

**CHAPTER II: PORTFOLIO PERFORMANCE IN 2001**

- 2.01 The total active portfolio (537) described in Chapter I can be divided into two groups of projects: the reported portfolio comprised of the 508 projects with Project Performance Monitoring Reports (PPMRs)<sup>8/</sup> and those projects that do not require a PPMR. The latter group includes three projects that already had a Project Completion Report (PCR) and are therefore considered completed, as well as private sector projects in execution that are monitored separately through Semi-Annual Reviews (SARs) conducted by PRI<sup>9/</sup>.
- 2.02 To facilitate the discussion on portfolio performance, this chapter has been divided into three sections. The first part includes an analysis of the composition of the Bank's public sector portfolio monitored through the PPMR system and highlights several issues affecting performance. The second part presents a discussion on the quality review of performance reporting for the public sector portfolio carried out by ROS. The chapter concludes with an analysis of the performance of the Bank's private sector portfolio as monitored through the SAR process.

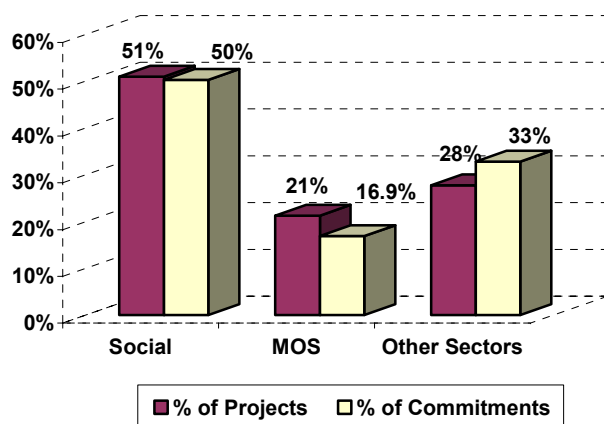
**A. Composition of the Reported Portfolio**

- 2.03 The following section on portfolio performance is based on the analysis of ratings provided for the 508 public sector projects reported by Country Offices in the PPMRs as of December 31, 2001 (see Appendices 5-6). The Bank's current project monitoring system classifies project performance in terms of the extent to which: (i) development objectives are likely to be achieved (DO), (ii) implementation progress is satisfactory (IP), and (iii) assumptions (AS) continue to be favorable (see Appendix 7 for a description of the Bank's monitoring system for public sector projects and related Management tools).
- 2.04 The 508 projects in the **reported portfolio are heavily concentrated in the social and MOS sectors**, with 72% of projects amounting to nearly US\$26.5 billion in total value (see Chart 2.1). Almost **half of the 508 projects are in Group D countries**, but they represent only 19% in terms of commitments (see Chart 2.2). **Group A countries**, on the other hand, **account for almost 60% of lending** and a quarter of the projects. In each sector and country group **investment projects predominate**.

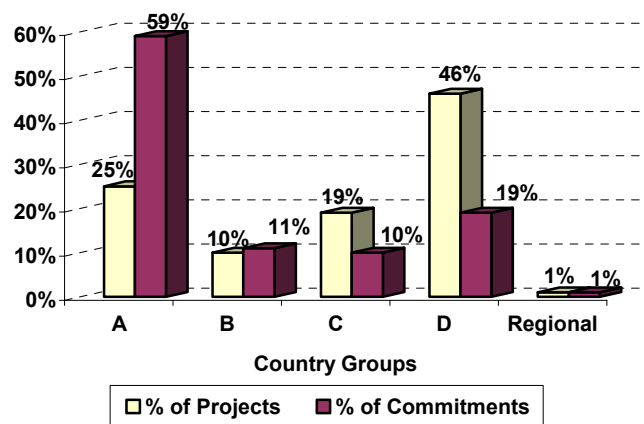
<sup>8/</sup> This year, PPMRs were submitted for all 508 projects in the reported portfolio.

<sup>9/</sup> The total active portfolio of PRI as of Dec. 31, 2001 consisted of 47 projects of which 20 were fully disbursed loans, 20 non-fully disbursed loans, 6 active guarantees, and 1 Mezzanine Fund. Only the 20 non-fully disbursed loans and the six active guarantees form part of the total portfolio of projects in execution (537).

