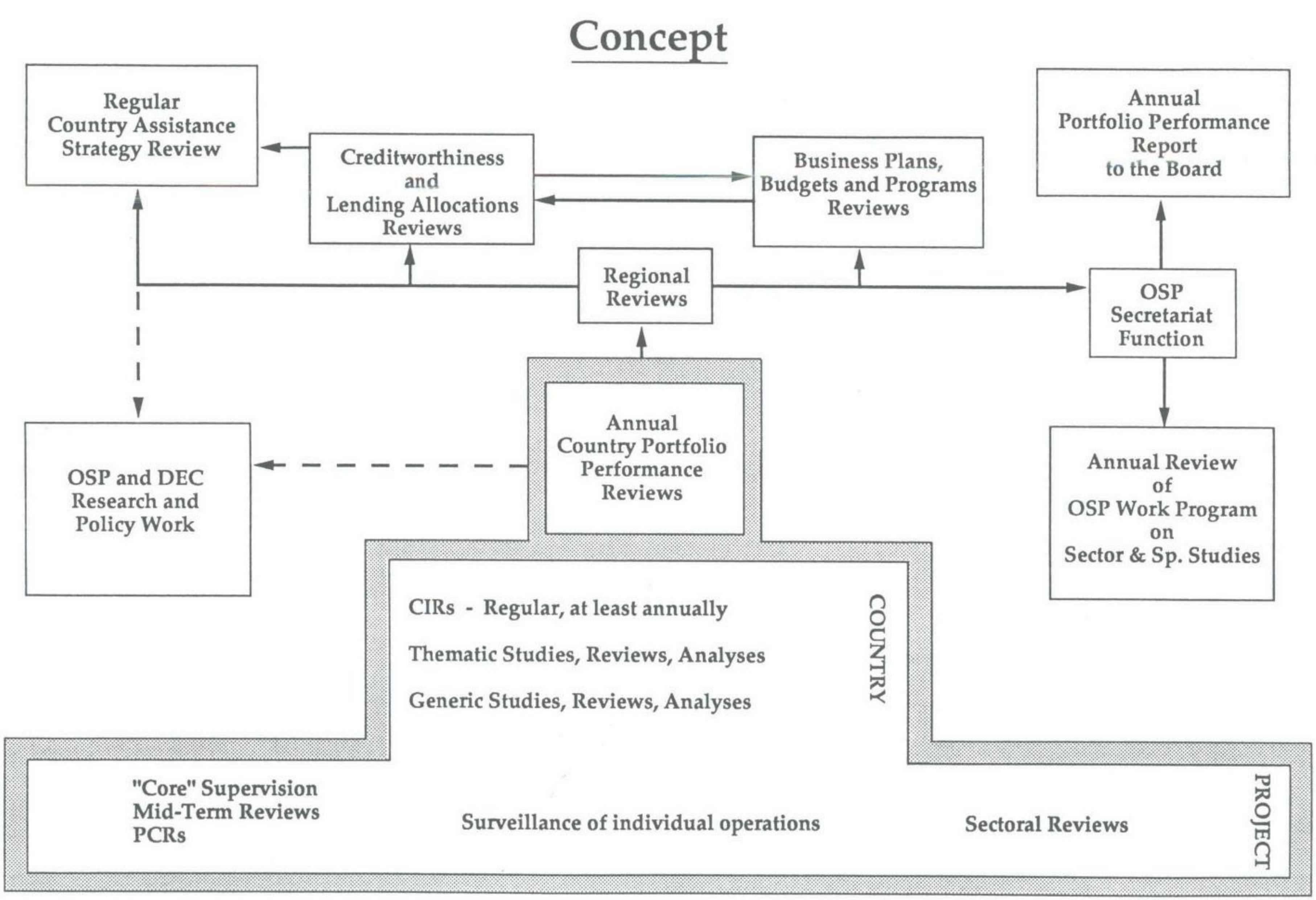
F. v. R.

FOR MAXIMUM DEVELOPMENT IMPACT, BANK's ROLE MOST BE SUPPORTIVE, BUT NOT PREEMPTIVE . . . . .



COUNTRY PORTFOLIO PERFORMANCE MANAGEMENT

Concept



THE BANK'S ROLE DURING PROJECT IMPLEMENTATION

MANDATORY — VARIABLE (Depending on Contract) — DISCRETIONARY

CORE SUPERVISION — MONITORING OF COMPLIANCE — FACILITATION OF IMPLEMENTATION — SUBSTANTIVE IMPLEMENTATION ASSISTANCE

Boundaries Determined At Negotiation Based On Agency Strength And Project Type

Bank Articles

End-use

"Due attention to . . . economy and efficiency"

Procurement Rules

Disbursement

Progress Indicators

Consultations

Approvals

Special Conditions

Audit and Reporting Requirements

Problem Identification . . . Diagnosis . . . Solving

Assistance in Government Coordination, Management

Project Evolotion/Reformulation/Restructuring

Short Trouble-Shooting Advice

Role re "piggy back" studies

Bank's Supervisory Role Increases: Parent/Subsidiary Relationship Emerges

Borrower Ownership/Accountability Increases: Supervision Role Decreases; Complementary Relationships Preserved

DRAFT CHECKLIST

PRINCIPAL RECOMMENDATIONS IN RELATION TO MAJOR PROCESSES

STRATEGIC FRAMEWORK →

Country Portfolio Perf. as Input to:

- Creditworthiness Assessments
- Lending/IDA Allocations
- Country Assistance Strategy
- Business Plans

Country Portfolio Mgt. Strategy

Top Mgt. to Emphasize Portfolio Performance

IDENTIFICATION & PREPARATION →

Identification Done Collaboratively

Bank Less Dominant, Borrower Commitment Essential

Implementability a Primary Criterion

Implementation Plan Prepared

Borrower Capacity Building Emphasized

APPRAISAL →

Realistic, Objective; not Promotional

Risks Assessed- - Especially Managerial Ones

Implementation Plan Assessed (incl. Procurement Plan)

Key Indicators Identified

Supervision Planned

Timing set for "Disbursement Completion Report"

Audit Arrangements Assessed

Cofinancing Only When Necessary

Review Opportunities for Streamlining SARs

NEGOTIATIONS →

Implementing Agency Represented on Borrower Team

Objectives Clearly Specified

Only Use Covenants That Would Be Enforced

Highlight Covenants Critical to Success

Avoid "Approvals" Where Possible

Avoid Macro Conditions in Investment Loans; Prefer Conditions of Negotiation, Hybrids with Tranches

Agreed Progress Reporting Formats (incl. those for Cofinanciers)

Mandatory Consultations Tied, as Appropriate, to Indicators

START-UP

Ensure Understanding of:

- Projects
- Loan Documents
- Bank Requirements

EDI Training in Pjct. Mgt. Training by Consultants in Bank Rqmnts.

"Launch" When Many Actors

Mandatory Standard Bid Docs (Adapted By Country)

Procurement Review Committee

BALANCE AMONG ELEMENTS IN BANK ROLE SHOULD DEPEND ON COUNTRY/EXECUTING AGENCY NEED

Role:	Assertive	Collaborative	Distant
Executing Agency Skills:	LOW	MEDIUM	HIGH
Mode:	Doing	Coaching	Checking

PROJECT IMPLEMENTATION → OPERATIONS/BENEFITS →

IMPLEMENTATION SURVEILLANCE → TRANSITION → EVALUATION

COUNTRY FOCUS

- Country Portfolio Performance Mgt.
- Director's Accountability; Portfolio Performance Index
- Country Implementation Reviews
- Thematic Reviews/Missions
- Portfolio Adjustment in Connection with SAL
- President's Annual P.M. Report
- Standard Contracts
- Approved Audit Arrangements

PROJECT SPECIFIC

- Borrower Responsible, Bank not Dominant
- Special Rvws. of Problem Projects
- Flexibility When Appropriate
- Greater Readiness to Suspend, Cancel
- Facilitation OK, But Avoid "Heavy" Implementation Assistance
- Input to Covenant Data Bank
- For SALs, Link Surveillance with ESW Dialogue; Simplified Disbursement Rqmts.
- When Cofinancing, Have Lead Manager
- Country Team Reviews Ratings

"ICRs"

Forward Looking

Transition Plan Agreed

Cost Base for Evaluation

OED, Board on Request

EVALUATION

Greater Focus on impact by Bank & OED

Feedback to Sector Policy

Covenant Data Bank

INFORMATION: Critical indicators; improved information technology and systems for borrowers and bank; revised Form 590; improved filing practices

FIELD ROLE: Presumption of 2 field staff; role in routine procurement approvals; facilitation; liaison

SKILL MIX: Need more financial, institutional, managerial skills; emphasize managerial experience; field experience for YPs

PERSONNEL: Importance of proficiency in matters related to portfolio performance; continuity; orientation and PPM training for operational staff, portfolio management handbook

June 29, 1992

File

Draft: 6/28/92

Report of the Portfolio Management Task Force

EFFECTIVE IMPLEMENTATION --

KEY TO

SUSTAINABLE DEVELOPMENT IMPACT

Executive Brief

OUTLINE

I. The Problem -- Evidence (DL, w. MP)

OED and ARIS success data (including country concentration)

Most common types of problem

Covenant data

Problem projects seldom (almost never?) recover; no additional effort in many cases; sometimes additional effort does not help

Disbursement ratios

Procurement (staff time, fewer bidders, quality)

Suspensions and cancellations (IDA and Bank)

SAL data?

Borrower perceptions (seal of approval, promotion, etc.)

Other data

II. The Problem -- Causes

A. Global factors (MP)

- Uncontrollables (e.g. prices, trade)
- Bank doing more institutionally complex projects (social, evolutionary, policy-related)

B. Country factors (MP)

- Debt crisis

- Stringencies (e.g. related to adjustment) make local currency unavailable
- Institutional weaknesses
- Inimical policy and regulatory environment

C. Project-related factors

9. - Role ambiguity: Bank responsibilities vis a vis various types of "supervision" work not well understood/adhered to; in identification, preparation and supervision, Bank tends to be too assertive

4. - Local ~~Low country~~ commitment and supportive coalition lacking; affected parties not involved

3. - Poor understanding of (commitment to) responsibilities under loan documents and of required procedures

1. - Macro factors neglected in project analysis (JS)

6. - Excessive use of covenants

5. - Bank bias for complexity in preparation and appraisal

7. - Low Bank realism about implementability (sensitivities/risks not well weighed, optimism, etc.)

2. - Executing agencies often have insufficient capability to implement well; inadequate audit capacity; (DL?)

8. - Little serious implementation planning (JS)

10. - Slowness in addressing problems

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

A. In general

- Bank "crowds" many borrowers unnecessarily, weakening their commitment and diluting their accountability while increasing the Bank's. Specifically, in supervision, role confusion among core (mandatory) supervision, compliance monitoring, facilitation, implementation assistance

- Board and managers give substantially more attention to lending than to implementation -- signalling lower priority for the latter (DL)

- Weak incentives for staff

- Broad policy conditions (not directly related to project) can add complexity and at times ~~are sometimes not enforced~~ would penalize project execution (trade-off - constraint to enforcement)

- Cofinancing adds complexity

- Project-by-project focus with weak "country focus"

- Rating system suspect (given OED divergence)
- Lack of certain key skills (MP)

B. Quality at entry: preparation, appraisal and negotiation (MP, JS)

- Data (?)
- Implementability less a concern than salability ("promotion," reports more than results)
- Cross-reference points under II.C, above

C. Quality during implementation

- Lack of managerial interest, accountability (MP)
- Assertiveness/role confusion (see III.A, above)
- Reluctance to deal decisively with problem projects (DL)
- Frequently, financial covenants not enforced (DL)
- Lack of country focus -- e.g. re generic problems (– but this is already pressing!)
- Lack of flexibility, as circumstances change
- Lessons of implementation stage not systematically ~~incorporated~~ in Bank's key management processes any evidence ??

D. Operational Phase

- Lack of focus on impact; sustainability at operation not subject to review ~~seldom reviewed; data not available~~
- Supervision normally stops before operational phase -- i.e. ~~often~~ before benefits flow
- PCRs, a backward-looking chore with limited value (except as necessary building blocks for OED), can usually only speculate about likely benefits; need for refocusing

IV. <u>Conclusions and Principal Recommendations</u>

A. <u>Role</u>. In the interest of owner ~~borrower~~ commitment (which is essential to successful implementation) and borrower capability development as well as appropriate clear accountabilities, the Bank must ~~clarify -- and then~~ more assiduously adhere to its role vis a vis the owners ~~borrowers~~ in identification, preparation, implementation and portfolio management. The intensity of the Bank's support ~~involvement~~ should, however, vary with the capabilities of the implementing agency. ~~and the type of project.~~

There are a number of measures recommended: improve project implementation performance. However, they will only add significantly to progress if they can be brought to bear in a country context with accommodating policy and regulatory environment.

<u>Conclusion</u>: There is reason to be concerned beyond the temporary phenomena of adverse macro-environment, fiscal constraints arising from structural adjustment, shift in the composition of the project portfolio and the aftermath of the debt crisis. A number of endemic problems, governing the outputs of the project cycle and residing with the borrower as well as with the Bank, have been

p.t.o.

identified and need attention. In totality they suggest measures which would lead to significant change in how the Bank does its principal business. Many of these changes are already being experimented with in various parts of the Bank. It would seem timely to bundle these various initiatives and to refocus the ~~[illegible]~~ Owner's and the Bank's attention onto the paramount importance of effective implementation.

satisfy itself of

- The Bank must ~~ensure~~ maximum participation of ~~borrowers~~ owner and intended beneficiaries in project identification, preparation and implementation -- all of which are ~~borrower~~ owner, not Bank, responsibilities. and on a sufficient local effort of consultation with affected parties. otherwise refrain from taking a lead role in project preparation but

- ~~Normally~~, the Bank should help borrowers obtain needed ~~major preparation or implementation~~ assistance, ~~but should not itself provide it.~~ When it does provide ~~it~~ project preparation support it should be careful not to ~~slide into a dominant rather than advisory role. Short advisory trouble shooting and facilitation work (e.g. with finance ministries) is an appropriate Bank activity.~~ do so with prejudice to subsequent approval

- ~~To the extent practical~~, Rights of "approvals" (other than those related to procurement, disbursement and the selection of auditors) ~~should not be required~~ in loan agreements ~~as they~~ reserved for the Bank create a co-accountability ~~in~~ for the Bank ~~and~~ they undermine borrower accountability. in the sense that the Bank assumes a managerial function which it should have only in relation to specific obligations resulting from provisions of the articles or the General Conditions

- ~~In~~ During negotiations, the Bank should ~~be at pains to ensure~~ confirm full borrower (especially executing agency) ~~understanding of and~~ commitment to the project objectives, design, loan conditions, Bank requirements, and implementation plans. The executing agency(ies) should always be represented at the negotiation.

Negotiations should be focused on a comprehensive implementation plan setting forth project objectives, measures to be taken, accountability, all within a time frame and against milestones of principal benchmarks.

Issues of broad policy, sector environment and institutional issues which are relevant to the successful implementation of critical projects and programs. It is, however, difficult to assess their objectives, roles and capacity during appraisal.

B. Strengthen the Country Focus in Portfolio Performance Management. The Bank must extend its country focus (which was central to the rationale of the 1987 reorganization) ~~to encompass~~ portfolio performance management. by introducing a comprehensive concept of country

- The experience of country portfolio performance management must be brought to bear on the Bank's key operational management processes -- i.e. country assistance strategy formulation ~~(which should include portfolio management strategy)~~, creditworthiness assessments, and lending allocations, and business planning (including the CAM process).

- In replacing ARIS The President should make an annual report to the Board on the status of the portfolio. It should be based ~~primarily~~ on country ~~department~~ portfolio performance reviews. ~~It would focus on the relatively few countries with the preponderance of portfolio problems.~~ The responsible CD directors should play a key part in the Board discussion. ~~The report also would have sector cuts and special analyses, which would be added by OSP. (The report would replace the current ARIS).~~

CPPRs would focus on the principal reasons for delays in implementation, the remedies and for substantial lending the country portfolio might face. It would contain critical analyses of programs, sector and other special evaluations. OSP would act as the Board's for a summary of the review.

For the country portfolio performance reviews, measures of country portfolio ~~health~~ performance -- built on project-based ratings -- would be applied. ~~The~~ project-based ~~ratings must~~ be reviewed by CD management. The rating system should ~~be re-assessed~~. Relative progress towards achieving specific and central project objectives would be measured and aggregated into a single index.

- Annual Country Implementation Reviews should be mandatory; thematic reviews and ~~country~~ sector ~~portfolio management~~ reviews should be ~~encouraged~~ and form the basis for the CPPM reviews

- In ~~adjusting~~ adjustment countries, overall public sector investment reviews should be encouraged, ~~but at a minimum reviews of reallocation priorities within the portfolio of Bank financed projects should be conducted in connection with SALs, and special arrangements should be made to expedite Board approval of the reallocations in connection with the SAL approval.~~ depending on the light of the CPPM reviews findings.

The Bank should be prepared to consider reallocation of undisbursed balances of loans in accordance with the revision of priorities within its existing portfolio. Such reallocations should be subject to accelerated Board approval procedures.

The concept would make the country portfolio and its evolution central to the country assistance strategy. It would evaluate future lending programs and their respective priorities in the light of the performance of the existing portfolio. (Performance would be measured in terms of a single line composite index based on relative progress made towards the achievement of principal project objectives.) Portfolio Performance Management would be linked directly to those core business processes of the Bank: the CAS, Creditworthiness, Country Allocations & [illegible] i.e. problem projects should be considered for early restructuring.

adapt project designs to changed circumstances when that becomes necessary. It should be more willing to (a) suspend disbursements to achieve loan compliance and (b) when unavoidable, and in the absence of agreement after consultation with the borrower, suspend loans which are found (for whatever reasons) to have no likely prospect of ~~yielding net economic benefit to the country.~~ achieving the principal project objectives unless these objectives have been reformulated/revised.

- Because, as a practical matter, 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 cancel ongoing otherwise satisfactory projects, such conditions usually should not be associated with project loans unless they ~~are made conditions of Board presentation~~. support principal project objectives.

- Consistent with the need to give increased attention to the sustainable flow of project benefits after the implementation stage (i.e. during operations), PCRs should be recast to focus on the transition to the operational stage as well as on the success of the prior implementation stage. Implementation plans, agreed at negotiation, would require the borrower to provide plans for the transition to operations to the Bank ~~and to consult about them during preparation of the PCR~~). The PCRs should be renamed "Implementation Completion Reports." Their timing in relation to project execution should be determined at appraisal. ~~They should be provided to the Board by OED on request only.~~ The Board would be advised of the issuance of ICRs but these would have limited circulation other than to OED. Upon request the Secretary will make ICRs available to members of the Board.

The revised PCR would state the owners' intended approach to the start-up of operations and the staff assessment of the likely prospects of benefit flows from the project. On that basis the staff would also assess the most opportune timing of a subsequent impact evaluation.

Borrowers should continue to provide reports indicative of project impact and benefits during the operational phase, but these should not require information beyond or different from that needed for their own management purposes. The Bank should be prepared to help develop internal reporting systems which it would then tap for progress reporting.

- The Bank should give greater emphasis to recruiting staff with previous management experience, institutional development experience, and financial management expertise. New staff should be given systematically orientation in Bank operational policies, procedures and practices, including those for portfolio performance management. The (methodological) supervision handbook should be updated.

D. Increase Efficiency. The Bank should make portfolio performance management (implementation surveillance, monitoring supervision, and more efficient. In addition, while not strictly within the task force's purview (except with respect to implementation planning and risk/sensitivity analysis, which have been discussed above), the task force believes that there is room to improve SAR processing, peer review and content requirements.[1]

Operational instructions should be revised; unclear ones would be eliminated and the...

