

CHAPTER I: SIZE AND COMPOSITION OF THE PORTFOLIO

1.01 New loan approvals in 2001 increased from US\$5.2 in 2000 to US\$7.8 billion, financing 81 projects (64 investment, 13 policy-based loans, and 5 private sector operations – see Appendix 1A). Eighty-three projects exited the portfolio compared to 62 the previous year, resulting in an active portfolio^{5/} of 537 projects and a total commitment value of US\$40.9 billion (down from 538 projects and US\$44.7 billion in 2000—see Appendices 1B and 2). The 8% decrease in commitments was primarily due to an increase in the number and size of projects exiting the portfolio, the small increase in the number of new approvals, and a continuing trend toward smaller average loan sizes for investment projects (see Appendix 3A).

Chart 1.1
Total Portfolio: By Project Type
(As of December 31, 2001)

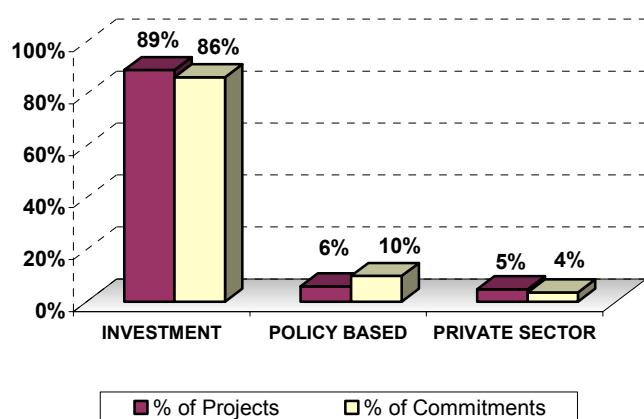
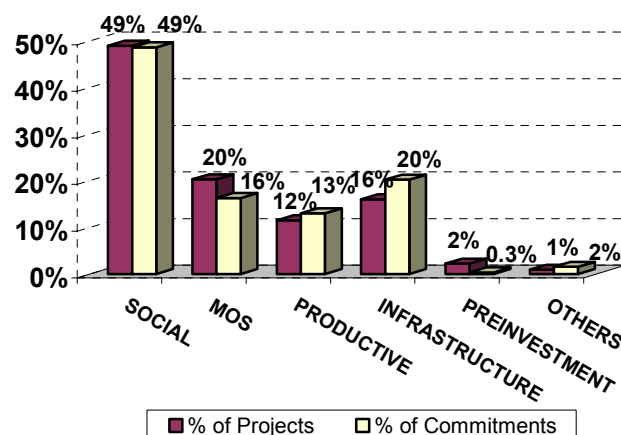


Chart 1.2
Total Portfolio: By Sector
(As of December 31, 2001)



1.02 With respect to the **sector composition** of the portfolio, 49% of commitments financed social projects, followed by infrastructure, MOS and productive sectors (see Chart 1.2). The trend toward an increase in the number of social and MOS sector operations continued in 2001, with these 2 sectors making up nearly 70% of projects; despite a 5% decline in commitments for MOS sector operations, commitment values for social and MOS sectors combined made up two thirds of the commitment values of the active portfolio (see Appendices 3B and 3C). Commitment values for public sector infrastructure projects declined for the fifth consecutive year, while productive sector projects showed an increase for a second year (see Appendix 3D).

^{5/} The active portfolio is defined as all projects approved by the Board of Executive Directors that had outstanding balances as of December 31, 2001, excluding PROPEFs (Project Preparation and Execution Facility), export financing facilities, Mezzanine Investment Funds, MIF and non-reimbursable technical cooperation operations.

Chart 1.3A
Total Portfolio: By Country Income Group^{1/}
(As of December 31, 2001)

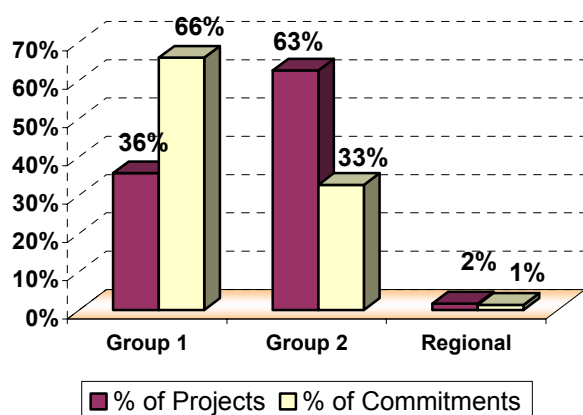
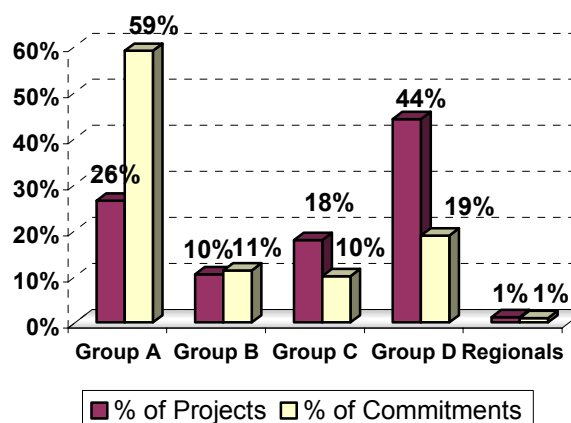


Chart 1.3B
Total Portfolio: By Country Group
(As of December 31, 2001)



^{1/} Group 1 Countries are those with per capita GNP above US\$3,200.
Group 2 Countries are those with per capita GNP below US\$3,200.