**Chart 2.1**  
Reported Portfolio by Sectors  
As of December 31, 2001



**Chart 2.2**  
Reported Portfolio by Country Group  
As of December 31, 2001



## B. Overview of Portfolio Performance

- 2.05 In terms of project performance, 9% of projects (7% of commitments) were classified as problematic in PPMRs, that is, unlikely to achieve their Development Objectives, which is down from 12% (in projects and commitments) the year before (see Appendix 7A). Similarly, the proportion of projects experiencing significant implementation difficulties<sup>10/</sup> also dropped to 19% of projects and commitments, from 26% of projects (24% of commitments) in 2000.
- 2.06 An additional project monitoring tool to complement information provided by the PPMR system is also used to gauge the health of the portfolio. As of December 31, 2001, the Bank's Project Alert Identification System (PAIS) placed 140 projects (28%) on "alert status", compared to 26% in 2000. Alert status projects are those currently classified as being expected to achieve their development objectives, but which have underlying factors that signal the possibility of developing problems in the future. These include: (i) projects with poor Implementation Progress (IP) ratings (61 projects); (ii) those whose key assumptions are rated as having a low probability of holding true (11 projects); and (iii) those that have satisfactory performance classifications in other respects (68 projects), but which exhibit certain characteristics that are more typical of problem projects, for example, low levels of disbursements, in relation to execution time, delays in reaching eligibility, validity, or ratification, etc. (for further details see Appendix 7B). It should be noted, however, that *projects placed on alert status may not necessarily become problem projects; rather, they have a greater propensity to become problematic in the future*. Therefore, being on alert flags them for more rigorous monitoring to help ensure that opportune measures are taken to address issues *before* the projects become problematic.

<sup>10/</sup> Projects with unsatisfactory or very unsatisfactory implementation progress (IP) ratings, regardless of whether they are rated as problematic or not in terms of development objectives.

2.07 Even though at first glance, the status of problem project figures indicates improvement in terms of project performance reported by Country Offices, it is worthwhile to examine the underlying factors affecting the entire portfolio performance and ratings in greater detail.

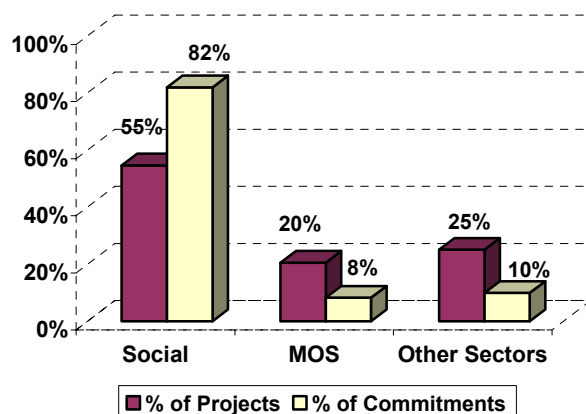
**C. Close-up of Project Performance**

**1. Problem Projects**

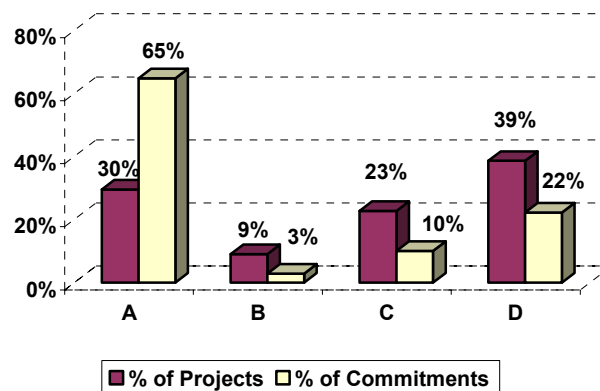
2.08 With respect to the status of the 62 problem projects reported at the end of 2000, more than a third were upgraded and another 12 were cancelled during 2001, as a result of more proactive portfolio management by the Bank and Borrowers. These improvements were somewhat offset, however, as 16 new projects were downgraded to problem project status during the year, resulting in a total of 44 problem projects at the end of 2001.

2.09 **These 44 problem projects** accounted for US\$2.7 billion in commitments down from US\$5.1 billion in 2000 (see Appendix 7C). As shown in Chart 2.3, the social and MOS sectors represented 82% and 8%, respectively, of commitment values for all problem projects. However, when looking at these two sectors as a percentage of their respective portfolios, social sector problem projects accounted for 9% and MOS sector problem projects 8%, both consistent with the Bank’s overall percentage of problem projects (see Appendices 7D.1 and 7D.2). In particular, **problem projects in Group A countries (Argentina, Brazil and Venezuela) accounted for 65% of commitments for all problem projects** (see Chart 2.4). Among the problem projects in the social sectors, the largest share continued to be in health (20%) and water and sanitation projects (16%) (compared with 26% and 19%, respectively, in 2000). However, **as a share of their respective portfolios, the performance of projects in these two sub-sectors has improved** (see Appendix 7E). Other clusters of problem projects were noted in the Dominican Republic and Paraguay.