- For ICB, the use of standard bid documents, with preapproved adaptations to country situations, should be mandatory. Borrowers will save substantial time in their preparation, the Bank will save time (elapsed as well as applied) in their review, and more contractors will be likely to bid. An advisory central Bank Procurement Review Committee should be created to facilitate the consistent resolution of issues. ~~ICB should not be required for relatively small procurements of items or dispersed services available locally.~~ For local Bank-financed procurement, an independent certification should be made of the acceptability of local procurement ~~country~~ procedures in accordance with ToRs and as procedures acceptable to the Bank at regular intervals.

Borrowers! Point

---

[1] The task force also finds anomalous, and a counterproductive signal, the requirement that in Memoranda of the President a schedule of processing events (Section III.C.) but not of key implementation milestones is required.

of supporting documentation

- Satisfactory arrangements for audit should be agreed (and the auditors' qualifications and independence certified) before negotiation, and arrangements for disbursement and independent verification should be similarly agreed.

- With the two above changes and related savings, field offices will be able to play a greater role in giving routine procurement and disbursement approvals and facilitating nonroutine ones. The (rebuttable) presumption should be in favor of having a resident field presence for every country with a significant ~~program~~ [illegible] to (a) facilitate compliance and accelerate approvals; (b) conduct general liaison and, where appropriate, facilitate ~~borrower preparation and~~ implementation ~~work~~; and (c) especially with respect to the social sectors, provide assessments of executing or potential executing agency capabilities that cannot readily be made from Washington. Terms of Reference would specify the extent of field office responsibilities and authorities, which would vary from country to country. When suitably staffed field mission are in place H.Q. implementation surveillance should be reduced accordingly though an implementation role [illegible] occurring [illegible] field [illegible] H.Q. [illegible] seen as helpful and preferable to [illegible] borrower representation.

- For SALs and SECALs, the review of customs documents should be replaced by review of an umbrella certification by the borrower that the value of the goods for which Bank reimbursement is sought is lower than the value of eligible imports during the period.

- Information technology should be used to facilitate (a) borrower project management and reporting keyed to critical indicators and (b) Bank tracking and analyses related to portfolio management. The Form 590 and the related information system should be revised. The filing of project documents (including electronic ones) should be improved.

* * *

Operations Evaluation Department

focus on i) the authoritative evaluation of the impact because; ii) the preparation for stand-up of operations; and iii) [illegible] intensify its efforts in [illegible] three directions:

Consistent with the Bank's need to increase its awareness of and accountability for sustainable development impact, the Operations Evaluation Department should give substantially more attention to long-term impact evaluations -- at the country, country sector, and project levels. The PCRs~~, which should be forward as well as backward looking~~, should ~~provide part of the cost underpinning for OED's impact-related cost/benefit assessments~~. To free ~~the~~ resources for this new emphasis, OED could reduce its PCR audit coverage~~, perhaps from the current 40% of projects to about 20%. As we have not recommended that the Bank make mid-term assessments routine or mandatory -- as sometimes they are unnecessary and on other occasions they can provide a pretext for deferring difficult decisions -- we see no role for OED at midterm. This is not an appropriate stage for establishing accountability. OED might, however, appropriately comment on the Annual Portfolio Performance Report of the President.~~

and iii) Intensify its efforts to enhance the capacities of member countries to undertake post evaluation:

Annexes

Feeder papers on:
Kearns on Participation
Procurement
OED
SALs
Rating Methodology
Sample Letter of Implementation

i) annually review and comment on the findings of the CPPR review, evaluate the efficacy of the methodology used for rating and compare; assess the persistence and significance of generic and systemic issues identified in the CPPR [illegible] and identify the need for methodological work to improve [illegible] instruments for portfolio performance management

Checked wise Rapporteur! 2

For task force sees OED as an instrument of independent and objective evaluation by which the Bank needs its need to [illegible] its work. The credibility of that instrument is precious. Any change in the [illegible] of OED should scrupulously avoid participation in any action that would be subject to [illegible] constrain implementation and programs

5 The principal objective of all project work must be

C. Strengthen Project Work at All Stages. ~~At all stages, the emphasis should be on~~ sustainable development ~~impact~~ through effective implementation of soundly conceived projects. ~~In~~ At all stages of preparation ~~assistan~~ce, appraisal, negotiation and ~~portfolio management,~~ realistic experience-based assessments of likely results must ~~replace~~ optimism and the temptation to promote. Already Before Board approval, implementability should be a dominant concern. Loan approval must be treated as an early stage of development assistance work, rather than a culminating event. The prime purpose of project reports should be to document objectively-appraised ~~borrower~~ owner plans for achieving on-the-ground results.

- Risks and sensitivities -- including managerial, policy-related, and beneficiary behavior-related risks as well as cost and price-related ones -- must be explicitly identified and evaluated in the analyses of projects.

- Critical indicators of project progress/success — based on risk analysis and with weights established through sensitivity (where is it) factors — must be explicitly identified at appraisal ~~and~~ for use~~d~~ in monitoring ~~the~~ during implementation ~~stage (see below)~~.

- Implementation plans (including procurement schedules) must be developed before negotiation, carefully reviewed for practicality, and "owned" by the borrower. They should be annexed to the legal documents (or included in a "Letter of Implementation") and treated as current best estimates rather than rigid mandates. The executing agency should be represented at the negotiation.

- In practice (as well as in principle), substantive covenants (conditions) should not be included in loan documents unless the Bank would be willing to enforce them. The Legal Department should educate staff about the use and misuse of covenants and should exercise quality control with respect to them. Critical substantive covenants should be distinguished from administrative ones in the loan documents, and side letters, attachments, etc. should be used to contain those statements of agreed intent (e.g. schedules) which might need modification as implementation progresses.

During a period of transition the covenants-related system would be maintained - after a trial period of perhaps two years a finding should be made as to whether the new covenant system would succeed partially or wholly the covenants system.

- To accelerate start-up, the Bank should, where necessary, provide ~~(through the loan)~~ training ~~by suitable consultants of the project manager(s)~~ in Bank procurement and disbursement procedures. In addition and more generally, EDI might increase its provision of courses in project management. "Launch" sessions to clarify and strengthen borrower agency responsibilities should be used where needed.

- A covenant data bank should be created in the format of an electronic reference library -- complete with evaluative and outcome information -- to facilitate consistency of covenants across a country program, record covenants used by sectors and areas of special emphasis, review of precedents, and evaluations of covenant effectiveness. The Legal Department should assume responsibility for its maintenance.

- ~~For early warning of project problems (and for efficiency, as supervision missions should not have to spend significant time gathering routine data),~~ Bank portfolio performance management work should focus on key indicators identified at appraisal. Borrowers should report against them and, where necessary, should be provided assistance in developing the capacity to do so. The critical indicators may need adjustment during implementation surveillance and should be reviewed for their efficacy at the PCR stage and appraisal. ~~before the operational phase begins~~.

- The Bank ~~should~~ Owner and the need to be more decisive in dealing with problem projects. While it should be firm in enforcing compliance with requirements such as those relating to procurement, audit and policy matters, it should be more ready than it now is to

Who and project completion and co-financing?

File

THE WORLD BANK

ROUTING SLIP

Date: 6/25/92

OFFICE OF THE PRESIDENT

Name	Room No.
Members Portfolio Management	
Task Force	

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

Remarks

The attached is for tomorrow morning's 9:30 a.m. meeting with Mr. Wapenhans.

From

Marie T. Zenni

- Factual and statistical info by Chapters
- Comments on the material by Chapters

DRAFT

Project Portfolio Performance Management in the Bank

The Executive Brief

Introduction and Summary

Chapter I: The evolving nature of the Portfolio, its present performance and future challenge (D. Lallement) (4-5 pages)

Chapter II: "Supervision" Mandate: Functions, Roles and Accountabilities (L. Nurick)

- What is Supervision?
- Where do authorities and accountabilities rest?
- How can flexibility in the use of ways and means be enhanced without sacrifice to objectives?

etc. etc. (4-5 pages)

Chapter III: Present Practice of "Supervision" (D. Lallement) (3-4 pages)

Chapter IV: The Bottom line: how to measure Performance (J. Salop)

- Present Rating Practices
- Options for Changes
- The Single index measure for individual projects and for Country portfolios (3-4 pages)

Chapter V: The Case for Change (M. Pommier) (5-6 pages)

- Processing and the Quality of Lending
- OED Findings
- The International Workshops
- Staff and Management Concerns
- Quality at Entry

Chapter VI: The Proposal (P. Garg et. al.)

a) The Bank's Role in Project Implementation
b) The Concept of Portfolio Performance Management
c) Efficiency Measures
   - Procurement
   - Contracting
   - Audits and Certification
   - The Use of Information Technology
   - Budget Process
d) Reporting and Information Flows (8-10 pages)

Chapter VII: Management of Portfolio Performance and Independent Operations Evaluation (P. Richardson) (4-5 pages)

Chapter VIII: Feedback Cycles, Training, Quality Assurance, skills mix and staffing

(P. Richardson) (3-4 pages)

Chapter IX: Conclusions and Recommendations (4-5 pages)

Annexes:

- Evaluation Methodology over the Cycle
- Adjustment Lending
- Procurement
- Disbursement
- Co-financing
- Information Technology
- Post Evaluation

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File Title EXC - Portfolio Management Task Force - Draft Report and Executive Summary - Reviews and Comments	**Barcode No.** 30024557
Document Date 6/23/1992	**Document Type** Memorandum

Correspondents / Participants
To: Ian Scott
From: Sherif O. Hassan

Subject / Title
Portfolio Management Task Force: Draft Report to the President

Exception(s)
Attorney-Client Privilege

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

File

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

DATE: 18-Jun-1992 11:52am

TO: Ian Scott (IAN SCOTT)

FROM: Peter Richardson, CPBVP (PETER RICHARDSON)

EXT.: 84571

SUBJECT: Terminology

If we all agree -- as I believe we do -- that "supervision" is a misleading term (the borrower is never our subordinate), we need a strategy to get it changed. In my view, if our report does not use the new term we propose throughout (after a brief preferatory note explaining the new term and why it is necessary), we shall never succeed in getting the new term into common Bank usage.

I do not feel strongly about what the substitute term should be. It could be:

"Portfolio management" (your preference, I believe, although it has a Treasurer's ring and is not strictly management)

"Loan portfolio management" (Lester's suggestion, although that would probably be abbreviated to "portfolio management," apocopation being inevitable)

"Implementation surveillance" (the term used in Willi's note, although some TF members seemed to find it a bit sinister (I do not)), or

"Follow through" (my preference, as lack of it is fatal, but I admit it seems a bit general).

Whatever term we select we would presumably define as "everything the Bank does or should do after loan approval."

We should not confuse the task of defining the term with the task of explaining the scope of our task force's inquiry. They are entirely different matters. Our task force has had to look at preparation and other earlier activities because the success of the portfolio -- and measures needed to improve its impact -- inevitably involve quality at entry. That is the only justification we need to review stages upstream of "supervision."

A terminological thought: if we use "supervision" to mean only those activities required by the Articles, others (thinking supervision means the whole post-approval panoply of tasks, as it has in the past) will be thoroughly confused. If we do want such a concept for purposes of discussion (although the Bank's activity nearly always extends beyond it), I think it should be named "core supervision."

Two more last thoughts on terminology:

"End use" is a subset of compliance -- namely compliance with the contractual requirements affecting how the money may be spent. If we treat end use monitoring as separate from compliance monitoring, confusion will result.

"Facilitation," usually a vital aspect of follow through, is a subset of "implementation assistance," but not of "technical assistance," as much of it -- e.g. going to the finance ministry -- is non-technical.

CC: W. Wapenhans (W. A. WAPENHANS)
CC: Lester Nurick (LESTER NURICK)

File

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

DATE: June 18, 1992 02:08pm

TO: See Distribution Below

FROM: Dominique Lallement, CODMO   (DOMINIQUE LALLEMENT)

EXT.: 82849

SUBJECT: Portfolio Management - President's Report

Here is how Joanne, Michel and myself see the "president's" report organized -- centered around four main messages/issues: a) quality at entry should be improved, b) individual roles of various stakeholders have to be clarified and periodically reassessed from project inception throughout the operational phase, c) attention to external environment and to deviation of key monitoring criteria has to be heightened during implementation and operation, and d) project feedback should be integrated in country/sector contexts. Hence, the t : of content would include an intro and a final chapter on the m ›dology plus four chapters addressing the above issues and a set of generic recommendations (detailed recommendations would be presented in separate volume of annexes).

GENERAL REPORT FRAMEWORK

I. INTRODUCTION

Objectives of the Task Force: in view of questions about the quality of the portfolio, analyze the Bank's management of its portfolio, and propose necessary changes.

Definition of "portfolio" and "performance" or "status" of the portfolio.

Scope. Main emphasis on phases of the project cycle starting with negotiations through evaluation; but inevitably, TF had to look at interface with previous phases -- identification, through appraisal -- and the broader context to the portfolio: country assistance strategies, economic and sector work.

Overview Findings. Broadly speaking, our efforts have identified two major issues.

- Excessive concern with new lending over the portfolio. This gives rise to excessive concern with appearances at Board approval and less substantive concern with effective products.

o Ambiguities in Bank-client roles and responsibilities.

Turning first to the preoccupation with new lending, it has a number of symptoms -- neglect of portfolio management in key processes (CSP, e.g.); neglect of supervision; superficial appraisal analysis in terms of factors that matter for success. How to fix it? Start with management attention. How? Need a measure of country portfolio quality with integrity. From that, the "demand" for sharper appraisals and effective supervision will emerge.

On the ambiguities, clear them up. Borrower own and implements. The Bank advises, appraises, and supervises. We also provide implementation assistance. More arms length will help us out of the ambiguous settings which often becloud the violations of legal covenants; we can be more objective about decisions to suspend disbursements.

Putting these two pieces together, we have a very powerful recipe for change. These themes are developed in the report, which is structured as follows:

Structure of the Report

Background: The FACTS

Overall composition and performance of the portfolio Resources (staff and dollars) used to develop and supervise the portfolio.

II. METHODOLOGY

1. Definition of Analytical Framework

Main hypotheses for declining performance in the portfolio (lack o ›rrower commitment, lack of management attention to the portfolio, and a deteriorating macro-environment etc).

Objective is to improve performance of the portfolio (in terms of results and sustainability).

Therefore, analysis of:

A. Main Stakeholders;

- Indicate which one we focussed on.
- the distribution of responsibilities between main stakeholders: borrowers, beneficiaries, Bank, Bank shareholders, donors, external community (?) during main phases of the project cycle
- the processes whereby main actors interact through main phases of project cycle
- processes proper to each main stakeholder.
- Measurement of results: methodology.

B. Bank processes that bear on portfolio quality

- availability of credible measures of portfolio quality
- staff incentive to ensure portfolio quality (good analysis upstream and good supervision downstream)
- availability of appraisal methodology that takes into account implementation and macro economic risks
- availability of methodology for assessing evolution of benefit stream during implementation as a basis for evaluating project during supervision

2. Research

o Use of available research and doc's.

o New research (methodology, skill mix, problem projects, project restructurings, suspensions and cancellations, lending pressure, legal, financial accountability, information flow analysis)

o Interviews, focus groups etc.

o Feeder papers

3. Analysis and Synthesis of Results

Testing of results with stakeholders.

III. QUALITY AT ENTRY

o Pre-appraisal (integration of operations into country assistance strategy, assessment of borrower's commitment, roles of respective stakeholders for identification and preparation).

o Appraisal (institutional, macroeconomic and financial assessment, alternative technical evaluation, identification of project's risks --external and internal-- and of critical success factors, analysis of complexity of implementation, definition of implementation -- including procurement-- and operational plans, quality enhancement --peer review, lead/chief economists, support to TM and loan documentation).

o Conclusions (de-emphasize Bank presence in preparation, cofinancing issues, assessment of commitment, skill gap, appraisal methodology, quality enhancement)

IV. RESPONSIBILITY OF VARIOUS STAKEHOLDERS - THE CONTRACT

- o Negotiations (Bank's mandate, certification for audit, procurement and disbursement, critical covenants, implementation letter --including procurement and operational plan --, monitoring parameters, interim review and triggering event for implementation completion reporting).

- o Preparation for implementation (clarification of the contract's terms to various stakeholders, reassessment of commitment, specific training of implementors, facilitation for meeting conditions of effectiveness and/or disbursement).

- o Conclusions (reformatting of legal documents, identification of certifiers, standard country bid documents, changes in SOEs certification, borrowers' representation during negotiations, role of EDI)

V. IMPLEMENTATION ASSESSMENT

- o Three objectives:

1. End use certification (loan/credit proceeds, procurement and disbursement)
2. Compliance monitoring (impact of external environment, deviation of key parameters, reassessment of commitment and project's restructuring)
3. Implementation assistance (facilitation, Bank's comparative advantage for technical assistance and other providers of TA)

    - o Means and instruments (field missions, HQ work, resident missions, progress reporting and auditing, budget, SIR, CIR, thematic reviews and interim review).

    - o Remedies (Approvals, veto, suspension, cancellation).

    - o Conclusions (Change in focus from project to country, change in ODs, borrowers and staff training, staff recruitment, report reformatting --form 590 and 384--).

VI. FEEDBACK CYCLES

- o Implementation completion report (statistical reporting and explanation of deviations from key targets, agreement on operational phase -- means and monitoring indicators --, timing of impact assessment).

- o Country Portfolio Performance Management (integration of Country strategy with country assistance, measurement of success/failure, i.e. accountability, CSP/business plan cycle, use country portfolio index for dialogue between CD director and senior management).

- o Impact evaluation (Impact assessment, cluster studies, annual portfolio performance assessment).

- o Conclusions (discontinuation of ARIS, Country Portfolio Performance Review, Sector Portfolio Performance Review, Policy changes, annual OED portfolio impact study).

VII. GENERIC RECOMMENDATIONS

1 Change our business conduct: reduce the role of the Bank on project design and implementation and put back the ownership of the portfolio where it belongs, i.e. the borrowers. Clarify respective accountabilities of Borrowers and Bank. To do so, all business processes must be based on participatory approach.

1a: Means: establish workprocesses with a clear distinction of responsibilities among parties; assess commitment of and involve end-user (beneficiaries/project participants);

1b: Strengthen Contractual Arrangements with the Borrower (Negotiations process and Legal Documentation): clarify project objectives, performance monitoring indicators, implementation plan with respective responsibilities of Borrower and Bank, and actions (remedies) in case of departure from performance indicators;

1c: Standardize procurement documentation

1d: Revise Financial Accountability requirements.

1c: Make Managers accountable for communicating this new "business philosophy" to clients and for checking that such business processes have been developed (through all phases of portfolio management).

2. Integrate Portfolio Performance Management into the Country Assistance Strategy: anchor the design of country assistance strategies and workprograms on the achievements and current performance of past operations, and on the performance of operations under "implementation" (not yet fully disbursed).

2a: OED to undertake country portfolio audits (short 3-6 months exercise) every 3-5 years.

2b: OED and/or Country Department to do project impact evaluations (5 years after completion)

2c: ARIS at Country Team Level becomes key instrument to take stock of portfolio performance

2d: Implementation of Sectoral Policies is determined through country implementation strategies, again based on past implementation experience and country priorities.

2e: Country Portfolio Rating is used to monitor portfolio quality.

3. Bank's Internal Processes

3a: Identification/preparation: renew practice of identify projects with the borrower; discard approach whereby Bank comes and sells project ideas (WID etc.); country strategy discussions with the Borrowers should be forum to identify projects. Bank's role in project preparation should be limited to providing assistance in identification of "project preparation capacity" (consultants or other), agreeing on preparation schedule, providing financing if needed, and checking progress of preparation from time to time.

Preparation phase may be use to develop borrower capacity, e.g. training in procurement accounting.

3b: Appraisal: must be true appraisal of borrower's proposal. Appraisal methodology must emphasize:

- Realistic analysis of the likely project outcome, taking into account past experience with the borrower and the sector and other indicators of risk;

- Explicit identification of the key macroeconomic, institutional, and financial assumptions underlying the analysis;

- Testing the sensitivity of the projected outcome to changes in assumed parameter values;

- Designation of performance indicators to be reached during implementation as a basis for assessing the project's development impact rating during supervision.