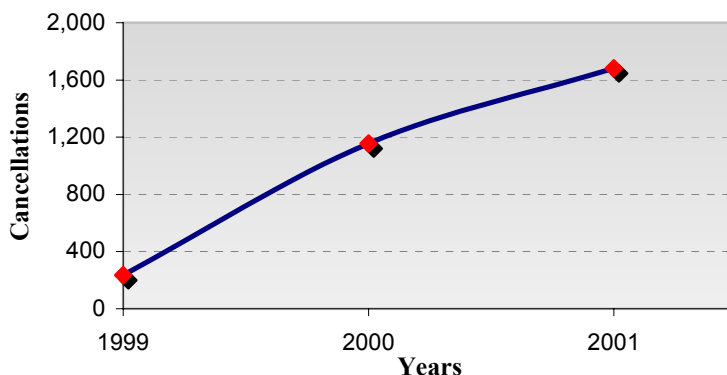
- 1.03 **Sixty-six percent of commitment values in the active portfolio financed projects in Country Income Group I, while the largest share of projects benefited Country Income Group II Countries. When looked at from the traditional breakdown of country groups on the basis of relative levels of development, Country Groups C & D continued to account for the largest share of projects (62%), while 70% of commitment values corresponded to projects in Country Groups A & B (see Chart 1.3). Social sector projects consistently accounted for the largest number of projects and commitment values in all country groups.**
- 1.04 **Investment projects increased slightly in number and continued to represent the Bank's primary lending modality, with US\$35.4 billion in commitment values (out of US\$40.9 billion) and 89% of the number of projects in the Bank's portfolio (see Appendices 3E.1-3E.3). Policy-based loans (PBLs) declined slightly in number but increased 32% in terms of commitment values, while financial emergency loans declined compared to 2000, in terms of both the number of projects and commitments, due to the cancellation or closure of projects during the year. The level of private sector operations remained consistent with 2000, representing nearly US\$1.5 billion in commitment values.**
- 1.05 **The portfolio remains fairly young, with projects approved in the last 5 years representing more than two thirds of the number of projects and 63% of portfolio commitments. The share of commitment values for this group of younger projects has continued to decline over the last 5 years, while the share of commitments for projects in execution for 5-10 years has increased by 44% (see Appendix 3F). As discussed in Chapter III, this trend is consistent with operational experiences reported by Country Offices that project execution periods are being drawn out as a result of reductions in**

local counterpart availability due to fiscal and monetary restrictions, institutional weaknesses in executing agencies. Furthermore, experience has shown that initial project start-up delays have also been due to complicated processes required for contract approval or ratification by the Borrower, as well as complex contractual conditions required for first disbursement. While the Bank cannot control factors dealing with ratification delays, it can, and has taken measures to reduce initial lags in project execution from contract effectiveness to first disbursement, as described in more detail in Chapter III. This issue will continue to be the subject of intensified efforts by Management.

- 1.06 **Total disbursements** decreased for the second consecutive year, from US\$7.1 billion in 2000 to US\$6.4 billion in 2001. When broken down by project type, disbursements for PBLs and private sector lending doubled in 2001, while disbursements for investment projects and financial emergency lending declined, the latter of which was due to projects being closed. The decrease in disbursements for investment loans was due primarily to the contraction of the economies of the region and reduced availability of counterpart funds for project execution. Many countries were also adversely affected by exogenous factors, including a decline in tourism (particularly in the wake of September 11 events), and the aftermath of hurricanes that struck several Caribbean and Central American countries. In addition, falling coffee prices, fluctuations in the price of crude oil for exporting countries, and social, political or banking sector crises also had an effect on the economies of a number of countries in the region. For the Bank as a whole, undisbursed balances decreased to US\$21.7 billion (down from US\$22.0 billion in 2000), but rose as a percentage of total commitments to 53% in 2001 (compared to 49% the previous year). This reflects the slowdown in disbursements for investment loans, as well as the increase in new approvals in 2001.
- 1.07 With respect to **net financing flows** in the region, 12 countries experienced negative net flows in 2001. During the last five years, both Mexico and Chile recorded negative net flows every year, and with the exception of Uruguay, Group C countries as a whole most often experienced negative net flows, as loan repayments to the Bank outweighed disbursements. Notwithstanding, the value added of Bank contributions in many countries in terms of important non-financial products should not be underestimated. The region as a whole has benefited, for example, through activities such as policy dialogue, transfer of technical know-how, training, and promotion of civil society organizations in the development process, as noted in operational inputs reviewed in preparation for the ARPE.
- 1.08 Overall, total and partial **cancellations** increased to US\$1.7 billion in 2001, up from US\$235 million in 1999 and US\$1.2 billion in 2000 (see Graph 1.1). These cancellations were concentrated in five countries: Venezuela (21%), Argentina (21%), Peru (17%), Mexico (13%) and Colombia (9%). With the exception of Argentina, these countries also topped the list of countries with the highest cancellation rates in 2000. In terms of cancellations by project type, investment loans represented 61% of total amounts

cancelled, followed by policy-based loans (28%), financial emergency loans (6%), and private sector operations (5%).