**Chart 2.3**  
Sectoral Breakdown  
Problem Projects  
As of December 31, 2001



**Chart 2.4**  
Country Group Breakdown of  
Problem Projects  
As of December 31, 2001



- 2.10 As reported in the PPMRs, the primary and recurring issues affecting problem projects, in general, were lack of Borrower commitment and a range of institutional bottlenecks that affect the likelihood of achieving development objectives. While 20% of all problem projects (9 of 44) cited counterpart shortfalls as a factor affecting implementation, a review of these PPMRs revealed that in 6 of the 9 projects, other factors, such as changing Borrower priorities and institutional weaknesses, outweighed counterpart shortfalls as the major obstacles affecting the likelihood of meeting development objectives. Only 2 of the 9 projects reported fiscal constraints and lack of counterpart funds as the primary obstacle encountered. In the social sectors, PPMRs cited weak executing agency institutional capacity and lack of Borrower commitment to initiate required reforms or to provide adequate local counterpart resources, as major factors undermining achievement of development objectives. Sixty-five percent of Country Offices also reported that social projects encountered the most difficulties in compliance with contractual conditions, due to the lack of consensus on required reforms on raising tariffs (prevalent in the water sector, for example).
- 2.11 **Twenty-eight of the 44 problem projects were multi-year problem projects.** While the number of these projects increased from 23 in 2000, commitment values tied up in this group declined from US\$1.9 billion to US\$1.7 billion. The decrease in amounts reflects two factors: smaller project size and a higher level of cancellations among multi-year problem projects in 2001 (US\$368 million) compared to the previous year (US\$283 million). Multi-year projects were concentrated in Argentina, Colombia, Dominican Republic and Trinidad and Tobago. Regional Departments and Country Offices are taking a number of actions to address this issue.
- 2.12 Multi-year problem projects consisted primarily of investment projects (91%), with 57% of commitments pertaining to projects in Group A countries (Argentina, Mexico and Brazil). The 28 multi-year problem projects were concentrated in the social sector (15 projects), representing 83% of commitments of all projects in problem status for 2 years or more. Difficulties such as changes in government priorities, deficiencies in executing agencies, and the inability to pass laws regarding tariffs for public utilities impacted on project implementation, and in many cases, resulted in project reformulations or cancellation of components. These factors affected the water and sanitation sub-sector, for example, where commitment values accounted for 56% of all multi-year problem projects (see close-up review of the water and sanitation sub-sector in the 2000 ARPE). As a percentage of its respective portfolio, the number of problem projects in the water and sanitation sub-sector improved during the year, as mentioned in paragraph 2.09. In addition to the multi-year problem projects in the social sector, the next largest proportion of commitments tied up were in the MOS sector (12%). While a significant number of problem projects reported in the MOS sector in 2000 received heightened attention or exited the portfolio in 2001, nearly all of the remaining problem projects (8 of 9) have been problematic for several years. Six of the 8 multi-year problem projects in the MOS sector were located in Group D countries (Bolivia, Dominican Republic, Ecuador, and Haiti). To have a better appreciation of the dynamics of the MOS sector, a more in-depth review was carried out separate to the ARPE as part of Management's continued efforts

to examine portfolio issues. A summary of the findings and main issues affecting performance in the sector is presented in Box 2.1.

### Box 2.1: Overview of the Modernization of the State Sector

A special review was conducted by Management in 2001 of projects in the modernization of the State sector (otherwise known as “MOS sector”), in an effort to focus in on specific issues that affect performance and to prepare for a new strategy in this area. Results are highlighted below.

**Composition of the Sector:** The MOS sector comprises a total of 108 projects amounting to US\$6.6 billion. This represents 21% of projects and 17% of commitment values in the total reported portfolio. In terms of commitment values, the largest percentages of MOS resources are concentrated in two sub-sectors—taxation and fiscal reform (32%) and public sector reform (23%), followed by general reform (17%), financial sector reform (15%), decentralization (5%), modernization and administration of justice (4%), parliamentary modernization (1%) and civil society (0.3%). In terms of breakdown by lending instrument, 81% of MOS sector projects and 60% of commitment values are in investment projects, followed by 17% (40% of values) in policy-based loans. Emergency loans represent 2% of all MOS projects. In terms of distribution by Country Groups, MOS projects were concentrated in Group D (45%) and Group A countries (26%).