3c: Supervision: streamline supervision activities: end-use supervision, compliance monitoring, implementation assistance (without the word technical), and operating phase start-up assessment;

* Involve borrower's supervision unit in the field mission

* Role of Field Offices in Supervision

* Supervision of operations continues past the disbursement phase (at what frequency?)

* Note on Supervision reporting; stress use of implementation plan as agreed at negotiations, of monitoring indicators and actions/remedies; redesign 590; aide memoire, communications with the borrowers.

* Note on use of information technology for supervision

* Note on Supervision instruments: CIRs, SIRs, ad-hoc in-depth reviews (mid-term or at appropriate time, agreed at negotiations or as needed).

* Note on operating phase assessment/PCR

3d: Evaluation and Feedback Cycles:

3e: Reporting to Management and to the Board

* Revamped ARIS. What do we think of the proposal that OED audit ARIS?

* Sector Reviews: disappear as such. Statistical information on trend in Lending is included in the statistical base of the ARIS. Issues and implementation experience are discussed through OED Sector Studies (which are done every 3-5 years to feed into the preparation of the Sector Strategy Papers), OSP's assessments on which to anchor Sector Strategy/Policy Papers, and in country strategy discussion papers.

* OED Reporting

3f: Staff Incentives

3g: Information Management(?)

4 Borrowers' Processes: emphasis must be put on developing Borrowers' capacity for portfolio management, in particular project preparation, implementation, supervision and evaluation (as part of its own internal accountability systems).

4a: Develop framework for beneficiary participation (including role of NGOs)

4b: Develop borrower preparation capacity (including private sector consulting firms) with possible financial assistance from Bank and other donors

4c: Develop Borrower implementation capacity (nothing new, except continue doing better)

4d: Develop Borrower supervision, auditing, and evaluation capacity, not as the sole responsibility of OED but as a systematic component of public management strengthening and private sector development operations (if Bank works more as a financial intermediary with domestic financial intermediaries, end-users will have to comply with private sector auditing requirements).

DISTRIBUTION:

TO:	W. Wapenhans	(W. A. WAPENHANS)
TO:	Peter Richardson	(PETER RICHARDSON)
TO:	Ian Scott	(IAN SCOTT)

TO:	Prem C. Garg	(PREM C. GARG)
TO:	Samir K. Bhatia	(SAMIR K. BHATIA)
TO:	Joanne Salop	(JOANNE SALOP)
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TO:	Sherif Omar Hassan	(SHERIF OMAR HASSAN)
CC:	Institutional ISC Files	(INSTITUTIONAL ISC FILES)

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

DATE: June 11, 1992 12:41pm

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

FROM: Ian Scott, ORG (IAN SCOTT)

EXT.: 82330

SUBJECT: Comments from Jim Kearns.

Willi,

As you may know, Jim Kearns has been working closely with me since we started ORG and I have found him a very useful critic. So I asked him yesterday to take a look at the draft we will be discussing this afternoon. His comments are atta~~a~~ched and you may want to look them over. I find them helpful.

By the way, I have not shown the draft to anyone else and I trust Jim completely to keep it to himself.

Ian.

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

DATE: June 11, 1992 11:43am EST

TO: Ian Scott (IAN SCOTT)

FROM: James Kearns, ORGHD (JAMES KEARNS)

EXT.: 82591

SUBJECT: Comments on Task Force Draft

Ian:

As the title says, what you gave me to read is mainly a summary list of recommendations. But there is also an attempt to put things in perspective at the start. Overall I like its crispness and style. You have been spare in using what I call psuedo-quantification and psuedo-mathematics. Most recommendations have the ring of common sense. However I see you too locked into the paradigm of project supervision (or whatever you wish to call it) which h 'ou boxed in. You need to break out of the box and s ıg that Preston put you in it won't wash with anyone, including and especially him. There are, in my opinion, important things still missing, as you indicated at lunch and certain things that I don't agree with. So to help during the drafting stage, I'll strongly attack what I see missing or misguided.

First and foremost, I would think that Mr. Preston would want a grounded assessment of the present state of the portfolio. Maybe the missing Chart 1 will do this but the way you distinguish between "health" and "quality" (see below) lead me to suspect it won't do the job. The large number of significant changes being recommended touch virtually every aspect of the Bank's work except, in my opinion, the important, front-end ones like ESW (including dialogue with the country) and project design. Given the need for so many changes, which have to be costly, it strikes me as necessary to state and ground the weaknesses in the portfolio. Having done so, it then becomes necessary to take a stance as to what produced the weaknesses and be very clear about that in a simple and straight forward way so that action can be taken to strengthen existing projects and ensure that new ones being added will not turn out the same way. You hint at it but its too weak and partial for my taste.

Commercial banks are now saddled with terrible real estate portfolios. Probably most properties in their portfolios were soundly designed and implemented as buildings. The weakness was in market analysis of supply and demand. Prior to that, and still, the commercial banks were saddled with bad sovereign credits mainly to third-world countries. The fault here was bad assumptions that the nations could service debt in the future and if not, they would be bailed out by the first world countries. And the banks were partially right in the latter case with the so-called Brady Plan. In neither case was loan administration the major culprit.

Yet when I read through the set of recommendations the theme that stands out for me is that we put too much effort in doing new projects and not enough in following up the implementation of old ones. Is that really, really so? In my opinion, the problem was (and still is) in the new projects, whether we did one or a thousand. We ignored the state of a country's governance, economic management and macro institutional capabilities --perhaps a "cold war" necessity, but nevertheless a fatal flaw to development effectiveness. In addition, our assumptions about the capabilities of the carrying institutions (ministries and parastatals) were also faulty in that we believed we knew how to improve them and indeed that they could be improved in a unchanging, lousy administrative, economic and governance environment while new plant and equipment were being put in place with our project finance. And finally our "external expert" mode of design made the Bank the true owner of most projects. There may have been instances of faulty technical design of buildings, plants, roads and the like but I doubt that was a major factor.

Unless you are willing to deal with some overall assessment and theory as to what produced the current state of the Bank's portfolio, it will be extremely difficult to evaluate whether any or all the recommendations are worth implementing, even though most of them sound logical in their own right. And in doing so you must choose a "politically correct" way of stating it -- not an easy task.

Having said that, let me comment on the various sections of the report.

Para 1. I don't find the assertion that every one agrees that the same kinds of changes need to be made now very persuasive. What would be a stronger opening, in my opinion, is talking about the kind of geo-political world we operated in the past --and did it better than other aid agencies-- and how that world has now changed and what is now required in it.

Para 3. The utility of making the distinction between portfolio "health" and "quality" is unclear to me. Maybe I'm being simple minded, but I can't conceive of the portfolio being healthy if it is not producing the phenomenon of development. This would be analogous to the commercial banks arguing that they don't have to take loss provisions on their real estate portfolios because the buildings that comprise them were built on time, constructed soundly, are functionally correct and are aesthetically pleasing.

Para 4. I find this para interesting and full of possibilities but you don't develop it fully enough later on for my taste. Indeed you drop the ball entirely on the issues of ownership, commitment and project design. I must conclude that my "commitment" paper produced very little in the way of a lasting effect. I find it hard to accept any argument that the problem is bad implementation of good projects, if implementation is a consistent and endemic problem, which it is. Also why call the legal documents weak? I believe Shihata would win a debate on that point by arguing the weakness is a lack of will to enforce the legal document through coercion (see also my comment on para 59 at the end of this EM). And why make the "staff" the bad guys because they have the "wrong" preference for new projects instead of project implementation. Weren't they just following orders?

P 4. Is any cause of prime importance, or do several s i out?. What is said about "commitment" is, in my opinion weak and partial. The absence of country focus in portfolio management is a secondary symptom of the lack of attention to governance, economic management and core government administrative competencies at the time projects are selected, designed appraised and approved. The "cold-war" game caused or permitted us to be blind to these factors when we dealt with new projects. The time to deal with them is before we put projects in the portfolio, not afterwards. The competencies mismatch is equally and more importantly existent in project design and appraisal than at the time of coping with a bad portfolio. Why are you interested in locking the barn door after the horses escape? In the post cold war era the important thing to recognize is that we will be held accountable for producing the phenomena of development and not just for managing the portfolio.

Para 6. Here, and elsewhere, you use the term "overarching" so often that my arches begin to hurt.

Para 7. Why do you start by saying "assuming change is needed"? Don't you know? The way you talk about the distinction between taking care of the bank and taking care of the customer imply, to me at least, that there is a legitimate choice. I say there is no legitimate choice. " ng care of the Bank" is what produced the kind of portfolio we have. Why don't you take a stance here and let your own personal commitment to the purpose of the Bank show up strongly?

Para 8. I got it! The word is "interactive" between "proactive" and "reactive" thereby preserving alliteration and conveying partnership. Don't call government officials "clients" in the (inter)active stance. Call them partners in taking care of the concerns of the real clients: those living in absolute poverty.

Para 9. I challenge your statement that it will "always be a hybrid." You are hiding your commitment. Take a stance. There is no way the Bank can take care of itself without taking good care of its customers. Gutfreund and Salamon Brothers learned this the hard way and GM and IBM are now learning it, also the hard way. Microsoft, on the other hand, has taken good care of customers all along, albeit without technological leadership. Why should we lend to countries where our only role is commercial banking? Let the commercial banks lend to Korea if it is truly a matter of "reaction." Perhaps I misunderstand the distinction "proactive" as meaning the Bank owns the project instead of the stakeholders in the country. But if I understand it correctly, then I challenge what you are saying about Africa. Yes, provide emergency relief when necessary but don't confuse this with development. Also please don't use the word "commitment" in opposition to "involvement." Commitment is always present in human actions. What you are intending is the difference between a "partnership" and a "parent/subsidiary".

Para 10. Drop the word "values"; just use "behavior." Who cares what values a person has providing their behavior is OK. Earlier you said "rhetoric and behavior," which I like better than "values and behavior." I can observe rhetoric and behavior as assertions; values always are inferred as an assessment made about another.

Para 11. I say it's necessary to present the case for change before dealing with the objectives of change. I don't think you have built a good case for the need for change in the first 10 paras. You need to take a stance and tell a good story that will seduce Preston and others to support change.

Para 13. This para covers a lot of ground but surprisingly leaves out what's crucial. The up-stream stuff. I urge you to correct this oversight and to make it clear what really counts. Throwing money and time at supervision (call it what you will) without getting the up-front stuff right will be wasted time and money, and tragedy for human beings living in absolute poverty.

Para 14. Won't Steckhan and others argue successfully that they are using CIRs in the way you suggest -- as a country focus. Others are doing this too. Switch this around to support best practices instead of implying you are introducing something new. The systemic problems that get in the way of implementation also get in the way of absorptive capacity. We must get governance, economic management, and the core administrative system of government "right" for any project to do well. And we must insist that projects are designed so that they are truly projections of the commitments people are to inventing and realizing a new future for their community.

Para 15 & 16. Another problem with planning and budgeting --and I believe a more important problem-- is that the Bank does not set measurable goals and objectives for the phenomenon of development in specific countries. Instead, our overall planning and budgeting approach sets goals for individual projects and other tasks and goals for the volume of our own lending. Our real goals however should be fewer people living in absolute poverty, more girls in schools, fewer acres of deforestation, etc. etc. in specific countries, and we need to be serious about this. If we are willing to seriously set such objectives then we will have the opportunity to learn how to do it in partnership with others. This is a vital point that is missing from your report. It is what prompts you to distinguish between " lth" and "quality." But really only what you call " lity" really counts and historically the Bank has paid attention and made commitments only to what you call "health." Open this matter up boldly in the report.

Paras 18 & 19. Here you are at the heart of generating a strong (but not bullet-proof) portfolio and you duck it. Why? Note your language here. It is all about "external experts" making appraisal assessments. Appraisal is too late in the cycle to worry about what you mention in Para 19 (and you don't even mention appraising "commitment"!). You don't mention the way a project emerges and takes shape and form, what ownership and commitment are, and how they show up.

Para 22. Again you put the burden on the "staff." Don't do this. Put it on the "management." Also make it clear that the urge to lend produces "paper projects" not development results. Don't compromise here with "Quijote-like situations." Let's have useful distinctions. The Bank may be called upon to intervene in emergencies with emergency relief and act proactively. But what you call the proactive stance and what I call the "external -expert mode" of project design does not produce development. It only produces beans to be counted in the lending scorecard. Let's call this spade a spade.

Para 23. Come on Ian. There are no just "hardware" projects in a development bank. Hardware is always the means to a "softer" objective called development.

Para 24. "Aide Memoires" during appraisal and preparation are major actions that get in the way of listening to and working with the customer. Don't compound this nonsense by introducing this abomination in supervision.

Page 29 at the top, replace "Values" with "Rhetoric" or simply use "Behavior."

Para 59. In my experience, many covenants are inserted to help the implementing agency fight the core agencies of government and are inserted at the implicit or explicit request of the implementing agency. Show recognition of this and use it to reinforce applying more effort and energy to get governance, economic management and core administrative competence right before projects are started and throughout their implementation and operating life.

TOWARDS PORTFOLIO PERFORMANCE MANAGEMENT

REPORT OF THE TASK FORCE

Outline

* **Guiding Principles - Analytical framework**

- Bank's role in portfolio implementation is quantitatively small. but of catalytic significance
- Bank's contribution to resource transfer is also small, except in IDA countries.
- Projects are a continuum from identification through impact evaluation, therefore management attention should also be a continuum.
- Portfolio Management is an integral part of country assistance programs.
- The recommendations should be **resource-neutral** given the budgetary constraints which are likely to persist.
- [illegible] risk taking should result in a less than perfect portfolio

D.L.

I- What is the problem? The evidence

See attached notes

M.S.T.

II- Why the problem? Underlying causes.

Exogenous causes:

1. Global environment: changes in the world economy.
2. Country environment: political and social changes (including emergence of democratic movements which may yield positive results in the long term); disincentive regulatory framework.

Endogenous causes:

3. Ambiguities in the respective roles of the Bank and of the Borrower have developed over time.

4. Management oversight: results from implementation have been of lesser priority than developing new lending operations (after period of rapid growth in the portfolio, levelling off, prevent a decline).

5. Project: quality at entry.

P.R.

III- The Bank's role in supporting portfolio implementation

P.R.

IV- What can we do? Towards a solution.

1. **Mandate, responsibilities**
   (I moved accountability as a separate recommendation, after efficiency gains and Incentives)

This section should recall the Bank's mandate, and the respective responsibilities of the Bank and of the Borrower, in all aspects of project development, implementation, and accountability.

Recommendations- Group 1: Restate/clarify to staff and borrowers the Mandate and responsibilities, and accountability obligations.

- Borrower/end-use beneficiary participation
- Bank should distance itself from hands-on project preparation
- Strengthen borrower capacity (including preparation and accountability).

D. L.

2. **Incentives to managers and staff**

(Note: this section should be dealth with up-front has it has been identified as one of the two most critical endogenous root-cause of the problem).

This section will review the evidence of the lack of attention paid by management to results and implementation; and as a result, evidence of the deterioration in the quality of the appraisal and supervision work. Evidence includes the comparison between results at completion as compared to appraisal, the review of the FY91 reports for ECON, staff interviews for the quality of lending Task Force, and points made in focus groups. Evidence on training, or the absence of training.

Recommendations- Group 2: Managers are accountable, but accountability needs to be systematized, both through periodic reviews of the portfolio and annual PPR.

Training for managers on Portoflio performance management.

Training for staff (Michel's "corporate training" proposal)

Other incentives to staff (day in court etc. See my proposals in Raj's memo: Comments on OED Report).

D. L.

3. **Integration of Portfolio Performance Management in Country Context/workprogram**

This section will review present practice, whereby portfolio performance is rarely included in the design of country strategies. Partly fault of OMS 2.01 which does not envisage such reporting. It will also mention the best practices which are available, in particular the practice of CIRs and Borrowers' workshops to launch the preparation of the country strategy. Plus some examples of best practice in terms of structured economic and sector work, building up from ESW to develop lending operations, and inclusion of lessons of operations from completed and on-going portfolio.

Recommendations- Group 3: Portfolio perfomance management must be full integrated into country assistance program. Key elements should be:

- Role of the Country Team, including the TD Staff
- Annual Country Portfolio Performance Review (ARIS)
- Country Strategy Design
- Management of Sectoral Portfolios ??
- Use of Feedback from completed operations, operations in operating phase, and operations under implementation.
- Introduction of a new instrument: the restructuring of the portfolio of investment operations for countries in adjustment.
- Feed into other business processes: business plan, annual workprogram, budget, plan of completed operations (for OED), country risk analysis (FRS), lending

allocations (DEC), OSP research/best practice workprogram/thematic reviews of business processes).

4. Strengthening the Project Continuum/cycle

This section will review the process of preparation, appraisal and implementation performance management. Emphasis on the methodology, complexity, identification of performance monitoring indicators, content of legal agreements, assessment of borrower commitment, beneficiary participation, role of peer reviews, quality of supervision (in terms of actions on the portfolio).

Recommendations- Group 4:

- <u>Preparation:</u> proceed with different approach to project preparation and appraisal, depending on the typology of borrower. **** Role of Peer reviews and Regional Loan Committees.**
- <u>Appraisal</u>: Improve the methodology for project appraisal; limit project complexity; co-financing.
- <u>Negotiations</u>: clarify legal documents, to focus only on a) covenants which bear an impact on project results and on which the project implementation agency or the borrower can clearly act; b) inclusion of project implementation plan, monitorable indicators, and remedies in case of departure from agreed indicators; c) reporting requirements.

  * Policy element: new condition: In the abasence of agreement within a reasonable period of time, Bank can suspend disbursements unilaterally.

  ** Pay attention to the composition of the negotiating team!
- <u>Project Performance Management</u>:
  - Clarify the various activities, between end-use, monitoring compliance, facilitation, implementation assistance/trouble shooting.
  - Staffing and budgeting.
  - Borrower and end-use beneficiary participation (including NGOs)
  - Monitoring of performance indicators including benefits and impact
  - Enhance relevance of reporting (including on borrower commitment)
  - Mid-term Reviews.
  - Actions plans
  - Use of remedies
  - PCRs (agreement on Operating phase etc.)
  - Reporting during Operating Phase
  - Impact Evaluations

5. Efficiency Gains

This section will highlight the current sources of inefficiencies, largely in terms of borrowers, staff, and management time. This will bear on procurement management, data collection, poor document quality due to limited institutional/human resource capacity, distances between headquarters and borrowers, and budgetary constraints (including trust funds).

Review Board

Recommendations- Group 5:

- Procurement: obligatory standardization, and certification by third parties.
- Disbursements: certification of SOEs by third parties.
- Financial accountability: standardization and improvement of financial anaylysis (financial projections and rations should be part of legal documents, instead of being subject to a multiplicity of financial covenants). Development of local accounting and audit capacity. Staff training in audit reviews.
- Reporting: standardization.
- Role of field offices (clear TORs by CDs, Delegation of authority).
- Information Management, includ. information technology
- Management of Internal Documentation.

6. Accountability.

This section would review the accountability instruments: external accountability (Management reporting to the Board, OED Reports and the External Auditors reports), and the internal accountability (transparent reporting and recording of action, project audits, reporting to management, internal audit).

O.E.

Recommendations- Group 6:

- Enhance quality of reporting to the Board (my proposal on ARIS etc.)
- Improve quality of project audits
- Set-up competent Internal Audit which can audit processes (rather than OED)
- Revisit OED's mandate: focus on impact evaluations, country and sector portfolio audits rather than individual project audits; leave strengthening of borrower capacity to operational programs (provide TA if needed?)

V- SUMMARY OF RECOMMENDATIONS.