Graph 1.1
Cancellations in US\$ Millions
1999-2001



- 1.09 Eighty-five percent of all cancellations, or US\$1.4 billion, corresponded to problem or alert status projects, demonstrating pro-active portfolio management efforts by the Bank and Borrowers. This included partial cancellations for ongoing projects in execution, as well as final cancellations for projects that exited the portfolio (see Table 1.1). Around US\$1.3 billion in cancellations were for projects in the social and MOS sectors, of which 88% corresponded to problem or alert status projects. Cancellations in these two sectors were prompted primarily by changes in priority by national authorities, as a result of elections and changes in legislative bodies, and a reduction in the availability of counterpart resources for operations in these sectors due to a tightening of macroeconomic and fiscal policies. These sectors were also more commonly affected by community or political opposition to the reform process. In particular, partial cancellations for ongoing alert status (13) and problem (9) projects were clustered in social sector investment loans. More than half of the cancellations for alert status projects exiting the portfolio (13) also were grouped in social sector investment loans, while problem projects exiting the portfolio (11) were concentrated in the MOS sector (3 investment projects and 4 PBLs).

Table 1.1
Cancellations Completed in 2001 by Project Type
(In US\$ Millions)

CANCELLATION STATUS	No.	%	Amount	%
ONGOING PROJECTS IN EXECUTION (Partial cancellations)				
Financial Emergency	1	3	0.8	0
Investment	28	88	743.2	90
Policy-based Loan	2	6	75.1	9
Private Sector	1	3	7.0	1
Subtotal	32	38	826.1	49
EXITED PROJECTS (Total cancellations)				
Financial Emergency	1	2	105.0	12
Investment	43	81	276.6	33
Hybrid	1	2	1.2	0
Policy-based Loan	7	13	392.4	46
Private Sector	1	2	75.0	9
Subtotal	53	62	850.2	51
Total	85	100	1,676.3	100

- 1.10 The increase in cancellations observed during the past two years may be attributed to several factors. As pointed out in various Country Portfolio Reports, the Bank and Borrowers have worked together proactively to jump-start stagnant portfolios and to free up resources for more pressing needs. In Venezuela and Peru, for example, cancellations were due to the inability to move ahead with programmed reforms as a result of changes in national priorities and reductions in public sector expenditures. Cancellations in Brazil, on the other hand, were attributed to the devaluation of the *Real*, combined with an environment of fiscal contraction, while limitations on public expenditures in Colombia continued to reflect the aftermath of the fiscal crisis of 1998-99.
- 1.11 With respect to **private sector operations**, the total active portfolio is comprised of all approved projects (in execution or fully disbursed) that have not been cancelled or fully repaid. Unlike public sector projects, PRI operations do not carry sovereign government guarantees and credit risk is monitored until the loan is fully amortized.
- 1.12 At the end of 2001, the private sector portfolio consisted of 47 active projects representing total commitments of US\$2.3 billion in A loans and guarantees (see Table 1.2). Of the 47 active private sector projects, nearly 60% were concentrated in the energy sector, followed by transportation projects. In terms of country group composition, 81% of projects benefited Country Groups A & B. To broaden its coverage in all country groups, PRI worked together with the Regional Departments and ROS in 2001 to develop a plan to expand activities in C and D countries.

Table 1.2
PRI Portfolio of Active Projects
(As of December 31, 2001)

Product	# of Projects	Amount (US\$ Millions)		
		Approved (*)	Undisbursed	Outstanding
Fully disbursed Loans	20	713.2	0	613.1
Non-fully disbursed Loans	20	937.1	500.5	435.8
Active guarantees	6	525.3	150.0	337.1
Mezzanine Fund	1	75.0	60.6	14.4
TOTAL ACTIVE PROJECTS	47	2,250.5	711.1	1,400.4

(*) Net of cancellations

- 1.13 The total amount of loans and guarantees outstanding in the Bank's private sector portfolio grew by approximately \$0.4 billion to \$1.4 billion in 2001. This represented a growth of 37% over the size of the portfolio at the end of 2000. Similarly, private sector loans and guarantees outstanding as a percentage of the Bank's overall loan and guarantees outstanding (net of emergency loans) grew from 2.9% to 3.7% in 2001. This increase was due to total disbursements that nearly doubled in 2001 compared to the previous year and the early stage of the private sector portfolio, with only 16 of 47 active projects currently under repayment.