**Performance:** Project ratings reported by Country Offices in 2001 for the 108 MOS sector projects consisted of: 74 with normal classifications, 25 on alert status and 9 problem projects (which included 8 multi-year problem projects). MOS sector projects have increased over the last 5 years from 13% to 18% of alert status projects. Once on alert status, there is a strong tendency to move into problem project status. MOS projects also increased from 15% to 35% of reported problem projects during the 1997-2000 period, before dropping to 20% in 2001 as a result of efforts by the Bank and Borrowers to clean up non-performing projects (60% of all cancellations for problem projects that exited the portfolio in 2001 were for MOS sector projects). *However, as a percentage of the overall MOS portfolio, only about 8% of MOS sector projects are classified as being problematic, which is consistent with the percentage of problem projects in the Bank’s total reported portfolio.*

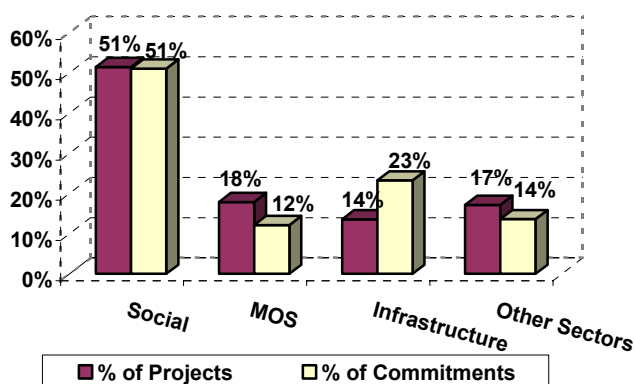
**Factors Affecting Performance:** The primary factors reported to affect performance in the MOS sector projects were lack of Borrower commitment, institutional weaknesses and difficulties in compliance with contractual conditions. External factors such as changes in government also had an impact on such projects, causing them to lose relevance or priority, as manifested in delays in passing reforms, a shortage of local counterpart resources and/or assignment of staff in executing agencies. MOS sector projects are also particularly susceptible to opposition from political and community groups and require significant efforts to gain consensus: laws must be passed by Congress to implement the desired reform, tariffs must be increased to ensure sustainability, etc.

## 2. Alert Status Projects

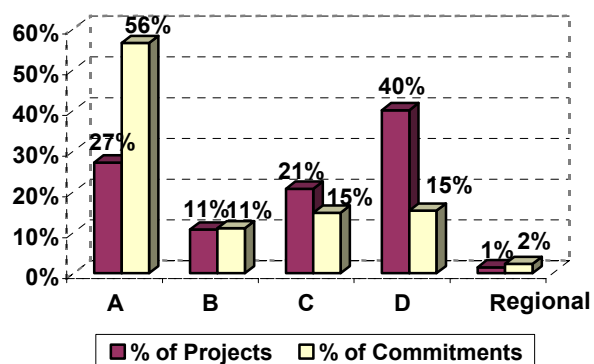
- 2.13 While both the number of projects and commitments tied up in problem projects declined in 2001, **the number of projects on alert status** (as defined in paragraph 2.06) **increased** from 130 to 140 at year-end (see Appendix 8), representing US\$10.1 billion, up from US\$9.7 billion in 2000. These too, were **concentrated in the social and MOS sectors**, which accounted for 69% of projects and 63% in commitment values as shown in Chart 2.5. In terms of location, **60% of alert status projects were concentrated in Group C & D countries, although Group A & B countries accounted for 68% of the commitment value of such projects** (see Chart 2.6 and Appendices 9A-9D.2).
- 2.14 As Appendix 8 indicates, a concentration of alert status projects in relation to the country portfolio can be found in clusters of projects with unsatisfactory implementation progress, (one category of on alert projects). These were mainly located in Argentina, Brazil, Costa Rica, and Haiti. The PPMRs for alert status projects in the social and MOS sectors reported that unsatisfactory implementation progress was primarily due to difficulties in compliance with contractual conditions and procurement delays. Social and MOS sector projects also tend to require much closer and more frequent supervision, good inter-agency coordination, and consensus building among stakeholders. The complexities and potential socio-political risks of projects in the social and MOS sectors

also frequently seem to have been under-estimated during project preparation, leading to delays in execution and a low probability that assumptions made ex-ante will hold true.

**Chart 2.5**  
Sectoral Breakdown  
Alert Status Projects  
As of December 31, 2001



**Chart 2.6**  
Country Group Breakdown  
Alert Status Projects  
As of December 31, 2001



- 2.15 **In 2001, 68 of the 140 alert status projects (49%) were on alert status for two or more years**, due to: unsatisfactory implementation progress (27), two or more complementary indicators such as low levels of disbursements, delays in reaching eligibility, validity, or ratification (17), low assumptions (3), or fluctuation among one or more of the above categories (21). Eleven of the projects on alert status in 2000 moved into problem project status in 2001, 5 of which had been on alert status for several years. This situation indicates that in addition to problem projects, multi-year alert status projects, particularly in Argentina, Colombia, Costa Rica, Guyana and Nicaragua should also receive heightened attention and proactive monitoring on the part of the Bank and borrowers to ensure that corrective measures are put in place in a timely manner.