Task Force
on
Portfolio Management

Preliminary
Draft

Table of Content

Task Force
on
Portfolio Management

The Main Report
1st Draft

Preliminary Working Disposition

INTRODUCTION

Chapter I: The Portfolio Cycle, its Management and Supervision

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- Concept, Design and Maturity at Point of Negotiations
- The Contract; Commitment, Ownership, Consensus; Articulation of Objectives, Measures and Means of Implementation
- The Phase preparatory to Implementation: Negotiations - Signing - Effectiveness (this may well be the most critical, yet most neglected period for project implementation)
- The Record of Agreement
  - Objectives
  - Progress Points
  - Reporting Arrangements
  - Remedies
  - Accountabilities

2. Management of Implementation

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- Strengthening the Borrowers Capacity to manage
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   - The continuing nature of the Country portfolio and its implications for the management of supervision of component projects/programs

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   - The compelling urge of public accountability
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Legal

Draft for Annex to Chapter II

Portfolio Management

Objectives, Functions, Mandates

- A Legal Expertise -

1. Portfolio Management and Project/Program Supervision

   - The Quality of the Portfolio and the Management of its Maintenance
     Portfolio mix, diversity and performance measurement
     - Prudence and due diligence -.

   - Supervision of End-use of Loan funds
     Statutory and contractual requirement, institutional accountability;
     Instruments and Monitoring

   - Contractual Agreements and Surveillance of Implementation
     Loan negotiations and the Project Agreement
     - Consensus, Commitment, Ownership -.
     Arrangements and agreements on Supervision, Reporting,
     Project/Program Modification

   -

2. Portfolio Management Functions

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   - Accountabilities

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   - Owner's/Borrower's Role and Responsibility

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Documentation

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- Assessment of Development Effectiveness
- Post-completion Evaluation
- Staff training - for supervision - from supervision

Chapter IV: Methodologies

1. What is the Bottom Line

   - Performance Criteria
   - Performance Measurement and Risk Appreciation
   - Performance Reporting
   - The Sustainability Dilemma

2. The Case for a Common Denominator

   - Rating Criteria and their Use
   - Operational Conclusions - Management by Rating

3. Development Effectiveness and its Measurement

   - The Concept
   - Measuring Development Effectiveness of the Portfolio:

     by Portfolio
     Countries
     Sector
     Projects

   - Operations Evaluations and their Contribution to measuring Development Effectiveness

Portfolio Management

Methodologies

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Chapter V: Operations Evaluation and Assessment

1. Objectives of Independent Operations Evaluation

- Loan/Credit Decisions revisited
- Learning from Experience
- Recording History
- Accountabilities

2. Practice of Operations Evaluation

- The Setting for an Objective Assessment
- The PCR Process and its Management
- The Role of Audits
- Sector and Country Assessments
- Impact Evaluation

3. Methodology of Evaluation

- Ex-ante and Ex-post measurement
- Change in Policy Environment
- Up and down the Totem Pole - Changing Priorities

OED

Draft Annex to Chapter V

Portfolio Management

Evaluation and Assessment

1. Objectives of Independent Operations Evaluation

   - Loan/Credit Decisions revisited
   - Learning from Experience
   - Recording History
   - Accountabilities

2. Practice of Operations Evaluation

   - The Setting for an Objective Assessment
   - The PCR Process and its Management
   - The Role of Audits
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Conclusions and Recommendations

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: June 12, 1992

TO: Members of the Portfolio Management Task Force

FROM: Willi A. Wapenhans, EXC

EXTENSION: 80121

SUBJECT: <u>Preparation of the Executive Brief</u>

As discussed at yesterday's Task Force Meeting, I attach the first installment of the guideline notes on drafting of the Executive Brief. Their purpose is to provide guidance to us all in preparing contributions to the various parts of the documentation we plan to prepare but in the first instance, of course, the preparation of the Executive Brief. Consistency will enhance the credibility of our work and hence it is important that we seek a meeting of the minds in advance of the actual drafting. With that in mind, I plan to use the notes for a discussion of the positions we have now arrived at. On Monday, June 15 at 3:30pm we will start this process. I would appreciate it if all could attend.

Attachment

cc: Messrs. Nurick and S. Hassan

Concentration of Problem Projects

in Regional Portfolio

	Nr. of Countries	Portfolios with > 20% Share of Problem Projects		Share of Problem Projects in Country Portfolios	
	Nr.	Nr.	%	Ø	Max.
Africa	45	27	60.0	30%	100%
Asia	20	2	10.0	10%	40%
EMENA	18	3	16.6	16%	36%
LAC	30	11	36.6	23%	100%
TOTAL	113	43	38.1	n.a.	n.a.

DRAFT

Guideline Notes to Drafting the Executive Brief of the Task Force on Portfolio Management

GROUND TO BE COVERED

1. Pre Appraisal

2. Appraisal

3. Negotiations

4. Preparation for Implementation
   Dissemination
   Training

5. Implementation Surveillance:
   * Supervision: End Use of Loan Proceeds
     Procurement/Disbursement
   * Compliance Monitoring
     Contractual Changes
   * Implementation Assistance
     Facilitation
     Technical Support
   * Feedback Cycles
   * Project Completion Reporting

   * Means
     Mission
     Field Offices
     Progress Reporting
     Budget
   * Instruments
     CIR
     Th. R.
     Mid-Term

   * Remedies
     Approvals
     Veto
     Suspension
     Cancellation
       Partially
       Wholly
   * **Instructions, Directives, Reports**
     - Changes in Operational Directives, Guidelines
     - Up-dating training and guidance material
     - Reformatting, ARIS/Portfolio Performance Review Report

6. Country Portfolio Performance Management
   - Concept
   - Accountability
   - Link to Business Processes

7. Post-Evaluation: Accountability & Lessons Learned
   Audit Reports
   Impact Studies
   Annual Portfolio Performance Assessments
   Methodological Research

DRAFT

Guideline Notes on Drafting the Report on Portfolio Performance Management and the Project Cycle, and Accounting for Development Effectiveness

1. <u>Pre-Appraisal:</u> The role of the Bank in "identification" and "preparation."

Identification, i.e. the process of agreeing with the host country on priorities and initiating activities aimed at launching projects/programs for preparation, appears to receive less attention now than in the past. This suggests that operationalizing the country assistance strategy is weak leaving room for opportunistic free booting. Conclusion: reemphasize the Bank's presence in identification.

At the same time there is a high degree of consensus amongst the borrowers from <u>all</u> parts of the world that the Bank's presence in "preparation" is overbearing. Borrowers assert that the Bank's omnipresence tends to suffocate local commitment and impairs the emergence of borrower ownership. Worse, the Bank becomes defensive about the project it actively helps to prepare with the consequence that subsequent appraisal becomes a promotional rather than an evaluative activity. Conclusion: de-emphasize Bank presence in preparation.

2. <u>Appraisal:</u> The credibility of the Bank's appraisal clearly has come under pressure: (i) Bank staff see it as an internal

marketing tool to secure loan approval; (ii) funding agencies see it as an advocacy documentation to procure support for its proposal; (iii) borrowers see it no longer as a disinterested, reliable seal of good housekeeping -- the critical yet constructive professional confirmation of a high quality development investment/reform proposal. Specific shortcomings cited are lack of reliable appraisal of (i) institutional, managerial, organizational capacity to implement; (ii) financial management during project implementation; (iii) objective assessment of alternative technical solutions. To regain its credibility "Appraisal" should clearly be refocussed on the objective and disinterested assessment of the owner's (!) proposal, on the identification of the critical factors of success and the relative sensitivity of the project to them, on the measures to be taken for implementation, and on the central performance indicators by which progress in implementation and towards achieving project/program objectives will be tracked and measured. There is a profound need to distinguish much more clearly between broad developmental goals, enabling sectoral and policy conclusions, and specific project and program objectives. The analytical and prescriptive nexus between project/program objectives and measures needs to be strengthened to avoid a specific project/program being held hostage to deficiency in adjacent though peripheral concerns. Project complexity is an apparent cause of implementation difficulties. Project proposals should thus emphasize options with limited objectives, project components and sponsors. Special attention needs to be added to confirm local commitment, ownership and the existence of a sufficient coalition to sustain the project/program through its implementation phase unless calamitous events suggest otherwise. Internal review and approval processes need to focus more on risk analysis, implementation plans, and project/program sustainability. The format of loan documentation is not a subject for this task force though the quality of the proposal at entry into the portfolio clearly is a decisive factor in determining the performance of the portfolio. It is, therefore, critical that the agreement entered into between the principal parties, i.e. owner, borrower, guarantor, executing agency, lender, and co-lender, is genuine, focussed on the essential measures to be taken during implementation and carefully balances commitments and remedies. It needs to be structured so as to provide appropriate flexibility for implementation though without violation of the objectives articulated with appropriate precision.

3. **Negotiations** The parties should be represented by in-line decision-makers with continuing responsibilities for supervision/management of the operation. Negotiations should aim at genuine agreement without coercive force. The Bank should extend its supervisory mandate in the contract only if significant enhancement of effectiveness can be demonstrated; it should essentially rest on the monitoring of compliance with the provisions of the contract and only rarely reserve for itself rights of approval, i.e. a supervisory role. There should be agreed a letter of implementation, by reference attached to the Loan Agreement, setting forth preferably in matrix form specific measures to be taken for implementation, accountabilities for such measures, the timeframe for action, and the agreed progress reporting format. Performance indicators, derived from the risk analysis carried out under the appraisal, should be agreed and their informational needs met through the reporting formats agreed upon. Accounting adequacy, auditing, financial certification including those needed for withdrawal of loan proceeds should be assured by recourse to and reliance on suitably qualified service providers. Implementation surveillance should ensure the qualitative adequacy of the service provider but should not substitute for it,

i.e. staff performing implementation surveillance should not waste time to certify adequacy of back-up documentation for S.O.Es. etc. For such tasks suitably qualified third-party services should be retained. The L.A. should obligate the borrower to retain such services as needed. As non-compliance with financial covenants is widespread, the relevance and practicality of such covenants should be ensured during negotiations and commitment sought for application.

The L.A./Letter of Implementation should obligate the Borrower to agree with the Bank on a plan of transition from management of implementation to start-up of operations of the project/program. The L.A. should reflect the intention to enable the Bank to record such an agreement on transition in the PCR. This should promote sustainability of the project/program unless otherwise indicated.

4. <u>Preparation for Implementation:</u>

Management of project/program implementation is a difficult and complex task even under the best of circumstance. The complexity is further increased because of the institutional requirements financial institutions may impose (procurement, withdrawal etc.). Early start-up of implementation should be carefully prepared by i) ensuring that there is optimal dissemination and understanding of the agreements reached, obligations taken, guidelines to be followed and information to be furnished following negotiations and prior to effectiveness. TMs should be empowered to arrange for adequate briefing/training (EDI?) of the in-line decision makers and their immediate staffs. In addition, consideration should be given by EDI to offer more generalized courses on implementation management.

5. <u>Implementation Surveillance:</u>

The term "supervision" describes very inadequately the mandates, functions, accountabilities, and the complex relationship which exists in the participatory role of the Bank in support of the owner of the project/program financed by the Bank. In the narrow sense of the term, supervision extends only to those supervisory activities which are mandatory either under the Articles or arise from those provisions of the loan contract which reserve a right of approval (a supervisory i.e. managerial act) for the Bank. The contractual relationship at any rate imposes upon the Bank a responsibility to monitor compliance and its institutional mission cause it to facilitate implementation even more so as its presence and its institutional needs add to complexity. Beyond that there remains an undefined demand for implementation assistance and an inclination on the part of the Bank as a development agency to provide such assistance through the deployment of specialist staff (administrative budget) to help resolve special problems impairing progress in implementation. There is clearly no mandatory claim on Bank resources for such purposes, nor is there an absence of options for the borrower to retain such support from other sources, hence the dilemma of and yet the need for finding criteria to restrain the use of budgetary resources, i.e. subsidies, for this purpose. The various functions and accountabilities present in the context of project/program implementation surveillance are described below:

Supervision: The articles impose upon the management the responsibility to ensure that the proceeds of the loan are used for the intended purposes which in turn are in conformity with the articles. The mandatory nature of this injunction is matched by provision of recourse to remedies; end-use supervision is thus a supervisory activity prescribed in the articles as is, though more specifically modified through guidelines and contract, the process of procurement as well as withdrawal of loan proceeds. In as much as the Bank retains rights of approval under the contract it extends a mandatory responsibility of supervision which makes it a proactive supervisory agent with a managerial co-accountability. This temptation to trespass onto owner prerogatives best be avoided unless established as absolutely essential to enhance chances of success. Otherwise, the close monitoring of compliance with contract provision, special and general, should provide adequate leverage in prompting requisite action for prudent management of implementation.

<u>**Compliance Monitoring**</u>: to the extent that compliance monitoring provides evidence that some of the provisions of contract are no longer/cannot be any more adhered to or have otherwise become redundant an agreement to modify/renegotiate the contract is indicated. In order to avoid overly rigid and bureaucratic positions from arising during implementation, it is desirable to retain some flexibility by which managerial discretion is retained in all matters not adversely affecting the principal objectives of the project. Board approval of changes would only be sought if and when the proceeds of the loan are being redirected towards different objectives. The use of interpretative letters and attachments, while part of the agreement, would offer a practical way of reducing inhibition to change, if so

indicated, in support of effective and efficient implementation. As the composition of the portfolio shifts increasingly in the direction of "soft"-ware projects/programs such increased need for flexibility regarding the means of implementation -- not the objectives -- may be encountered. The structure and format of the legal agreements should facilitate such enhanced discretion without sacrifice to the specifics of the objectives to be pursued.

Implementation Assistance: the borrower/owner encounters innumerable day-to-day problems of coordination, communication, interpretation and logistics threatening to delay/impair project/program implementation. The required action of removing bottlenecks and blockages is summarily defined as facilitating. While it is for the Bank a discretionary activity it is clearly in the Bank's best interest to be of help; often the Bank has a comparative advantage in this regard because of its standing in the host country and its institutional mission manifested in the project/program. In resourcing implementation surveillance the Bank clearly recognizes this need and provides for staff resources to engage in these kinds of facilitating activities. The degree of intervention needed will vary greatly; the fact that there is usually a less than full utilization of the budget allocation would suggest that the budget is at present not a constraint to render this type of support -- though specific country -- or project/program situations may have suffered from some such constraint because of managerial inertia regarding reallocations. The other form of implementation assistance is defined in terms of rendering more in-depth specialist advice and help to resolve design, conceptual, or structural problems. Hence the Bank may not have the same comparative advantage but may appear a convenient provider while the borrower may have other options to procure such specialist advice. Therefore, such implementation assistance from staff resources should be provided only exceptionally while the Bank should spare no effort to help the borrower to secure the means with which to procure such help from third sources.

Feedback Cycles: In addition to supporting and enhancing the effectiveness and efficiency of project/program implementation close surveillance of progress of implementation offers two important opportunities: (i) gleaning lessons of experience regarding concept, methodology, design, implementation plans etc. that need to be consulted for future changes in policy and practice; and (ii) deepening of experience of professional staffs who become both the beneficiaries of exposure and the conveyors of lessons. Inherent in these opportunities and their exploitation for efficiency gains are three distinct cycles: (i) feedback in a country context to address thematic, generic issues to improve project/country portfolio performance; (ii) feedback by types/sectors of projects/programs to improve upon concept, design, policy in a sectoral or functional cross-country context; and (iii) the learning cycle combining training, exposure and conveyance. The feedback loops are distinct for all three, though in practice there is little preoccupation with making them efficient, systematic and managerially meaningful. **Changes in Policy** should be based on reliable observation systematically collected over time and over a significant sample; normally for the Bank the policy boundaries will be defined functionally rather than geographically. The **feedback cycle for policy change** is thus to be oriented toward reliability of information, broad coverage, and functional delineation. It is not dependent in the first instance on immediacy nor is it to be oriented on problem solving needs. Indeed, the absence of problems is as important as its presence. In contrast the **feedback cycle for portfolio performance** derives its importance from urgency and problem solving. The early identification of systemic deficiencies, their causes and potential remedies is the essential requisite of effective management of the performance of country portfolios. Their effectiveness is dependent on reliable surveillance and reporting on the behavior of component elements of the portfolio. It cuts across sectoral/functional boundaries and is essentially contained by country context. The operational results are an important input to the policy cycle. The **feedback cycle for learning** is continuous. The managerially important dimension is that of optimal exposure and integration with other kinds of skills enhancing/maintaining professional training.

The needs of these different cycles and the potential they offer should be more specifically kept in mind when decisions are made on policy reviews and changes, on country portfolio performance management, and on staff training. Progress reporting by the owner, by Bank staff, and by management should be formatted to maximally exploit information flows to feed those cycles. Independent operations evaluation should be importantly focussed on the needs of the policy cycle and should not dilute its credibility by active involvement in the portfolio performance cycle.

Means: Implementation Surveillance is essentially exercised through three sets of mutually complementary means: (i) Progress Reporting by the borrower/owner; (ii) the on-site visits of H.Q. missions; and (iii) the delegation of certain surveillance responsibilities to field offices. The latter is not present in all situations and even if present the delegated mandate may vary significantly. There is no significant correlation between the presence of all three means and the portfolio performance, nor is there a consensus on what combination works best. The presence of a large field mission employing high quality H.Q. staff and enjoying excellent support from local staff did not, reportedly, prevent a significant decline in portfolio performance in one case while another appears to suggest the opposite. There is general agreement that the lack of preventive care, i.e. the quality of a project/program at the time of entry into a portfolio can hardly be compensated for by intensity of curative effort during implementation. Nor does the evidence adduced generally suggest lack of technical expertise or absence of staff continuity as a source of lackluster performance. If any generalizations can be made it is that implementation performance is greatly conditional by (i) absence of counterpart funding resulting from (ii) adverse tendencies in the macro-environment, causing (iii) the emergence of incentives to slow down and prolong the process. A fourth element is the bias of optimism at appraisal, apparently growing, that automatically leads to corrections at PCR time with the apparent though somewhat illusionary finding of decline in portfolio performance. The most notable exception to this generalization is in the area of financial management and accountability where there emerges a sense of neglect on both the part of the borrower and the lender. In this area there is an unacceptably high level of non-compliance with the L.A. Reporting on financial performance is uneven and of questionable quality. These deficiencies on the part of the borrower/owner are matched by the Bank in grossly inadequate staffing in both quantity and quality of financial expertise and their seniority, the lackadaisical attitude of staff and managers on enforcing compliance, the pro-forma nature of the L.A. financial covenants, the perfunctory review of financial reporting, and the condoning acceptance of neglect in the development of adequate means of governance (standards of accounting, transparency, and financial control, promotion of reliable and autonomous auditing services, refusal to employ external parties of requisite caliber to provide accounting, certification services, etc.). The Bank's acceptance of random sampling by staff of supportive documentation or other deficient evidence of prudent financial conduct as a substitute for professional certification by third party is a telling and eroding cause of staff attitudes. The Bank should insist on and only accept third party certification of requisite reliability. The surveillance focus should be on the quality of the service, its access to information and the reliability of reporting. The Bank should insist on and only accept such certification and it should not disorient staff by accepting perfunctory substitution. This would both (i) enhance the quality and reliability of documentation regarding the end-use of loan proceeds and it would (ii) render powerful support in strengthening the growth of instruments of prudent governance in the host countries.

EXECUTIVE SUMMARY

Report of the Portfolio Management Task Force

EFFECTIVE IMPLEMENTATION:

KEY TO

SUSTAINABLE DEVELOPMENT IMPACT

Introduction and Summary of Recommendations

Denise — keep this set for reference 7/21

A. Background

i. The Portfolio Manage[...] ton in February, 1992, has examined problems aff[...] olio of loans and credits. ~~It recommends a progra[...] the portfolio and the efficiency of Bank work relat[...]~~ , in turn, current problems in the portfolio, the ta[...] the task force's recommendations for change.

ii. The task force's revie[...] n analyses have been deepened by ~~numerous~~ "f[...] ltants and staff members, by focus groups conv[...] several special surveys of staff and management [...] ited greatly from three workshops -- respectively o[...], representatives of other assistance agencies, and representatives of the international contractors industry. Many Much of the task force's assessment reflects views that are widely held. ~~As a result, most~~ of the task force's recommendations build on existing best practices and on initiatives already underway in various parts of the Bank.