### 3. Improved Projects

- 2.16 Of the 62 problem projects from 2000, 22 were upgraded (including 5 multi-year problem projects). A common theme among the 22 upgraded projects was increased Borrower/executing agency commitment, but the Bank's proactive role was also important. For example, where governments and priorities had changed, the Bank acted promptly to meet with new officials to discuss existing projects and/or their restructuring. While partial cancellations (amounting to roughly US\$64 million) were undertaken for four of these upgraded projects, in each case other factors such as increased borrower commitment, greater stability in the executing agency and restructuring of components combined to explain improvements as reported in the PPMRs.
- 2.17 With respect to improvement in multi-year alert status projects, 35 of the 130 alert status projects from 2000 were upgraded in terms of ratings. This included 16 projects previously rated with unsatisfactory implementation progress, 3 projects with low assumptions, and 16 with 2 or more complementary indicators (at least one indicator

improved in 2001). Improved ratings were primarily due to more proactive measures taken to resolve problems and increased priority given to the projects by Borrowers.

#### **D. Contract Performance Issues**

2.18 As mentioned in paragraph 2.06, a project may have the expectation of meeting its development objectives, but exhibit characteristics that are more typical of problem projects. Therefore, these projects are considered to be on alert status in the Bank's PAIS system, and may become problematic if contract performance bottlenecks are not dealt with opportunely. Two of these issues tracked by the PAIS system are: 1) delays in reaching contract effectiveness and eligibility for first disbursement, and 2) extensions to the date of last disbursement. It is useful to keep close watch on initial delays experienced in the project cycle, since the entire implementation chain may be affected by subsequent delays, which in turn, may result in reprogramming of activities, extended disbursement periods, cost increases and the postponement of development benefits for the target population. These issues are discussed in greater detail in the following section.

##### **1. Contract Effectiveness and Eligibility Delays**

2.19 There are many factors associated with delays in reaching eligibility for disbursement, including differences in procedures used by countries to reach contract effectiveness. Some countries require only contract signature to achieve legal effectiveness, a second group requires authorization of the legislature *prior* to contract signature, and a third group requires ratification of the loan contract by the legislature. The significance of delays may vary widely with the circumstances, but in any event, it still took over a year on average for projects to get started in 2001, as shown in Table 2.1. In all 3 of the country effectiveness groups, it took an average of one month longer in 2001 to reach contract effectiveness than in 2000, indicating that delays are sometimes beyond the control of the Bank and the project-level executing agency.

2.20 Countries with ratification requirements take an average of 3 to 6 months longer to achieve contract effectiveness and eligibility for disbursement than other countries. This pattern has not changed in recent years and remains a matter of concern for Management. Countries requiring preauthorization for loan signature generally require more time to reach contract effectiveness. On the other hand, once contract effectiveness is achieved in countries requiring authorization, eligibility for disbursement follows more quickly, since the time between approval and effectiveness can be used to comply with conditions prior to first disbursement. The issue of delays in reaching contract effectiveness and eligibility for first disbursement will continue to be closely monitored by Management, and as requested by the Board during the discussion of the 2000 ARPE, is one of the areas included in Management's Portfolio Improvement Action Plan.

2.21 At the end of 2001, 22 projects were pending legal effectiveness compared to 48 the year before, due to the fact that a) fewer projects were approved in countries requiring ratification in 2001, and b) a larger proportion of projects was ratified by the end of the

year compared to 2000. The 22 projects were located in El Salvador (8), Honduras (4), Costa Rica (3), Bolivia (2), Haiti (2), Paraguay (2) and Dominican Republic (1). Two of these projects were approved in 1996, 1 in 1998, 3 in 1999, 3 in 2000, and 13 in 2001. In Chapter III, measures to improve this situation will be discussed.

**Table 2.1**  
**Time to Reach Eligibility for Disbursement\***

Country Effectiveness Groups	Year	Approval to Effectiveness		Effectiveness to Eligibility		Total Time (Months)	
		Median	Average	Median	Average	Median	Average
Countries without Ratification	2000	3	4.5	6	7.8	9	11.7
	2001	3	5.1	6	7.2	10	12.3
Countries with Authorization Prior to Signature	2000	6	8.5	5	4.9	12	14.2
	2001	6	8.8	6	6.2	13	15.1
Countries with Ratification	2000	7	9.3	7	7.8	16	16.9
	2001	8	11.3	7	7.8	16	18.1
All Countries	2000	5	6.7	6	7.6	12	14.4
	2001	6	7.7	6	7.4	12	14.6

**Approval:** Date of project approval by the Board of Directors

**Effectiveness:** Date of contract signature or ratification, whenever required

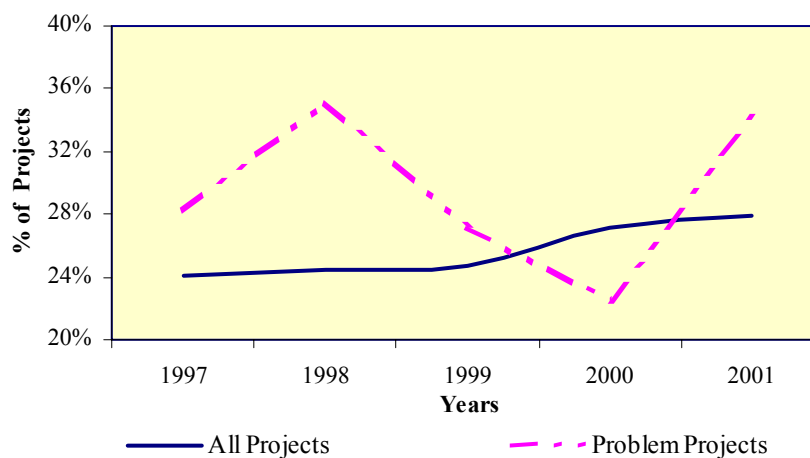
**Eligibility:** Date of eligibility for first disbursement

## **2. Extensions of Last Disbursement**

2.22 As may be expected, problems and obstacles encountered in project start-up frequently result in execution delays and extensions in the date of last disbursement as well, since executing agencies cannot catch up to meet original execution schedules. As of December 31, 2001, 223 projects (44% of projects in the reported portfolio) had been extended sometime during execution. Of all the projects with extensions, 142 projects (28% of the reported portfolio) had their dates of final disbursement extended by 24 months or more, compared to 135 projects in 2000<sup>11/</sup> (see Graph 2.1). This was particularly notable in projects considered problematic. These 142 projects averaged 41 months overall in disbursement extensions. More than a third of these projects had been in execution for more than 8 years and 29% were extended for 48 months or more. This too, is an area of concern for Management that is being tackled through a variety of measures as discussed later in Chapter III.

<sup>11/</sup> In 2000, extensions of last disbursement were reported for projects with disbursements up to 95% of their original amounts, resulting in a total of 69 projects with extensions greater than 24 months. Projects with 95-100% of funds disbursed typically have small outstanding balances pending actions to close out those balances, including justification of earlier advances of funds and related administrative tasks. If that same methodology had been applied in 2001, the result would have been 110 projects with extensions of 24 months or more in the 2001 portfolio. Nevertheless, a full list of extensions was requested by Management in 2001, so this report includes projects with disbursements of up to 100%.

**Graph 2.1**  
**Proportion of Projects with Extensions  $\geq$  24 Months**  
**1997-2000**



## E. Quality Review of Performance Reporting

2.23 In the first part of this chapter we looked at reported statistics on the overall performance status of the portfolio. In addition to this analysis, ROS/PMP carried out a number of exercises to assess the *quality* of performance reporting, including reviews of: consistency in assigning performance classifications; quality of individual PPMRs; comparative ratings for projects cofinanced with the World Bank; PCR compliance and quality; maintenance of performance indicators by Borrowers in Bank projects; and indices of overall portfolio performance reporting. The following section provides details regarding each of these exercises and makes an overall assessment of the quality of portfolio reporting during the year.

### 1. Review of Consistency in Project Classification

2.24 The first exercise carried out was to assess any logical internal inconsistencies in PPMR ratings. Chart 2.7 shows the pattern of project ratings given by Country Offices for Development Objectives and Implementation Progress. These patterns confirm that the majority of projects are in Quadrant I, that is, 'normal' projects classified with probable Development Objectives and satisfactory Implementation Progress ratings. Similarly, Quadrant IV in the lower right-hand corner contains the majority of problem projects, which is also logically consistent since projects experiencing implementation difficulties may not be able to complete project components that are a necessary condition for achieving project development objectives. On the other hand, relatively few projects are located in the other two quadrants, which represent cases in which a) projects are not experiencing significant implementation problems, but nevertheless are not expected to achieve their development objectives (Quadrant II), or b) projects that *are* experiencing

implementation problems but nevertheless are expected to *achieve* their development objectives (Quadrant III). While neither case is impossible, the internal logic would not be consistent, and having a large proportion of projects in these two quadrants would call into question the validity of the reporting methodology. In general terms, these results confirm that there is a high degree of internal consistency in the PPMR reporting system.