B. Conclusions

iii. Five conclusions are basic to ~~all~~ the recommendations of the task force:

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

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[1] Key documents reviewed include: Seventeenth Annual Report of Implementation and Supervision -- Fiscal Year 1991, Report of the Task Force on the Relationship of Loan Processing to Project Quality (March, 1992), OED's Report, Bank Experience in Project Supervision (Draft, March, 1992), Economic Analysis of Projects: Towards an Approach to Evaluation for the 1990s (Draft ECON Report, June 19, 1990), Managing Technical Assistance in the 1990s November, 1991), Strengthening Country Teams in the Africa Region (June, 1991), Effectiveness of SAL Supervision and Monitoring (OED, June, 1991), Country Commitment to Development Projects (Heaver and Israel, World Bank Discussion Paper #4, 1986).

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

- ***Quality at entry; implementation planning***: Quality at entry into the portfolio is a vital determinant of success. Concerns about critical factors of success, ~~practical plans for implementation~~, and obstacles to be overcome must begin to be addressed as early as identification.

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

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

C. The Problem

iv. ***Declining portfolio performance***: The overall performance of the portfolio remains satisfactory, with more than 75% demonstrating acceptable performance during implementation. There has been, however, a gradual but steady deterioration in portfolio performance. The share of projects with "major problems" increased from 11% in FY81 to 13% in FY89 and 20% in FY91. In the ARIS for FY91, 30% of the projects in their fourth or fifth year of implementation were reported as having major problems -- including 43% of those in Water Supply and Sanitation, and 42% of those in Agriculture. Performance problems were most severe in Africa; in the Latin America region, two countries accounted for nearly 50% of the problem projects, but the other regions also had 30-40% of problem projects in their 4-5 year old portfolios. Worldwide, 39% of the borrowing countries had more than 25% problem projects. By OED's reckoning, based on assessments after completion of disbursement, the decline has been more severe. The number of projects judged unsatisfactory at completion increased from 15% of the cohort reviewed in FY81 to 30.5% of the cohort reviewed in FY89 and 37.5% of the cohort reviewed in FY91. Perhaps reflecting the decline, cancellations have increased by some 50% in the past three years.

v. The Bank's optimism at appraisal, as (indicated by the gap between estimates of economic return at appraisal and at completion), increased during this period.[1] The actual time required for project completion (nearly 7 years) exceeded the time estimated at appraisal by an average of more than 2 years. ~~At the same time~~, Borrowers' compliance with legal covenants -- especially financial ones -- remained startlingly low. Whatever the causes of noncompliance, ~~Bank~~ loan agreements ~~-- "contracts" --~~ do not induce the behavior expected and their credibility as binding documents has suffered.

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[1] This is well documented in Pohl, Gerhard and Mihaljek, Dubravko, "Project Evaluation and Uncertainty in Practice A Statistical Analysis of Rate-of-Return Divergences of 1,015 World Bank Projects," in The World Bank Economic Review, (May, 1992).

vi. ***Contributing factors of decline***: Factors other than poor design, poor management and poor implementation contributed prominently to these disturbing trends -- including worsening global conditions (e.g. the oil shock, the debt crisis, and declining terms of trade) and deteriorating country institutional, policy and macroeconomic environments. Also, more complex and challenging undertakings played a role, as may have more realistic project performance ratings in recent years. The most common types of problems reported were (in descending order) institutional constraints including Borrower inertia, shortages of counterpart financing resulting from deterioration in the macro environment, poor project management and defective procurement. Technical problems did not appear to be prominent causes of decline.

D. ~~Causes of the Problem~~ The Bank's Role in Support of Project Implementation

vii. ***Emphasis on loan approval***: Beyond the uncontrollable -- i.e. global -- causes and the deficiencies in national policy, regulatory frameworks, and institutional capabilities, there are also aspects of Bank practice that either contribute to portfolio management problems or are insufficiently effective in resolving them. Underlying many of these ~~causes~~ aspects is the Bank's pervasive preoccupation with new lending. ~~Bank staff, in their eagerness to get projects developed and approved, tend to take charge.~~ In the eyes of Borrowers and co-lenders, the emphasis on timely loan approval (described by some assistance agencies as the "approval culture") and the Bank role in preparation, may connote a promotional -- rather than objective -- approach to appraisal. ~~Staff sometimes appear to~~ Borrowers allege ~~to include in the~~ that loan features ~~and~~ conditions thought to be conducive to approval by management and the Board, even where these may complicate the projects ~~to a degree that could~~ so as to jeopardize successful implementation.[1] As a result, the quality of projects at the time of their entry into the portfolio -- quality being defined to include *inter alia* implementability and sustained local commitment -- is not always what it might be.

viii. ***Treatment of risks, sensitivity, and implementability in design and appraisal***: The pervasive emphasis on loan approval is not matched by equal emphasis on implementation planning and ~~a failure to~~ identify and assess major risks to ~~successful~~ project ~~implementation.~~ performance ~~A review of investment projects approved in FY91 indicates that~~ there ~~was~~ is little sensitivity/risk analysis, and virtually no attention given to institutional and macroeconomic risks. ~~With minimal critical evaluation of implementation plans and underlying assumptions about macro economic environment, and~~ with little attention to evaluating the "real world" risks likely to jeopardize ~~successful implementation~~ project performance, the reported optimistic bias at appraisal should not be surprising. The implementation capacity of executing agencies ~~also~~ receives ~~too little~~ insufficient attention before approval and ~~as a result,~~ project ~~s tend to be over-designed relative~~ designs are not well calibrated to institutional capacity. Statistical analysis has confirmed that both the number of cofinanciers and the number of project components correlate substantially with unsatisfactory performance. Yet there a remains bias for complexity -- ~~apparently~~ allegedly caused by the urge to include as many features as possible to secure a favorable Board response.

novel

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[1] To understand how the Bank appears to its clients, readers are urged to peruse Annex D, Highlights of the Borrowers' Workshop on Portfolio Management.

ix. *Weaknesses in portfolio performance management*: ~~During implementation,~~ the project performance rating system lacks transparency, and the ratings seldom reflect external influences on the project despite the fact that these are decisive for project success. Problem projects ~~do~~ receive special attention. Managers~~, however,~~ are ~~often~~ reluctant to pursue project restructuring or to exercise remedies. ~~Fifty-seven percent (229) of the over 400 problem projects identified in FY89-92 portfolios had been problem projects for two consecutive years; another 174[1] had been problem projects for at least three consecutive years.~~ Facilitation of implementation, compliance review, and "core" supervision (i.e. of end use, procurement and disbursements) are all normal parts of portfolio performance management; substantive implementation assistance beyond "trouble shooting" is an aspect of portfolio performance management that, if needed, can be arranged with Bank help or provided directly. In their commitment to getting projects successfully implemented, staff are tempted to become involved in providing substantial substantive implementation assistance. The Task Force is concerned that Bank staff may not possess a comparative advantage to render such support, that the budgetary implications would be open-ended, and that a preeminent role of Bank staff may undermine "ownership" on the part of the Borrower. Procurement -- which is estimated to take more than a third of the Bank's total staff time devoted to portfolio performance management -- is another cause of major problems. Part of the weaknesses rest on poor understanding by executing agencies of Bank policies and requirements; another part is poor country capabilities and practices; a third cause is inadequate bid documents (when ICB is required) which take extensive time and resources to review and rectify.

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

xi. *Need for development impact evaluation*: Project Completion Reports (PCRs) and most OED work (which is based on them) seek to evaluate and draw lessons from the implementation of projects. Conducted shortly after last disbursement, the PCRs review expenditures and re-estimate the likely flow of benefits. Therefore, PCRs tend to be completed when benefits have not yet begun to flow. Little is done to ascertain the <u>actual</u> flow of benefits or to evaluate the sustainability of projects during their operational phase. Actual on-the-ground results of Bank-financed projects receive little attention. This weakens accountability for sustainable development impact based on observable results and, in consequence, impairs the Bank's ability to learn what really works and what does not.

[1] Including 17 in non-accrual countries.

E. Recommendations

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

- Introduce the concept of country portfolio performance management linked to the Bank's core business processes;

- Provide for country portfolio restructuring in adjusting countries including the reallocation of undisbursed balances in accordance with accelerated Board approval procedures;

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

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

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

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

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

xiii. The principal thrust of these recommendations is (i) to make the country portfolio the unit of account in composition, size, and performance; (ii) to concentrate attention selectively on the critical performance variables throughout the project cycle; (iii) to define the Bank's role in support of implementation so as to promote borrower ownership and accountability; and (iv) to rebalance internal incentive systems so as to ensure continuous and adequate emphasis on portfolio performance management. The ultimate objective of these changes is the achievement of tangible development through efficient implementation of a high-quality portfolio.

xiv. The institutional implications are threefold:

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

second - the added analytical rigor transformed into more decisive action both prior to approval and in the course of portfolio performance management is likely to make lending programs more volatile and will require increased agility in the management of committed resources-, and

<u>Third</u> - potential efficiency gains will only partially offset the extra costs likely to be incurred in the short- and medium term. Managerial discretion in redeployment should not be curbed by budgetary practice but should be guided through performance criteria.

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

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

DATE: 18-Jul-1992 06:17pm

TO: W. Wapenhans (W. A. WAPENHANS)
TO: Peter Richardson (PETER RICHARDSON)

FROM: Joanne Salop, OSPVP (JOANNE SALOP)

EXT.: 37499

SUBJECT: Summary

File

My comments on the summary follow. Paragraph numbers follow the text. Overall, I am not too happy with page iii. I would rewrite it, but I'm not keen to do so unless there is ready market. Kindly advise.

iii. Third bullet: Delete "implementation planning."

v. This mixes everything up. What's the gap got to do with the noncompliances? In any case, delete the footnote. The gap was well documented by OED, which rightly deserves the credit. Pohl & CO followed OED. They even used OED data. (The correct reference is OED's 1988 Annual Review of Evaluation Results.)

vi. "Other" factors are global, country, etc.? But the text of the main report -- and the evidence -- suggests that these are the key problems.

vii. Dominique will have a problem with the tone here, and I agree with her. On substance, I also have problems. I still don't understand why the Bank's take-charge approach causes projects to fail. You have not established the logical link with borrower commitment and project success, if there is one.

viii. This mixes up appraisal and design in a way is not helpful.

xxvii. Public expenditure reviews include investment.

xxx. I find this embarrassingly gooey.

xxxi. I thought the main idea was a strategic one; namely, to get the President/MDs focused on the portfolio -- by a quantified measure of quality -- and all else would follow. Against this idea, the bullets seem very little-think. If you have to keep them, present them as text rather than bullets. It will give them less prominence

CC: Dominique Lallement (DOMINIQUE LALLEMENT)
CC: Michel Pommier (MICHEL POMMIER)
CC: Samir K. Bhatia (SAMIR K. BHATIA)

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

DATE: 18-Jul-1992 05:38pm

TO: W. Wapenhans (W. A. WAPENHANS)
TO: Peter Richardson (PETER RICHARDSON)

FROM: Joanne Salop, OSPVP (JOANNE SALOP)

EXT.: 37499

SUBJECT: Report

I regret that I was unable to join the afternoon session. My comments/suggested redrafts follow. Paragraph numbers correspond to text. I still have serious problems with the SAL recommendations, the SAR coverage, and some organizational issues.

The rewrites cover the coherence problem -- that Chapter III diagnoses the problem as global and country, with a little on complexity, yet most of the prescriptions are about implementation. Is there an implementation problem? Has the case been made? Or is there a portfolio and quality at entry problem? I believe the latter. What do you think?

On the point discussed at length with David Goldberg on the indicators, I searched the text for a reference, but could find none. In any case, my position would be: the appraisal identifies key indicators and key actions. The latter are clearly covenantable. The indicators will cause problems -- if we hold out for suspension/cancellation, even after consultation. The result is the same : unilateral suspension rights by the Bank. Rather than fight this battle, because there will be many entrenched interests, tactically, I think we should go for a more modest goal -- namely that the indicators should be discussed at negotiations and that they will trigger a consultation on what to do. But we should drop the tying of the agreement on the follow-up to a continuation of disbursements.

2. Delete first sentence. It sounds like it says something, but I can't figure out what. "How to do" vs. "what to do"? So what does it add other than confusion?

3. Please do not call the post-implementation phase the "evaluation" phase. We should be -- and are arguing for -- evaluation over the project cycle.

34. This is all mixed up: Project complexity with results for Bank's effectiveness. The fourth and sixth bullets are especially bad. But the fifth also has problems.

38. This para should be moved to Chapter IV. It is full of "shoulds". They don't belong in the analytic chapters.

40. REWRITE:

"Quality at entry is critical to achieving maximum development impact. Projects that are ill-designed in light of the country and sectoral policy framework and the risks that the project will face, and that lack borrower commitment when they enter the portfolio ..."

41. REWRITE:

"During the project identification phase, the tasks are to determine that there is a constraint that an intervention could relax, that the broad outlines of the likely costs and benefits suggest that the intervention will be worthwhile, and there is a particular catalytic role that the Bank can play. Vital tasks at this stage are to agree on how and in what detail the project/program should be prepared and to ascertain the commitment of the borrowing country.

42. REWRITE:

"The Bank's approach to appraisal was evaluated in light of Chapter III's discussion of the determinants of project success, which focused on global, country, and project factors. (See Box 1.) The major findings are that Bank appraisals are not making clear the macroeconomic, financial, and institutional assumptions underlying the analysis. Nor are they making clear the sensitivity of project outcomes to those variables, which experience shows are critical for project success. Country commitment is almost never factored into the analysis."

49. Drop "neither reviewed nor" from the fourth line. Many division chiefs, no doubt review their division's ratings.

53. Note that appraisal work -- project analysis -- is also neglected. Project economists always complain.

88. <u>Please delink the index from the risk analysis of FRS and IEC</u>. As I have noted before on several occasions, this is a tactical blunder. Link the index to the dialogue and the CPPR. Link the CPPR to the risk analysis and lending.

94. Third sentence, after "implemetability", add: "in light of identified risks."

95. Change the first bullet to: "Evaluation should be a continuous process over the project cycle, incorporating an assessment of costs, benefits, and risks as they evolve." Fourth bullet, afer "implement", insert: "the macroeconomic and sectoral policy franework that governs the evolution od costs and benefits, ..."

98. Change the recommendation to: Require more realistic and risk-conscious analysis of projects.

101. Please don't require maximum participation. This wil be rediculed. Pkease settle for cost-effective. Participation is not an end in itself -- except to the participation crazies.

102. What does the last sentnece say?

103-105. Add a para:

"As noted in Chapter III, global and country factors are often decisive in terms of their impact on project outcomes. The appraisal will therefore need to assess the overall macroeconomic and sectoral policy framework in which the project will be implemented and operated to determine whether the design is sufficiently robust to weather identifiable risks on the policy front.

112. The SAR should present the evaluation! It is not an implementation plan.

115. Delete parentheses. Given that the country policy framework is crucial, we can't say: exclude policy conditions. If the policy is critical for project success, it must be a covenant.

128. The eight point plan will be laughed at by chief economists. That the PFP point has been dropped is welcome. That was the worst. But some of the remaining items also cheapen the report. The following reduces it to four points -- the points most in tune to the rest of the report. But don't call it the four point plan. It will invite cheap jokes.

* The first bullet has a declarative sentence in bold and the action not in bold. To fix this, put the declarative sentence in the text, and make the restructuring of the Bank's portfolio bold. This is new. It is relevant to the Task Force. It deserves highlighting, except that you have treated it elsewhere, in para 93.

* The second bullet is also relevant. Keep it.

* Delete the third bullet. I'm sure this is a worthy cause. But should't all suspension/cancellation conditions be transparent? Why only SALs? If you want to discuss this, include it in para 125.

* Delete the first four lines. Forget the peer reviewers, unless you are going to propose them for investment lending supervision too. But highlight the part on 13.05 and Form 590. This is relevant, and covered elsewhere for investment lending.

* Collapse the next four bullets into one on monitoring.

CC:	Dominique Lallement	(DOMINIQUE LALLEMENT)
CC:	Michel Pommier	(MICHEL POMMIER)
CC:	Samir K. Bhatia	(SAMIR K. BHATIA)

File

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

DATE: July 15, 1992 12:20pm

TO: W. Wapenhans (W. A. WAPENHANS)
TO: Peter Richardson (PETER RICHARDSON)

FROM: Dominique Lallement, CODMO (DOMINIQUE LALLEMENT)

EXT.: 82849

SUBJECT: Comments on Executive Summary

Willi:
Please find my comments below on the redraft report and Executive Summary. I presume the Executive Summary is the only document going to the EXEC at this stage, so I have limited my detailed comments to that.

First, some general observations.

1. The Executive Summary has many inconsistencies with the draft of the main report, both in the presentation and in the content. I trust this will be resolved at a later stage.

2. In my view, the merits of the Executive Summary is to have attempted to trace a road map. However,
a) the section which presumably intends to summarize the road map (Section B) is unclear.
b) Bank staff is CARELESSLY blamed for all evils. I certainly cannot be associated with these statements. These also risk to discredit the work of the Task Force.
c) Some of the recommendations do not correspond to the conclusions reached in our meetings.

3. Both documents fail to answer some of the major criticisms we received from the Steering Committee, in particular:
- Where is the Borrower?: Be more balanced in the presentation of the respective responsibility of the Bank and of the Borrowers for the performance of the portfolio: The Executive Summary suggests through Section D: Causes of the Problem, that ONLY the way the Bank does business explains the deteriorating trend.
- Too many process oriented recommendations which won't buy much credibility with the staff and managers. Recommendations should be selective and biting.
- The Task Force should be very forceful in concluding that A MAJOR CHANGE in the Bank CULTURE is needed, from targets to results.
- The Task Force should demonstrate learning from numerous successful operations, and in differentiating in the Bank's broad experience.
- The report should offer some "means", e.g. how to do a

better job in evaluating borrower commitment.

4. I find the readibility of Section V of the main report worsening with the mixture of shaded boxes, recommendations on top of recommendations, unstructured uses of bold, italics and the like. I would suggest a more modest staightforward presentation, and consistent through the section. Is it too late to hire a good editor?

Detailed Comments.

EXECUTIVE SUMMARY.

B: Fundamental Conclusions: I find this section unclear and unconvincing. If the principle of retaining such a section remains, I suggest the following themes:

- Borrower versus Bank Accountability.
- Bank culture: (from targets to results)
- Country Portfolio Performance Focus
- Quality at entry: implementation focus. (this would include implementability and implementation planning)
- Evaluation and Feedback.

C: The Problem:

para iv: I thought that we had agreed to start by stating the positive facts: 80% of the on/going portfolio assessed to be performing well, and 65% at completion assessed to have had satisfactory performance.

Third sentence: I don't understand the logic. I suggest to rephrase:"However, the aggregated ARIS data tend to understate the likelihood....".

I suggest to eliminate the fourth sentence: I don't think it is appropriate to single out Africa: three of the four former regions had 30 to 40% of problem projects in their 4-5 year old portfolio.

I also suggest to eliminate the last sentence, or at least use the correct figures. Data on cancellations are the following: FY 89, $1.6 billion; FY90, $1.8 billion; FY91 $1.4 billion; FY92, $ 2.9 billion.

Para v: The subtitle does not fit the story. The para does not provide information on "implications". I suggest to rename it "Contributing factors". The last part of the para starting with "Moreover -- and ironically..." does not fit the story. It could be moved in two parts: the story about overoptimism at appraisal to para iv, and the story on non/compliance in para viii. Alternatively, this could be completely eliminated from the summary.

First sentence: Too negative. I suggest to rephrase: "Factors contributing to these disturbing trends included difficult global conditions (....) and (NOT POOR) country institutional, policy and macroeconomic environments unconducive to achieving intended results. In some cases, these factors were compounded by inadequate project selection and design, and lax portfolio management."

I suggest to eliminate the second sentence, as we don't have solid evidence to demonstrate that the social sectors or the programs of special emphasis are contributing substantially to the deterioration of the portfolio. Alternatively, recast the sentence on the real complexity issues, i.e. that we try to address more macro and institutional issues through investment lending.

Third sentence: take out "and ironically given the performance data": tone inappropriate in my view.