**Chart 2.7**  
**Number of Projects by PPMR Classifications: DO and IP Ratings**  
 (As of December 31, 2001)

		Development Objectives (DO)				TOTAL
		HP	P	LP	I	
Implementation Progress (IP)	HS	15	5	0	0	20
	S	46	337	5	1	389
	U	1	60	27	4	92
	VU	0	0	5	2	7
TOTAL		62	402	37	7	508

## 2. Review of PPMR Quality

- 2.25 The second exercise ROS/PMP undertook was a desk review of 57% of PPMRs for problem and alert status projects to ascertain the quality of performance reporting. The review assessed: (a) clarity of statements (Development Objective and Components); (b) how well the indicators were formulated; (c) if the assumptions adequately covered project risks; (d) how consistent the ratings were with the explanations provided in the report; and (e) how effectively the PPMR reported on relevant implementation issues and addressed them by proposing time-bound actions plans to be carried out by the Bank and/or Borrower. Reports were then given an overall score based on a four-point scale (ranging from highly satisfactory to very unsatisfactory).
- 2.26 Results indicated that 60% of the reviewed PPMRs fully reflected project execution status, signaling the need for improvements. Deficiencies were primarily noted in: a) the lack of clarity of the project's purpose (i.e. too many objectives, objectives that were actually components, etc.); b) deficiencies in the formulation of indicators both at the Development Objective and component levels (i.e. not specified in terms of quantity, quality and time), arising out of the original design of the logical framework; and c) weaknesses in the project assumptions (i.e. not updated, confusion between assumptions for Development Objective and Implementation Progress levels, etc.). Weaknesses of this nature were found to be more common among social and MOS projects.
- 2.27 Such reviews help focus on the concrete steps that can be taken to improve the quality of the reports. In addition to the sample of problem and alert status projects analyzed,

ROS/PMP also looked at the fifteen PPMRs for projects classified with the highest possible ratings for Development Objectives, Implementation Progress and Assumptions. Results from this review consistently found PPMRs with the most optimistic ratings to have lower quality than those in the sample for problem and alert status projects. Chapter III contains specific information on ongoing measures the Bank is carrying out to improve its project monitoring system, with the objective of improving the quality of performance reporting, and subsequently, better measuring the quality of results for decision-making.

### **3. Review of Ratings for Cofinanced Projects**

- 2.28 ROS also undertook a review of ratings for 29 projects that are being cofinanced or have parallel financing by the IDB and World Bank. Both institutions rated project performance independently from one another. Of the 27 cofinanced projects with ratings, 79% were rated consistently by both institutions. Of the six projects with differing ratings, the IDB rated one lower and five higher. In terms of the latter, differences are explained by the fact that subprojects were financed in different geographic locations, timing of performance reporting varied, one Bank project was reformulated, and the component financed by the World Bank in another project was cancelled. To have a more meaningful comparison of operational experiences in cofinanced projects, Management will explore options in the future to extract best practices and lessons learned through a qualitative review of these more comparable projects, as part of the initiatives to be carried out under Management's Portfolio Improvement Action Plan.

### **4. Review of PCR Quality and Compliance**

#### **a. PCR Quality and Results of Completed Projects**

- 2.29 The Project Completion Report (PCR) is the final performance completion report and is considered a key element in the Bank's Evaluation System. PCRs are prepared by the Bank and include an independent Borrower contribution. The primary purpose of the PCR is to look at project accomplishments and to provide lessons learned to improve future operations. PCRs are intended to analyze: 1) the fundamental factors that influenced project execution; 2) the extent to which the project has been effectively implemented; 3) the likelihood that development objectives will be achieved in the

#### **Box 2.2**

##### **ROS Methodology for Assessing PCR Quality**

- A four-point classification scale was applied: Highly Satisfactory, Satisfactory, Unsatisfactory or Very Unsatisfactory
- PCRs were rated on the extent to which there was clarity in terms of:
  - (a) Objectives, components, indicators and targets;
  - (b) An assessment of problems or issues, actions taken, and the results of these actions;
  - (c) The future of the project, including sustainability issues; and
  - (d) Consistency between the final PPMR ratings and the PCR on one hand, and between ratings included in the PCR and the content of the PCR, on the other hand.
- Each of these areas was ranked individually, and then overall, according to the four-point scale previously mentioned
- **Results indicate that the quality of 83% of PCRs reviewed was satisfactory, with 72% including at least one aspect of longer-term development results.**

future; and 4) lessons learned that can be looped back into new project design. As a result, PCRs must pinpoint the difficulties encountered during execution; analyze the effectiveness of the remedial actions taken; identify possible outcomes; indicate which factors may affect sustainability in the long term; assess Bank and Borrower participation; and make recommendations for improving operational policies and procedures.