D. Causes of the Problem

Again: the title does not fit the story. This section addresses how the Bank has managed the portfolio. As well said during the "mini retreat", the Bank is good at self-flagellation. I don't find it very credible to put all the blame on the Bank, nor on the staff, in particular on para vi. Finally, I suggest that this section be considerably shortened.

E. Summary of Principal Recommendations.
It would be preferable to keep as much parallelism with the Road Map in B as possible. I suggest therefore the following:

- Accountability
- Country Portfolio Management
- Quality at entry
- Portfolio Performance Management
- Environment for Improved Portfolio Management.

On Accountability, isn't the main message the need to clarify of the respective roles of the Bank and the Borrower (hands off versus hands on approach), participation of borrower to design of country assistance strategy, selection of programs and projects, and selection of performance monitoring indicators. The example of Mexico can be cited for best practice. Checking with the client the value of each product would be a good test of quality of Bank activities. (I would use the substance of xv in this para in order to avoid repetitions).
I personnally prefer to deal with Borrower accountability than "commitment" which is hard to defined.
Furthermore, I think that managers' accountability should be dealt with in the "environment for Improved Portfolio Management".

Country Portfolio Management. I suggest to work a summary from the main report's long list of recommendations. The main points being:

- the Country Portfolio Performance Review (which feeds into the other processes, para 84 of the main report)

. the design of country strategies which take into account portfolio performance, and provide the rationale for selecting certain PSEs (not all).

. The restructuring of the Investment Portfolio for countries in adjustment

. The fluctuations in lending which the Bank should expect from linking portfolio performance to lending strategies.

We should stress that the CPPR is largely based on the Africa Region ARIS practice. I disagree with the phrasing in para xii. ARIS are already mandatory, so there is nothing new in the recommendation. Furthermoe, I suggest to say "reviews of the country portfolio performance with the borrower" should be conducted annually rather than using the term "CIRs", which has a totally different connotation in Bank practice. Furthermore, I disagree that we dictate the sequence of events for the CPPR and the CIR. Practitioners in fact want the CPPR to precede the CIR, as it provides for i) the identification of the need for a CIR; and ii) the draft agenda for the CIR. Furthermore, when no full-fledged CIR is conducted, the ARIS/CPPR letter is a very effective instruments to review portfolio performance with the Borrower, including resident representatives.

<u>Quality at entry</u>: We should state clearly that we must return to the hands off approach to project preparation, but that we should continue assisting the borrowers develop their capacity for project preparation.

I feel uneasy with para xx on covenants. I presume Andres Rigo has looked at that carefully.

para xxi: I thought we had agreed to recommend to clearly distinguish between the four main roles of supervision, and to adapt the roles to the profile of the client (or of the project). The current phrasing is not very operational.

para xxii: I would prefer if we could deal with training of borrowers in a global way, i.e. as a subset of accountability, because the training needs apply to all aspects of Bank supported activities. I don't think that we need to mention Launc workshops (They were already in the 1983 WDR!)

para xxiv: We should include the well written suggestion from Dan Ritchie's memo on Project Management software. On the 590, the redesign is needed, not only because of the new indicators, but also to make it into a useful portfolio managmenet instrument (including access through the system!).

<u>Environment for Effective Portfolio Management</u>
xxiv. I would like the recommendation supporting strongly the clear delegation of responsibilities under clearly defined TORs for <u>facilitation of implementation</u> and for <u>procurement and SOEs</u>.

I strongly object to (c) because that would put the Task manager in an absolutely impossible situation. We should also advocate more active involvement of field staff in the upstream work, in particular appraisal, as a good source of staff continuity.

xxx. I stress again that the message should be on information management rather than on information technology.

xxxi. Skill enhancement: we should make a special mention of field staff

xxxii. Incentives. Could we be more incisive. I am faxing my initial submission to Ian which summarized what we had discussed.

Budget: I think we need to take into account the results of the discussion with the steeting committee.

Next Steps/Action Plan: the two versions of the executive summary differ, one has a para, the other one does not. I still feel quite strongly that we should have have an outline of what the next steps are, giving a sense of where there are some urgent actions (Guidelines, next ARIS/CPPR).

Dominique

CC: Institutional ISC Files (INSTITUTIONAL ISC FILES)

File

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

CORPORATE PLANNING AND BUDGETING
Office of the Vice President (550-05)
FAX Number: (202) 477-1212

FACSIMILE TRANSMISSION

DATE:

TO: Mr. Bhatia

FROM: RSR.

SUBJECT:

REMARKS: Sami:

More readable & later

version of summary!

Total number of pages including cover sheet: ______

7/14/92 3 34

Report of the Portfolio Management Task Force

S. BHATIA

EFFECTIVE IMPLEMENTATION:

KEY TO

SUSTAINABLE DEVELOPMENT IMPACT

Introduction and Summary of Recommendations

A. Background

comprehensively

i. The Portfolio Management Task Force, announced by Mr. Preston in February, 1992, has ~~carefully~~ examined problems affecting the quality of the Bank's active portfolio of loans and credits. It ~~has developed -- and now~~ recommends -- a ~~comprehensive~~ program of measures to improve the quality of the portfolio and the efficiency of Bank work related to that objective. This report describes, in turn, current problems in the portfolio, the task force's assessment of their causes, and the task force's recommendations for change.

ii. The task force's review of existing documentation[1] and its own analyses have been deepened by numerous "feeder papers" prepared by senior consultants and staff members, by focus groups convened to discuss specific problems, and by several special surveys of staff and management opinion. In addition, the task force benefited greatly from three workshops -- respectively of Borrower officials familiar with the Bank, representatives of other assistance agencies, and representatives of the international contractors industry. Much of the task force's assessment reflects views that are widely held. As a result, most of the task force's recommendations build on existing best practices and on initiatives already underway in various parts of the Bank.

Guiding principles

B. ~~Conclusions~~

factors or objectives (below) follow

iii. Five fundamental ~~conclusions~~ have driven nearly all ~~the~~ recommendations~~, of the task force and are reflected in the task force's diagnosis of the problem.~~

- *On-the-ground benefits*: ~~First~~, the acid test of Bank success is benefits "on-the-ground" -- sustainable development impact -- not loan approvals, good reports or

[1] These include: Seventeenth Annual Report of Implementation and Supervision -- Fiscal Year 1991, Report of the Task Force on the Relationship of Loan Processing to Project Quality (March, 1992), OED's Report, Bank Experience in Project Supervision (Draft, March, 1992), Economic Analysis of Projects: Towards an Approach to Evaluation for the 1990s (Draft ECON Report, June 19, 1990), Managing Technical Assistance in the 1990s November, 1991), Strengthening Country Teams in the Africa Region (June, 1991), Effectiveness of SAL Supervision and Monitoring (OED, June, 1991), Country Commitment to Development Projects (Heaver and Israel, World Bank Discussion Paper #4, 1986).

disbursements. The best of plans, if poorly implemented, may yield little or no benefit.

- *Commitment and implementability*: ~~Second, an indispensable requirement of project success is implementability by the executing agency.~~ Successful implementation requires stakeholder and executing agency commitment, which can only come from preeminent Borrower involvement in identification and design work and continued primary Borrower responsibility -- in fact as well as theory -- for project implementation. Borrower incentive must be enhanced

- *Quality at entry; implementation planning*: ~~Third,~~ concerns about (and practical plans for) implementation and the obstacles to be overcome must begin to be addressed as early as identification -- not after loan approval. Project **quality at entry** into the portfolio -- entailing thorough risk/sensitivity analysis, high stakeholder commitment and realistic implementation planning -- is a vital determinant of later performance, ~~especially as the Bank increasingly finances evolutionary "software" projects such as those in human resources development and poverty reduction.~~

- *Taking account of portfolio performance*: ~~Fourth,~~ If the Bank is to remain effective ~~practical and relevant, its experience~~ with project implementation must be taken into account in the Bank's country assistance strategies and planning processes as well as in project identification, preparation, appraisal, and implementation. Specifically, country portfolio performance must influence the composition and volume of new lending.

- *The country focus*: ~~Fifth,~~ if the project-by-project approach to portfolio management is not supplemented by a country focus on the problems of implementation (including generic ones), opportunities will be lost for portfolio improvement, and accountability within the Bank for portfolio results will be inadequate.

C. The Problem

iv. *Declining portfolio performance*: In the past decade, and particularly in the past three years, there has been a gradual but steady deterioration in portfolio performance. The share of projects with "major problems" (as reported in the Annual Reports on Implementation and Supervision) (ARIS) increased from 11% in FY81 to 13% in FY89 and 20% in FY91. As the ARIS data encompasses all projects in the active portfolio, it tends to understate the likelihood of major problems arising by the time of project completion. In the ARIS for FY91, 30% of the projects in their fourth or fifth year of implementation were reported as having major problems -- including 43% of those in Water Supply and Sanitation, and 42% of those in Agriculture. The performance problems were most severe in Africa, while in the Latin America region, two countries accounted for nearly 50% of the problem projects. Worldwide, 39% of the borrowing countries had more than 25% problem projects. By OED's reckoning, based on assessments after completion of disbursement, the decline is more severe. The number of projects judged unsatisfactory at completion increased from

15% of the cohort reviewed in FY81 to 30.5% of the cohort reviewed in FY89 and 37.5% of the cohort reviewed in FY91. Perhaps reflecting the decline, cancellations have increased by some 50% in the past three years.

v. *Implications of the decline*: Factors other than poor design, poor portfolio management and poor Borrower implementation contributed prominently to these disturbing trends -- including worsening global conditions (e.g. the oil shock, the debt crisis, and declining terms of trade) and poor country institutional, policy and macroeconomic environments. Also, more complex and challenging undertakings (especially in the social sectors and with regard to the special emphases) played a role, as may have more realistic project performance ratings in recent years. The most common types of problems reported were (in descending order) institutional constraints, shortages of counterpart financing, poor project management and defective procurement. Technical problems did not appear to be prominent. Whatever the causes and contributing factors, it is self-evident that the Bank has not yet succeeded adequately in helping its Borrowers overcome them. Moreover -- and ironically, given the performance data -- the Bank's optimism at appraisal (indicated by the gap between estimates of economic return at appraisal and at completion) increased during this period.[1] The actual time required for project completion (nearly 7 years) exceeded the time estimated at appraisal by an average of more than 2 years. At the same time, Borrowers' compliance with legal covenants -- especially financial ones -- remained startlingly low. In three recent surveys conducted independently of each other and covering different project populations, the compliance rates were 22%, 25% and 15%. Whatever the causes of this noncompliance (and they include changed conditions, deficient Borrower ability, and unrealistic covenants, as well as disregard), it is clear that Bank loan agreements -- "contracts" -- do not induce the behavior expected and that their credibility as binding documents is low. — Why?

Not clear

D. Causes of the Problem

vi. *Emphasis on loan approval*: Beyond the uncontrollable -- i.e. global -- causes and the deficiencies in national policy and regulatory frameworks and institutional capabilities, there are also numerous aspects of Bank practice that either contribute to portfolio management problems or are insufficiently effective in resolving them. Underlying many of these causes is the Bank's pervasive preoccupation with new lending -- an emphasis so strong that it leads most managers and staff to treat loan approval as a culminating event rather than an essential means to the achievement of on-the-ground results. Bank staff, in their determination to get approvable projects developed "in accordance with schedule," tend to take de facto charge of preparation work and then seek to "railroad" Borrowers during negotiation. In the eyes of Borrowers and co-lenders, the emphasis on timely loan approval (described in some assistance agencies as the "approval culture") and the heavy Bank role in preparation, can lead Bank staff to adopt a promotional -- rather than objective -- approach to appraisal. Staff sometimes appear to Borrowers to include in the loan features and conditions thought to be conducive to approval by management and the Board, even where

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[1] This is well documented in Pohl, Gerhard and Mihaljek, Dubravko, "Project Evaluation and Uncertainty in Practice A Statistical Analysis of Rate-of-Return Divergences of 1,015 World Bank Projects," in The World Bank Economic Review, (May, 1992).

these may complicate the project to a degree that would jeopardize successful implementation.[1] The appearance is not unfounded. As a result, the quality of projects at the time of their entry into the active portfolio -- quality being defined to include implementability and sustained local commitment -- is not always what it might be.

vii. *Neglect of risks, sensitivity, and implementability in design and appraisal*: The pervasive emphasis on loan approval is matched by a minimalist approach to implementation planning and a failure to identify or evaluate major risks to successful implementation. A review of the 181 SARs for investment projects approved in FY91 indicates that of the 92 that were subject to an economic rate or return (ERR) calculation, only 19 employed sensitivity analysis to test the effect of one or more of the risks identified in the "project risk" section. In the projects without ERRs, there was even less sensitivity/risk analysis, and virtually no attention given to institutional and macroeconomic risks. With minimal insistence on -- or review of -- implementation plans and little attention to evaluating the "real world" risks likely to jeopardize successful implementation, the optimistic bias at appraisal should not be surprising. Nor should it be surprising that the implementation capacity of executing agencies receives too little attention before approval and that, as a result, the designs of approved projects are often too complex to be easily implemented. Statistical analysis has confirmed that both the number of cofinanciers (beyond one) and the number of project components correlate substantially with unsatisfactory performance. Yet there remains an often self-defeating bias for complexity -- apparently caused by the developmental urge to load each loan with as many features as possible and the perceived need to cover as many of the Bank's institutional priorities (PSEs) as possible in each project to secure a favorable Board response.

viii. *Weaknesses in portfolio performance management*: During implementation, the project performance rating system lacks transparency, and the ratings seldom reflect external influences on the project. Problem projects do receive special attention. Managers, however, are often reluctant to pursue project restructuring (to adapt to changed circumstances or new insights) or to exercise remedies. Fifty-seven percent (229) of the over 400 problem projects identified in FY89-92 portfolios had been problem projects for two consecutive years; another 174[2] had been problem projects for at least three consecutive years. While facilitation of implementation, compliance review, and "core" supervision (i.e. of end use, procurement and disbursements) are all normal parts of portfolio performance management, substantive implementation assistance beyond "trouble shooting" is an aspect of portfolio management work that, if needed, can be arranged with Bank help or provided directly. In their commitment to getting projects successfully implemented, staff are tempted to become involved in providing substantial substantive implementation assistance, even to the point of diluting Borrower accountability, "ownership" and commitment. When the latter occurs, the likelihood of sustainable successful implementation may decline. Procurement -- which is estimated to take more than a third of the Bank's total staff time devoted to portfolio performance management -- is another major cause of problems. Part of the problem is poor

X Borrowers fees X

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[1] To understand how the Bank appears to its clients, readers are urged to peruse Annex D, Highlights of the Borrowers' Workshop on Portfolio Management.

[2] Including 17 in non-accrual countries.

understanding by executing agencies of Bank policies and requirements; another part is poor country capabilities and practices; a third cause is inadequate bid documents (when ICB is required) which take extensive time and resources to review and rectify.

Borrowers Inertia

ix. *Weaknesses in the project-by-project approach*: For the most part (although with some exceptions), portfolio performance management is approached on a project-by-project approach. While recently in greater use, thematic reviews and country-wide implementation reviews are not standard practice. As a result, generic country obstacles to successful implementation are not systematically unidentified or efficiently addressed. Also, because portfolio performance is not sufficiently taken into account in the formulation of country assistance strategy, business planning, the CAM process, lending allocation reviews and performance assessments of managers, these processes lose an important aspect of realism, and managers do not feel sufficiently accountable for portfolio performance.

x. *Neglect of development impact evaluation*: Project Completion Reports (PCRs) and most OED work (which is based on them) seek to evaluate and draw lessons from the implementation of projects. Conducted shortly after last disbursement, the PCRs review expenditures and predict the likely flow of benefits. For the most part, therefore, the PCRs are completed when the benefits have not yet begun to flow. Little is done by the Bank or OED to ascertain the <u>actual</u> flow of benefits or to evaluate the sustainability of projects during their operational phase. Except when there are repeater projects, the actual on-the-ground results of Bank-financed projects receive little attention. This weakens accountability for sustainable development impact based on observable results and, in consequence, impairs the Bank's ability to learn what really works and what does not. [illegible]

E. ~~Summary of~~ Principal Recommendations

xi. The task force has articulated a comprehensive program of recommendations to improve the condition of the portfolio of projects supported by the Bank. The recommendations encompass nearly all facets of operational work, because measures are needed not only to improve the staff's ability to help Borrowers cure implementation problems, but most importantly to improve its abilities to prevent implementation problems. Taken together, the recommendations comprise a long-term program of institutional change, a program that will need sustained leadership from top management. For ~~convenience~~, the principal recommendations have been grouped into five categories -- ~~those dealing with:~~

- Accountability and the integration of portfolio management experience,
- Quality at entry into the portfolio,
- Portfolio management activities,
- Quality after disbursement,
- Cross-cutting improvement opportunities.

Many of the recommendations are relevant to more than one category, as continuity among phases of the Bank's work cycle is necessary both for efficiency and full effectiveness.

Strengthen Accountability and Integration of Country Portfolio Management

Accountability

xii. ***Country ~~focus~~:*** Country department directors must feel as accountable for managing each country's portfolio health as for new lending. The project-by-project approach should be embedded in a country portfolio management concept, to permit generic issues resulting from the policy, institutional and regulatory context to be identified and dealt with. Annual country portfolio performance reviews (see below) should become mandatory, and Country Implementation Reviews in the field should be conducted annually unless significant portfolio problems do not exist.

xiii. ***Portfolio Performance Reviews***: Indicators of country portfolio health -- built on project-based ratings reviewed by Regional management -- must be refined, applied, and used as the performance yardsticks for Annual Country Portfolio Performance Reviews. An Annual Portfolio Performance Report (APPR) from the President should be submitted to the Board. In the APPR -- which would replace the current ARIS -- OSP would annex sectoral and cross-cutting statistical data and analysis. In the Board discussion, the RVPs/CDs would discuss country portfolio performance issues.

Lending Allocations

xiv. ***~~Integration~~***: Results of country portfolio performance reviews must be brought to bear on the Bank's key operational management processes -- i.e. country assistance strategy formulation (which should include portfolio management strategy), creditworthiness assessments, lending allocations, and business planning (including the CAM process). Lending levels and composition should be reviewed in countries with consistently poor portfolio performance, as the likelihood of on-the-ground benefits from new lending will be in doubt. Budget disincentives to restructuring projects or curtailing lending in response to poor portfolio performance should be avoided.

Upgrade Quality at Entry into the Portfolio

xv. ***Borrower commitment***: Because successful implementation is unlikely without Borrower commitment and clear accountability, and because such commitment requires full Bank understanding and a sense of "ownership," Bank staff must restrain their tendencies to preempt Borrower responsibilities in identification and preparation work, as well as in portfolio management. Subject to variations among executing agencies and types of project, the Bank must foster maximum feasible Borrower and, as appropriate, beneficiary participation. Even if processing has to be delayed, Borrowers should never be "left behind" in the collaborative effort to select and design projects suitable for Bank financing. In loan agreements, Bank approvals should be required sparingly, as they create a supervisory relationship which threatens to dilute Borrower accountability. Does not belong here

xvi. ***Project design, analysis and implementation planning***: Project appraisal and presentation for approval must be evaluative, ~~not promotional~~; and the quality of risk analysis and implementation planning must be improved. Specifically, risk/sensitivity analysis must routinely be done and fully documented. Staff must, inter alia, analyze realistically the risks due to macroeconomic and country-wide factors, as well as those due to limitations in the management capabilities of executing agencies or uncertainties of beneficiary response. To help assess management risks and promote realism, implementation plans and schedules (developed, preferably, by the Borrower) should be agreed at negotiations in all instances. ~~And to help enhance the quality of analysis, the peer review process should be strengthened.~~ How?

xvii. *Critical indicators*: With the help of sensitivity/risk analysis, critical indicators of implementation performance and of the probability of producing intended benefit streams should be identified for use in progress reporting, portfolio management and evaluation. These indicators should ~~inform~~ project performance ratings. As appropriate, they should be made triggers for mandatory consultation with the Borrower during implementation. They should also be used to better focus the Bank's portfolio performance management.

Conform ?

Outline wording Below as given in Annex -

Cofinancing

xviii. *Complexity*: Project complexity should be kept to a necessary minimum. While special emphases (PSEs) are vital priorities, there should be no compulsion to include each of them in every project; a judicious determination should be made as to which are most appropriate to each proposed project. Projects should be kept as simple as feasible to increase the likelihood of successful implementation. Cofinancing, which increases complexity, should be used only where additional funds for the project are needed, the risks need to be spread, or the cofinanciers prefer to leave appraisal and implementation support to the Bank. When cofinancing is done, reporting, procurement and disbursement requirements placed on Borrowers should be harmonized, and a "lead manager" should be agreed. An Operational Directive defining Bank goals and approaches in relation to cofinancing should be prepared.

Is this a Principal Recommendation ??

xix. *Negotiations*: Objectives, implementation plans and schedules (including those for procurement and supervision), operational plans, obligations and responsibilities should be fully understood and reflected in the loan documents. To that end, the agency directly responsible for implementation should be represented at negotiation. Depending on the type of project, the loan documents should allow appropriate flexibility as to the means and timing of implementation steps within the overall objectives. Reporting requirements and formats also should be agreed and included.

xx. *Covenants*: In loan documents, critical substantive covenants should be distinguished from administrative ones; side letters, attachments, etc. should contain statements of agreed intent (e.g. schedules) allowing modifications as implementation progresses. Substantive covenants should be included in loan documents only if the Bank is willing to enforce them. As a practical matter, breaches of policy conditions beyond the control of the executing agency are unlikely to lead the Bank to cancel ongoing otherwise satisfactory projects. Such conditions usually should not be associated with project loans unless they are essential to project success. The Legal Department should improve the operating staffs' understanding of the proper use of covenants and should exercise quality control with respect to them. A covenant data bank should be created -- complete with evaluative and outcome information -- to facilitate achieving consistency of covenants across a country program, the review of experience, and evaluations of covenant effectiveness.

Principal

Improve Portfolio Performance Management Activities

New Reforms: Portfolio Performance Responsibility

xxi. ~~*The Bank's role during implementation*~~: The Bank must restrain its tendencies to preempt the Borrower's preeminent role in implementation. While end use checking, enforcement of procurement and disbursement requirements, and monitoring of compliance with the loan agreement are genuine supervisory responsibilities of the Bank, the Borrower must feel committed to -- and be held fully accountable for -- project implementation. Short advisory trouble-shooting and facilitation work is an appropriate Bank portfolio management activity, as is the Bank's help to Borrowers in obtaining needed major substantive implementation assistance.

NO The message is lost!!

xxii. *Start-up*: To accelerate start-up, the Bank should, where necessary, ensure training (usually by suitable consultants) of the Borrower's project manager(s) in Bank procurement and disbursement procedures. In addition, EDI might increase its provision of courses in project management and related requirements. "Launch" sessions to clarify Borrower agency responsibilities and strengthen accountability should be encouraged, especially where several agencies are involved.

xxiii. *Procurement*: For ICB, the use of standard bid documents, with preapproved adaptations to country situations, should be mandatory. To facilitate the consistent application of standards and the resolution of issues, an advisory Bank Operations Procurement Review Committee should be created. Chaired by CODPR, it should advise Regional management on all procurement above $25 million for goods and works and $10 million for consultants. (This would entail the prior review of less than 50 contracts a year, but would cover more than 50% of the annual contract awards). The Guidelines should be reviewed with the needs of social sector procurement in mind, as well as the needs of procurement related to privatization and adjustment operations. The Guidelines should also require contracts to provide for expeditious dispute resolution, bidder and owner descriptions of their quality assurance procedures, incentives/penalties related to timely/tardy completion, and the use of independent engineers for major civil works. At regular intervals, independent certification should be submitted of the acceptability of local procurement procedures -- in accordance with approved TORs and by third parties acceptable to the Bank. 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 expert agency acceptable to the Bank. Similar certifications by auditors acceptable to the Bank should be required with respect to Statement of Expenditure documentation. Improvement of procurement -- as well as audit and other management -- capabilities and practices should be fostered through institutional development assistance.

Which Guidelines ??

Does not fit there

xxiv. *Progress Tracking*: Tracking and analyses related to implementation performance should be keyed to critical indicators identified at appraisal and agreed during negotiation. Normally, reporting requirements of the Bank should not go beyond those needed by the Borrower for its own project management, monitoring and accountability. To ensure that these needs are met, the Bank should, as necessary, assist borrowers in defining and creating the means of obtaining essential data (see below). The burden of providing hard information should be on the Borrower, and portfolio management missions should not have to spend time collecting it. Internally, the Bank's Form 590 (for project performance reporting) and the related information systems should be revised to accommodate the performance indicators.

xxv. ***Problem projects***: Managers should be more decisive in dealing with problem projects. While the Bank should be firm in enforcing compliance with requirements such as those relating to procurement, audit and policy matters, it should be more ready than it now is to adapt project designs to changed circumstances when that is indicated. In addition, it should be more willing to (a) suspend disbursements to achieve essential loan compliance and (b) when unavoidable, and after consultation with the Borrower, suspend and then cancel loans which are found (for whatever reasons) to have no likely prospect of yielding net economic benefit to the country. Project performance ratings should be reviewed by country teams. When a project has been a problem project for more than 12 months, the responsible division chief should provide written justification as to why the Bank should not exercise remedies.

xxvi. ***SALs and SECALs***: In adjusting countries, overall public expenditure (including investment) reviews should be encouraged. Reviews of the existing portfolio should be conducted in connection with adjustment lending and, if and when appropriate in that context, the Bank should consider reallocating its portfolio under accelerated procedures. For adjustment loans, the Bank's portfolio performance management should be based on economic and economic sector work. Lastly, for SALs and SECALs, the review of customs documents by the Bank should be replaced by a certification by an independent auditor that the value of the goods for which Bank reimbursement is sought is lower than the value of country-financed eligible imports during the period and that no alternative source of medium and long-term finance was employed. Benefit

Evaluate Quality After Disbursement

xxvii. ***Implementation Completion Report***: Projects do not end when disbursement does. The Project Completion Report should be renamed "Implementation Completion Report (ICR)" and recast to be forward looking as well. In addition to providing a retrospective summary of implementation experience, it should assess the Borrower's plan for the transition to operations and define the indicators to be used to monitor operations and assess development impact. The timing of the ICR in relation to project progress should be agreed at negotiations. The ICR should be provided to OED and should be furnished to Board members on request. Benefit

xxviii. ***Verification of benefit flows***: In the absence of measurable results, future benefit flows can only be estimated. Borrowers should, after implementation, continue to provide information on the critical success indicators. Using such information, OED should increase its emphasis on impact evaluations. The Bank will be held accountable for long-term sustainable development impact and for learning the lessons of experience that reliable information on impact will provide. To free resources for this recommended emphasis, OED should reconsider the ratio of PCRs that are audited. The task force recommends that OED not participate in managerial problem resolution such as the conduct of mid-term reviews, as these could compromise its impartiality. It should, however, review the Annual Portfolio Performance Review.

Cross-Cutting Recommendations

What is it

xxix. *Field offices*: The current presumption should shift in favor of having a resident field presence for every country with a significant program. Responsibilities would be expected to vary from country to country, but with regard to implementation support, resident missions would 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) agreeing to modifications of implementation plans and schedules. Resident missions would also be expected to be useful in deepening assessments of executing agency capabilities (assessments that cannot as readily be made from Washington), particularly with respect to social sectors. 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 non-routine procurement and disbursement actions.

xxx. *Information technology*: Information technology should be brought to bear to facilitate Bank/Borrower and Headquarters/field interaction. Routinely, agreement should be reached during project negotiations for the Bank to assist the Borrower, as necessary, in acquiring needed hardware, software and training to install computer-assisted project implementation planning, management and reporting capabilities. Ultimately, most of the Bank's reporting requirements should be met as a byproduct output of the Borrower's own data collection and processing systems. To facilitate day-to-day interchange as well as formal reporting, the Bank's global telecommunications network should be completed. Internally, and on a priority basis, the Bank's information systems related to the Form 590 should be upgraded to permit text retrieval and to facilitate analyses. Also, the filing of project documents (including electronic ones) should be improved to protect the Bank's institutional memory.

xxxi. *Skill enhancement*: The Bank must urgently recruit more staff expert in financial and general management and in institutional development. It must also provide orientation to new staff -- and more advanced courses to existing staff -- in operations policies, procedures and practices, including those pertinent to portfolio management. A career stream should be created
for procurement, and a review should be conducted of the adequacy of current staffing in that area.

xxxii. *Incentives*: Portfolio performance management -- keyed to helping ensure intended on-the-ground results -- must come to be seen as having at least as much importance as new lending. This will require attitudinal and behavioral change. The change must be reflected day-to-day in the attentions of line managers and the actions and statements of top management. During appraisal and negotiations, as much attention should be given to problems of -- and specific plans for -- implementation as to the internal requisites of loan approval. More generally, country director (and RVP) accountability for the Bank's contribution to portfolio performance will, if made effective, contribute significantly to having portfolio management concerns perfuse the organization. Lastly, proficiency in portfolio management and excellence in peer review should be noted in performance reviews and required for promotion to Levels 25 and higher.

F. Budgetary Implications

xxxiii. ***Long-term budget impact***: The task force believes that many of its recommendations -- especially those related to the use of standard bidding documents, independent third-party verification and certification, Borrower reporting and information technology -- will ultimately produce efficiencies which can be applied to offset the costs of increasing the field presence and improving portfolio performance management. Economies also will ultimately result from shorter project implementation times as portfolio management improves and problem projects are more promptly dealt with. There may remain resource redeployment problems between lending and portfolio performance management needs. It is not clear -- for the long term -- that there is an overall shortage of resources for portfolio performance management, provided fungibility between lending and portfolio performance management is ~~presumed, and all remnants of punitive budget restrictions related to lending program performance are eliminated.~~

xxxiv. ***Short-term budget impact***: There may, however, be start-up costs before offsetting economies can be realized. In the next two years, restructuring perhaps 100 projects per year which have been problem projects for several years will be expensive, as will establishing new resident missions. Public investment reviews and the related restructuring of Bank-financed projects in the context of adjustment lending also may bring additional short-term and one-time costs. Recommended training may be funded, in the short term, through reallocation. Reallocation, however, will not be adequate to fund the lasting and professional need to enhance staff training. Also, redeployment may not be adequate to fund OED's recommended work on impact evaluation. To inaugurate the portfolio improvement effort, therefore, may require a special initial infusion of additional funds.

Wheel's 14

Who has estimate of the 3 yrs cost
What is the cost estimate?

3900

1500

100 S/Y

150,000

File

5/15/92

Note to Mr. Scott

Ian,

Per our conversation, here is my final (for the moment and until more is requested) revamp of the earlier version of the the front end -- without prejudice to the numerous specific recommendations we are sure to devise in the next few weeks.

The draft may be useful in setting an overall tone and calibrating our rhetoric.

Also, the checklist of topics (pp. 5 and 6) concerning which we may ultimately have things to say might be of some help.

Peter

Peter

cc. Mr. Wapenhans

REPORT OF THE PORTFOLIO MANAGEMENT TASK FORCE

MAKING LOANS WORK -- TOWARDS AN IMPLEMENTATION CULTURE

I. Introduction and Summary of Recommendations

Introduction

1 *Need for reorientation of the Bank's culture*: To have their intended development impact, loans and credits must be successfully implemented. Approval of an operation is often little more than approval of a plan and a loan of Bank money to help implement it.[1] The best of plans, if poorly implemented, will yield little benefit. Therefore, effective implementation of soundly conceived operations must, in reality as well as in theory, become the Bank's top priority. Essentially, today's culture within the Bank is oriented more to planning than to results. That must change.

2 *Performance downtrend*: The condition of the Bank's portfolio has declined substantially in recent years. The Operations Evaluation Department (OED) reported in its 1981 Annual Review that 15.1% of the evaluated projects were unsuccessful; in 1991, the figure had risen to 37.5%. OED reported that 74% of those projects approved in FY81 had satisfactory outcomes; only 55% of those approved in FY86 (the last year with a sufficient sample of completed and evaluated projects) did. In the 1981 Annual Review of Implementation and Supervision (ARIS), 11.1% of the projects had major problems; 20% did in the 1991 review. And, according to the 1991 review, 30% of those projects in their fourth and fifth years of implementation had major problems. The decline has occurred in most sectors and lending instruments, and has been most severe in Africa.

3 *Non-compiance with covenants*: While there is no comprehensive inventory of compliance with covenants, and covenants can vary widely in their importance, a recent sample study by CODOP to test compiance with financial covenants showed that only 22% were in compliance. An OED survey of all water supply projects approved from 1967-1989 showed 25% compliance. Many of the Bank's unenforced covenant are clearly not taken seriously -- indicating that there is little borrower commitment to them, or that they are unrealistic given borrower capabilities, or both, and also indicating that the Bank's credibility at negotiation and afterwards is less than it should be.

4 *Implications for supervision*: To some extent, the downtrends may reflect design deficiencies or worsening global conditions (e.g. the oil shock, the debt crisis, declining commodity prices, the Gulf war, recession), or more difficult undertakings (especially in the social sectors), or more realistic ratings in recent years, but they <u>also</u> reflect the slowness of the Bank and borrowers to adapt operations under supervision to the requirements of changed conditions. In addition, they reflect the Bank's innate biases towards complexity in preparation and optimism at appraisal.[2]

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[1] Throughout this report, unless the context otherwise requires, "Bank" includes IDA and "loan" includes credit.

[2] The latter is well documented in Pohl, Gerhard and Mihaljek, Dubravko, "Project Evaluation and Uncertainty in Practice A Statistical Analysis of Rate-of-Return Divergencies of 1,015 World Bank Projects," in <u>The World Bank Economic Review</u>, (May, 1992).

5 *Impact of portfolio improvement on countries*: A small improvement in the implementation of the Bank's $140 billion of active operations, entailing a total investment of about $400 billion, could have greater -- and certainly more immediate -- impact than a year's new lending. Yet in most operational departments the preponderance of Bank attention and priority is given to new lending.

6 *Factors causing supervision to have second priority*: There are numerous reasons. Countries need the "new" money that loans ultimately provide. Bank influence is thought to be greatest before loan approval. Creation of the Bank's obligation to make a given loan and the borrower's obligation to use the money in an agreed way is a nearly irreversible action which starts a process intended to have major economic or policy significance for the country. Ironically -- and contrary to on-the-ground reality -- at headquarters loan approval is more visible than project implementation. Loan approval, an event occurring less than 250 times a year, is more susceptible to Board and senior management attention than supervision, a multi-year process involving some 1800 operations. And for each proposed loan, but not for each operation under supervision, there is a product described in a widely read report distributed to the Board and senior management. Lastly, the top SOD technical professionals are typically used as task managers for appraisal and pulled into supervision only after problems develop. They have to handle myriad administrative tasks which detract from the time available for developing and applying their technical insights to project design, and they have only limited availability for supervision work.

7 *Incentives*: Partly for these reasons, staff and managers believe that promotion is more likely to reflect their performance of lending than of supervision tasks. In the Bank, as elsewhere, "ribbon cutting" often gets more attention than maintenance and follow-through. For intrinsic as well as career reasons, many staff prefer involvement in the visible and economically dramatic decision to lend to involvement in the drawn-out process of helping make loans work. Reflecting these preferences and perceived priorities, supervision missions tend to lack continuity, with .... [fact from Lallement analysis], and tend to be led by staff who are more junior and have had less experience in the Bank than those leading appraisal missions and less pre-Bank management experience than used to be the case. Implementation planning to guide the responsible agencies tends to be neglected, as does supervision planning to structure the Bank's (and cofinanciers') follow-through.

8 *Trade-offs in Bank supervision work*: In addition, in the conduct of supervision, there is often a lack of clarity about:

- The appropriate balance between compliance review functions and implementation assistance,
- The desirability, in the face of unanticipated obstacles, of adhering to, adapting, changing or abandoning the original design, and
- Whether, when it seems necessary, to plunge in and actively assist implementation, thereby accelerating disbursement but risking loss of borrower "ownership," or to limit the Bank's role to low-key advice, thereby increasing the risk of failure but enabling borrowers to learn by doing.

9 *Neglect of country focus in portfolio managment*: Notwithstanding the general emphasis on country focus, supervision work tends to be centered on individual operations. Annual country implementation reviews (outside of the Africa Region) are the exception rather than the rule. And the concept of country portfolio management (again with the possible exception of Africa) has little currency, even though overall country conditions can have a major impact on individual operations and individual operations can affect each other. Repeatedly, and despite clear evidence from OED and Bank staff studies that management and institutional weaknesses cause

poor performance, the Bank approves relatively complex operations without adequate consideration of country implementation capabilities or realistic assessments of risk, including risks caused by country weaknesses in management. And often it fails to ensure the high level of country commitment that can make successful implementation more likely.

10 *Creation of the task force*: To better understand the causes of these anomalies and to devise effective means of improving the Bank's work with respect to the active portfolio, Mr. Preston, in February 1992, created the Portfolio Management Task Force.[1] After careful review of the numerous studies recently conducted on implementation and supervision[2], and in light of inputs provided by a workshop of borrowers, a workshop of other assistance agencies, and workshop of contractors, the task force has found that fundamental changes are essential in the Bank's policies, processes, practices, and incentives with respect to what is loosely called supervision work.

Elements of Follow-Through -- Terminology

11 *Terminology*: The term "supervision" is misleading. It implies more authority than the Bank has, as implementing agencies are primarily responsible for supervising work on each operation. And it implies less interest than the Bank has in providing implementation assistance and in adapting original designs when changed circumstances or new insights make it necessary. The term "portfolio management" is broader and implies a banker's role, but also is often taken to mean financial management of the Bank's liquid asset portfolio. The term "loan administration" has been used to denote Washington-based supervision activity and has a paper pushing flavor not compatible with the need for perceptive review and implementation assistance. For these reasons, we propose that the term "follow-through" be used in the future -- in lieu of "supervision," "portfolio management," or "loan administration" -- to denote all the Bank's roles with respect to an operation after it has been approved. It has no misleading connotations and accurately conveys the sense that if it is not done sufficiently or well the Bank's contribution has been inadequate.

12 ***Four dimensions of follow-through***: Operational follow-through has -- and must have -- four dimensions:

- Compliance Review.
    - Administrative -- compliance with Bank requirements regarding disbursement requests, progress reporting, procurement and audit
    - Substantive -- compliance with approved design (end use), covenants and side agreements.
- Implementation Assistance. Provision of advice and assistance to the borrower/owner in achieving the objectives of the loan is an inevitable, albeit sometimes implicit, byproduct of discussions related to compliance. Beyond that, some implementation

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[1] The task force, chaired by Mr. Willi Wapenhans, consisted of Mss. Dominique Lallement and Joanne Salop and Messrs. Samir Bhatia, Prem Garg, and Michel Pommier. Messrs. Ian Scott and Peter Richardson, assisted by Ms. Saroya Massoud, served as Secretariat. As consultants, Messrs. Lester Nurick, Maurice Mould, James Kearns, Mervin Weiner, Donald Strombom and Herman van der Tak contributed. Staff from througout the Bank contributed invaluable "feeder" papers and groups of managers and staff too numerous to mention completed questionaires, participated in focus groups and gave interviews.

[2] These include: Seventeenth Annual Report of Implementation and Supervision -- Fiscal Year 1991, Report of the Task Force on the Relationship of Loan Processing to Project Quality (March, 1992), OED's Report, Bank Experience in Project Supervision (Draft, March, 1992), Strengthening Country Teams in the Africa Region (June, 1991), Effectiveness of SAL Supervision and Monitoring (OED, June, 1991), Country Commitment to Development Projects (Heaver and Israel, World Bank Discussion Paper #4, 1986) . . .

assistance is an "extra" benefit reflecting the Bank's objective to maximize development impact. Additional implementation assistance can be provided separately and financed from sources other than the Bank's administrative budget (e.g. the loan itself, a stand-alone technical assistance loan, the new Institutional Development Fund, UNDP, a bilateral or other multilateral assistance agency, or a nongovernmental organization).

- Country Portfolio Management. Country portfolio management refers to work relating to reviews of the overall condition and needs of active Bank operations within a country. Country Implementation Reviews are one important tool of country portfolio management.

- Evaluation. The Bank evaluates operations and the country portfolio throughout the follow-through stage as well as through Project Completion Reports and OED's work. While evaluation of progress, compliance, commitment and implementing agency capabilities is implicit in all follow-through missions, it is an especially strong element of the work whenever adaptation of the original design or noncompliance with covenants are being considered. At the project level, evaluation is a core purpose of the Mid-Term review; for SALs, it is required before releasing each tranche; and at the country portfolio level it is also an important aspect. Clearly, it must precede any efforts at design adaptation or project restructuring, as well as any decisions relating to suspension or cancellation. And evaluation of past borrower performance in implementing Bank-financed operations must also be one consideration in determining the Bank's country assistance strategies. Lastly, evaluation of impact -- i.e. results -- is indispensable both for learning and institutional accountability.

13 ***Key factors for success***: The need for and success of operational follow-through is, among other things, importantly affected by the soundness of design, the strength of borrower and beneficiary commitment, the "maturity" of the operation at the time of negotiation, and the institutional capabilties of the responsible agencies. Even the best follow-through is unlikely to make a poorly conceived operation, or one with only luke-warm support, succeed.

Summary of Recommendations

14 ***Underlying principles***: The Portfolio Mangement Task Force has numerous specific recommendations, but most of them derive from the following underlying principles which we believe must gain wide acceptance if portfolio performance is to improve:

- Country assistance strategies should both reflect and address country problems in implementing Bank-assisted operations.

- The allocation of staff and budget resources -- and the reward system -- should reflect the fact that appropriate follow-through to make approved operations successful is even more important than the approval of new loans.

- Compatibility with country implementation capabilities must always be a design criterion for Bank operations and the covenants related to them. Where numerous diverse components or dimensions might significantly reduce the probability that a borrower will be able to implement the operation successfully, the operation should be simplified, even if that will entail reducing the size of the loan or credit.

- Covenants should be realistic and enforced, in the interests of Bank credibility.

- The planning of implementation and supervision is a vital aspect of appraisal, and the risks of failure due to managerial and institutional weaknesses should be explicitly addressed before negotiation. Where the weaknesses are a major barrier, programs should be developed to help remedy them.

- Borrower commitment, which is essential to effective implementation, should be deliberately nurtured, as necessary, during identification, preparation and appraisal and verified before negotiation.

- Evaluation of completion experience, borrower capabilities and project impact should yield feedback that is applied to project design.

Our specific recommendations follow.

[What these are may govern how we organize them. But this listing may serve as a checklist.]

15 ***Design***: Measures to enhance quality at entry

- Improved cost/benefit and risk analysis
- Technical maturity of design
  - Peer review
  - Differentiated "maturity" standards -- "blueprinting" vs. basis for evolutionary process as beneficiary reactions unfold and conditions change
- Special emphases
- Borrower commitment -- to strategy, policy change, design, compliance
- Covenants
- Fostering simplicity, compatibility with borrower's implementation capabilities
- Implementation planning
- Follow-through planning
- Realism -- fed by other follow-through experience, PSM know-how

16 ***Start-Up***: Critical period

- Special measures to prevent, deal with delay (e.g.launch)
- Procurement issues

17 ***Follow-Through***:

- Roles of the parties
- Need to balance desire to achieve the operation's objectives against the need to retain borrower commitment/ownership and enhance long-term borrower capabilities through learning by doing
- Responsibilities -- SODs, TDs, Directors, SOAs, RVPs, country and lead economists
- Staffing (continuity, experience; use of consultants)
- Special arrangements for problem projects (sick bay, etc.)
- Documentary requirements applicable to borrowers -- reporting, audit, for disbursement
- Documentary requirements applicable to Bank -- 590s, aides memoires, notification to Board of changes
- Inportance of contextual and institutional variables

- Managing follow-through
  - Mid-term Reviews
  - Country portfolio management, including CIRs
  - Rating system and safeguards
  - ARIS process and report
  - Annual sector reviews and Development Effectiveness Review
  - Feedback -- generic, to Bank country assistance strategy, to staff member, for future follow-through on same operation
  - Managerial involvement in folow-through work

18 ***Role of Field Offices***:

- Advantages and limitations in general
- Prospects for delegation -- implementation assistance, early warning, minor procurement, disbursement processing
- Use of local staff and local consultants
- Role of EDI

19 ***Ex-Post Evaluation***: Dual purpose -- learning and accountability

- Role and utility of PCRs; alternatives
- OED's role -- coverage with PARs; impact reviews; country assessments; special studies
- Proposals re earlier OED involvement.

Conclusion

20 Development effectiveness requires adequate follow-through. Because of its size, improvements in the active portfolio are likely to have more -- and more immediate -- development impact than new lending, although new lending is, of course, necessary to feed the active portfolio of the future. Managers and staff must recognize follow-through as the first obligation of the Bank.

21 Appropriate and effective attention to follow-through activities will ensure the Bank's maximum development impact in the future. But it will require a change in attitudes and incentives in Operations and adoption of most of the recommendations we have made for improving policies, processes and practices related to the portfolio of active operations.

* * * *

22 In the following report, we discuss in turn:

- The problem -- overview

[Depending on how we choose to organize our recommendations]

- Design-related aspects of improving implementation
- The critical start-up period
- Follow-through
- The role of field offices
- Ex-post evaluation.
- Implementing the task force recommendations

[An alternative structure might be as follows:]

- Changing the Bank culture
- Rceommended process changes
- Changes in the Bank/Borrower relationship
- Adjustments in the Bank structure
- Resource aspects
- Implementing the task force recommendations

II. The Problem -- Overview

23 In recent years, the condition of the Bank's portfolio has decined substantially. The projects reported in OED's annual reviews as unsuccessful increased as follows:

FY	Unsuccessful	FY	Unsuccessful
79	12.4%	89	30.5%
80	11.9	90	36.4
81	15.1	91	37.5

By year of project approval[1] (rather than year of OED review), OED's ratings were as follows:

FY	Unsuccessful	FY	Unsuccessful
79	28%	84	45%
80	23	85	41
81	26	86	45

Consistent with the pattern of OED's ratings, although less severe, were the data from the Annual Reviews of Implementation and Supervision (ARIS) on projects with major problems.

FY	Major Problems	FY	Major Problems
79	9.0%	89	13.0%
80	8.8%	90	17.0
81	11.1	91	20.0

Within these averages, the highest percentages of problem projects were found in Technical Assistance (27%), Agriculture (26%) and Water Supply and Sanitation (23%). By primary program objective, the highest percentages were for Environment/Forestry (30%) and Poverty Reduction (28%). The ARIS data encompassing all projects in the portfolio tend to understate the likelihood of major problems arising by the time of project completion. In the ARIS for FY91, 30% of the projects in their fourth or fifth year of implementation were reported as having major problems -- including 43% of those in Water Supply and Sanitation, and 42% of those in Agriculture.

24 para on compliance with covenants

25 While problems in the portfolio may reflect broader problems of design, borrower commitment, and exogenous conditions such as commodity price trends, war, and the debt crisis -- and while they could also reflect greater candor and higher Bank standards or more difficult undertakings than in the earlier years -- the trends in recent years make it obvious that the Bank's follow-through work must be made more effective than it is as a means of:

- Helping borrowers either implement Bank-assisted operations successfully and in accordance with contractual agreements; or
- With Bank agreement, adapt operations as necessary to changed circumstances and new insights; or

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1 Not enough projects approved after FY86 had been completed and evaluated for a valid sample subsequent to that year.

- Reach the conclusion, without undue delay, that disbursements should be suspended or cancellation persued.

26 Improving the success rates of Bank-assisted operations will not be simple. The internal culture of the Bank will have to be changed to encourage managers and staff to accord as much importance to follow-through resulting in on-the-ground benefits as to design, SAR writing and gaining Board approval. Pressures to lend (consistent with Bank standards) may be necessary, but there should be at least equal pressures to follow through with work designed to increase the likelihood of successful implementation.

27 As Mr Preston said, in his memorandum to Executive Directors transmitting the FY91 ARIS (February 15, 1992), "successful implementation of Bank-financed operations far outweighs new commmitments as the principal indicator of the Bank's developemnt effectiveness."

28 A multi-faceted activity, the ultimate purpose of which is development impact, the follow-through work must have a far broader scope than the supervision that would be provided by a commercial bank. And it requires a broader mix of skills, which is not easy to mobilize and coordinate with the current organization structure. Specifically, it requires:

- Country knowledge and high-order conceptual capabilities to judge whether to restructure or cancel an operation in trouble and to derive the overall and country-specific lessons of experience for application to future development work;

- Seasoned technical abilities to identify, and -- sometimes on-the-spot -- advise with regard to emerging implementation problems or design issues;

- Management ability to judge implementation progress (including institutional development dimensions) and to help the responsible agency improve it;

- Political skills to understand and help take into account the forces acting on responsible parties (e.g. with respect to financial covenants) and to help maintain the necessary commitment;

- Specialized knowledge of procurement rules and practices; and

- Administrative and accounting know-how to review and assess audit reports and financial documentation.

29 Most staff and managers today give primary emphasis to processing new loans (although in the Africa Region this appears to be changing[1]). Planning, design and appraisal -- processes over which the Bank has relatively great control -- are given precedence over checking borrower compliance, providing advice about implementation, and helping adapt approved plans to overcome unforeseen obstacles. The planning-related activities, being visible and recognized at headquarters, convey a feeling of power and accomplishment, while follow-through work is less visible at headquarters, less often recognized, more drawn out, potentially frustrating, and dependant for its success on officials subject to only limited Bank influence.

30 In the Bank's present "planning culture" (a loan being a plan with money attached), economics skills are at a premium, as are the persuasion and report writing skills needed to get plans approved. In an "implementation culture," where results in the field are the sole test of

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[1] This finding, although contrary to formal statements by management, is supported by interviews, focus groups and various internal and OED studies.

success and where the Bank's responsibility is secondary to that of the borrower, management assistance skills must also be of cardinal importance. Yet the number of Bank staff who have had hands on experience managing development projects or programs of policy change is relatively small and, according to OED, shrinking.

Etc.,Etc., Etc.

ROUTING SLIP		Date April 24, 1992
NAME		ROOM NO.
Mr. Willi Wapenhans		
cc: Mr. Ian Scott		

URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	Information/Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial

RE:

REMARKS

When we talked just before your departure, you mentioned that having in writing some kind of overview might be helpful.

Here is an admittedly premature stab at that. It may, however, help us focus on issues, gaps and the relation of each part of the work to the whole.

PR

From	Room No.	Ext.
Peter Richardson	F-13-025	84571

P-1862

File

REPORT OF THE PORTFOLIO MANAGEMENT TASK FORCE

MAKING LOANS WORK -- TOWARDS AN IMPLEMENTATION CULTURE

I. Introduction and Summary of Recommendations

Introduction

1 To have their intended development impact, loans and credits must be successfully implemented. Approval of an operation is often little more than approval of a plan and a loan of Bank money to help implement it. The best of plans, if poorly implemented, will yield little benefit. Therefore, effective implementation of soundly conceived operations must, in reality as well as in theory, become the Bank's top priority.

2 A small improvement in the implementation of the Bank's $140 billion of active operations, entailing a total investment of about $400 billion, could have greater -- and certainly more immediate -- impact than a year's new lending. Yet in most operational departments the preponderance of Bank attention and priority is given to new lending.

3 There are numerous reasons. Countries need the "new" money that loans ultimately provide. Bank influence is thought to be greatest before loan approval. Creation of the Bank's obligation to make a given loan and the borrower's obligation to use the money in an agreed way is a nearly irreversible action which starts a process intended to have major economic or policy significance for the country. Ironically -- and contrary to on-the-ground reality -- at headquarters loan approval is more visible than project implementation. Loan approval, an event occurring less

than 250 times a year, is more susceptible to Board and senior management attention than supervision, a multi-year process involving some 1800 operations. And for each loan, but not for each operation under supervision, there is a widely read report distributed to the Board and senior management.

4 Partly for these reasons, staff and managers believe that promotion is more likely to reflect their performance of lending than of supervision tasks. In the Bank, as elsewhere, "ribbon cutting" often gets more attention than maintenance and follow-through. For intrinsic as well as career reasons, many staff prefer involvement in the visible and economically dramatic decision to lend to involvement in the drawn-out process of helping make loans work. Reflecting these preferences and perceived priorities, supervision missions tend to lack continuity, with .... [fact from Lallement analysis], and tend to be led by staff who are more junior and have had less experience in the Bank than those leading appraisal missions. Implementation planning to guide the responsible agencies tends to be neglected, as does supervision planning to structure the Bank's (and cofinanciers') follow-through.

it is to develop!

5 In addition, in the conduct of supervision, there is often a lack of clarity about (a) the appropriate balance between compliance review functions and implementation assistance, (b) the desirability of adhering to, adapting, changing or abandoning the original design, and (c) whether to plunge in and actively assist implementation, thereby accelerating disbursement but risking loss of borrower "ownership," or to limit the Bank's role to low-key advice, thereby enabling Borrowers to learn by doing. Despite what appears to be an underlying compliance orientation, at least with regard to administrative aspects, OED has estimated that [...%] of operations are substantially changed during implementation, and large numbers of covenants go unenforced.

6 Notwithstanding the general emphasis on country focus, supervision work tends to be centered on individual operations. Annual country implementation reviews (outside of the Africa

Region) are the exception rather than the rule. And the concept of country portfolio management (again with the possible exception of Africa) has little currency, even though overall country conditions can have a major impact on individual operations and individual operations can affect each other. Repeatedly, and despite clear OED findings and a high statistical correlation of project complexity (measured by the number of components and cofinanciers) to poor performance, the Bank approves operations without adequate consideration of country implementation capabilities or realistic assessments of risk. And often it fails to ensure the high level of country commitment that can make successful implementation more likely.

7 To better understand the causes of these anomalies and to devise effective means of improving the Bank's work with respect to the active portfolio, Mr. Preston, in February 1992, created the Portfolio Management Task Force.[1] After careful review of the numerous studies recently conducted on implementation and supervision[2], and in light of inputs provided by a workshop of borrowers, a workshop of other assistance agencies, and workshops of consultants and contractors, the task force has found that fundamental changes are essential in the Bank's policies, processes, practices, and incentives with respect to what is loosely called supervision work.

Elements of Follow-Through -- Terminology

8 The term "supervision" is misleading. It implies more authority than the Bank has, as implementing agencies are primarily responsible for supervising work on each operation. And it implies less interest than the Bank has in providing implementation assistance and in adapting

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[1] The task force, chaired by Mr. Willi Wapenhans, consisted of ....

[2] These include: Seventeenth Annual Report of Implementation and Supervision -- Fiscal Year 1991, Report of the Task Force on the Relationship of Loan Processing to Project Quality (March, 1992), OED's Report, Bank Experience in Project Supervision (Draft, March, 1992), Strengthening Country Teams in the Africa Region (June, 1991), Effectiveness of SAL Supervision and Monitoring (OED, June, 1991), Country Commitment to Development Projects (Heaver and Israel, World Bank Discussion Paper #4, 1986) . . .

original designs when changed circumstances or new insights make it necessary. The term "portfolio management" is broader and implies a banker's role, but also is often taken to mean financial management of the Bank's liquid asset portfolio. For these reasons, we propose that the term "follow-through" be used in the future -- in lieu of "supervision" or "portfolio management" -- to denote all the Bank's roles with respect to an operation after it has been approved. It has no misleading connotations and accurately conveys the sense that if it is not done sufficiently or well the Bank's contribution remains incomplete.

9 Operational follow-through has -- and must have -- several dimensions:

- Compliance Review.

  - Administrative -- compliance with Bank requirements regarding disbursement requests, progress reporting, procurement and audit

  - Substantive -- compliance with approved design (end use), covenants and side agreements.

- Implementation Assistance. Provision of advice and assistance to the borrower/owner in achieving the objectives of the loan is an inevitable, albeit sometimes implicit, byproduct of discussions related to compliance. Beyond that, some implementation assistance is an "extra" benefit reflecting the Bank's objective to maximize development impact. Additional implementation assistance can be provided separately and financed from sources other than the Bank's administrative budget (e.g. the loan itself, a stand-alone technical assistance loan, the new Institutional Development Fund, UNDP, a bilateral or other multilateral assistance agency, or a nongovernmental organization).

- Country Portfolio Management. Country portfolio management refers to work relating to reviews of the overall condition and needs of active Bank operations within a country. Country Implementation Reviews are one important tool of country portfolio management.

- Evaluation. The Bank evaluates operations and the country portfolio throughout the follow-through stage as well as through Project Completion Reports and OED's work. While evaluation of progress, compliance and implementing agency capabilities is implicit in all follow-through missions, it is an especially strong element of the work whenever adaptation of the original design or noncompliance with covenants are being considered. At the project level, evaluation is a core purpose of the Mid-Term review; for SALs, it is required before releasing each tranche; and at the country portfolio level it is also an important aspect. Clearly, it must precede any efforts at design adaptation or project restructuring, as well as any decisions relating to suspension or cancellation. And evaluation of borrower performance in implementing Bank-financed operations must also be one consideration in determining the Bank's country assistance strategies.

Summary of Recommendations

10 *Design*: Measures to enhance quality at entry

- Improved cost/benefit and risk analysis
- Technical maturity of design
    - Peer review
    - Differentiated "maturity" standards -- "blueprinting" vs. basis for evolutionary process as beneficiary reactions unfold and conditions change
- Special emphases

- Borrower commitment
- Covenants
- Fostering simplicity, compatibility with borrower's implementation capabilities
- Implementation planning
- Follow-through planning
- Realism -- fed by other follow-through experience, PSM know-how

11 *Start-Up*: Critical period

- Special measures to prevent, deal with delay (e.g.launch)
- Procurement issues

12 *Follow-Through*:

- Roles of the parties
- Need to balance desire to achieve the operation's objectives against the need to retain borrower commitment/ownership and enhance long-term borrower capabilities through learning by doing
- Responsibilities -- SODs, TDs, Directors, SOAs, RVPs, country and lead economists
- Staffing (continuity, experience; use of consultants)
- Possible use of "swat teams" for problem projects
- Documentary requirements applicable to borrowers -- reporting, audit, for disbursement
- Documentary requirements applicable to Bank -- 590s, aides memoires, notification to Board of changes

- Inportance of contextual and institutional variables
- Managing follow-through
  - Mid-term Reviews
  - Country portfolio management, including CIRs
  - Rating system and safeguards
  - ARIS process and report
  - Annual sector reviews and Development Effectiveness Review
  - Feedback -- generic, to Bank country assistance strategy, to staff member, for future follow-through on same operation

13 *Role of Field Offices*:

- Advantages and limitations in general
- Prospects for delegation -- implementation assistance, early warning, minor procurement, disbursement processing
- Use of local staff and local consultants

14 *Ex-Post Evaluation*: Dual purpose -- learning and accountability

- Role and utility of PCRs; alternatives
- OED's role -- coverage with PARs; impact reviews; country assessments; special studies
- Proposals re earlier OED involvement.

Conclusion

15 Development effectiveness requires adequate follow-through. Because of its size, improvements in the active portfolio are likely to have more -- and more immediate -- development impact than new lending, although new lending is, of course, necessary to feed the active portfolio of the future. Managers and staff must recognize follow-through as the first obligation of the Bank.

16 Appropriate and effective attention to follow-through activities will ensure the Bank's maximum development impact in the future. But it will require a change in attitudes and incentives in Operations and adoption of most of the recommendations we have made for improving policies, processes and practices related to the portfolio of active operations.

* * * *

17 In the following report, we discuss in turn:

- The problem
- Design-related aspects of improving implementation
- The critical start-up period
- Follow-through
- The role of field offices
- Ex-post Evaluation.