- 2.30 ROS reviewed all 46 PCRs completed in 2001 for the purpose of analyzing results, quality and extracting lessons learned (see Box 2.2). The ROS review confirms that PCR quality has continued to improve, with 83% of PCRs providing a satisfactory account of the project (see Box 2.3 for several good practices). Most PCRs reconstructed a clear picture of the implementation process, citing both positive and negative factors that impacted performance. Two recurring issues highlighted as affecting project implementation were weaknesses of executing agencies (high levels of staff turnover, lack of technical and administrative skills, politicization in staff assignment) and weaknesses in the project design (insufficient participation of executing agencies, lack of institutional analysis, lack of monitoring and evaluation systems, etc.).

**Box 2.3**  
**Good Practices in Project Completion Reports**

**Uruguay:** The PCR for UR-0087 *Programa de Fortalecimiento al Área Social* recognizes that the flexibility of the project design facilitated execution and contributed to the success of various outputs. In spite of deficiencies in the definition of verifiable indicators in the original project design, the eventual preparation of a Logical Framework with relevant indicators by the Bank greatly assisted the supervision and monitoring of the operation by the Bank and the Borrower. The Annual Operating Plans (“POAs”) prepared by the executing agency were also a great asset for planning and tracking progress in project activities. The PCR presents a good analysis of the factors that impacted project implementation, including insufficient consideration of the institutional capacity of the principal executing agencies, deficiencies in the policy matrix, and lack of verifiable indicators to track progress, and includes a good analysis of the sustainability of the project activities in spite of the deficiencies observed at the level of institutional reform.

**Belize:** The PCR for BL-0007 *Land Administration Project* demonstrates clarity in terms of the objectives, components, indicators and targets of the project, and presents a good description of the evolution of the issues and actions taken to meet the objectives of the project. Even though the project faced some difficulties at the beginning, its implementation became effective and efficient due to close Bank supervision and communication with the executing agency. In the Borrower’s opinion, the Bank identified and supported the necessary changes that had to be made to ensure success, including the re-dimensioning of two of the three project components. The report highlights a number of lessons learned, including the importance of establishing realistic objectives and design, the need to perform a more thorough institutional analysis at the project design stage, and the need to have included a project manager to assist in project start up.

**Colombia:** The PCR for CO-0238 *Programa Sectorial de Reforma de las Finanzas Publicas* is a good example of how PCRs should be done for PBLs. The objectives and components are discussed by thematic area rather than by tranches, and for each component an effort was made to assess the impact of actual accomplishments compared with original expectations. Major problems and solutions were clearly presented, and the issue of sustainability of reforms was addressed. The PCR reports that the project achieved major components that improved the country’s short-term financial situation, and permitted the negotiation of an Expanded Financial Facility with the IMF. Based on the fact that the project led to an agreement with the IMF that continued to deepen the reforms in the medium and long-term, the PCR concludes that the IDB operation will be sustainable.

- 2.31 Several areas still require attention in PCRs to ensure further gains in quality. For example, PCRs still need to report more on outcomes and less on outputs<sup>12/</sup>. The current situation reflects the fact that the bulk of these PCRs reviewed corresponds to projects approved prior to 1996, before the logical framework was introduced as a requirement in project preparation. Some PCRs did, however, reflect efforts on the part of specialists to retrofit logical frameworks to project documents in cases where one did not exist to facilitate monitoring and capturing of results. A number of PCRs also analyzed likely development results, including impact on targeted beneficiaries, existing or potential benefits, as well as the financial or institutional sustainability. Overall, 72% of PCRs dealt with at least one aspect of development results (such as institutional or financial sustainability, obstacles to achieving development objectives, impact of policy reforms, specific indicators, internal rate of return, etc.). Nevertheless, such analyses often lacked quantitative results due to the timing of the report (i.e. too early to measure results), the lack of information systems set up from project start, and lack of ex-ante logical frameworks, corresponding performance indicators, and ex-ante internal rates of return. Many of these issues need to receive heightened attention in future exercises. These and other topics will be highlighted in the updated version of the PCR guidelines currently under preparation, as part of the enhancement of the PCR system (more details in Chapter III).
- 2.32 Among the primary lessons learned and highlighted in the PCRs reviewed, both Bank staff and executing agencies pointed out the following:
- a. Qualified technical and professional staff with high levels of continuity contribute to project success.
  - b. Contractual conditions for maintenance of infrastructure should be matched with the appropriate resources to ensure sustainability.
  - c. Project beneficiaries should be more involved in project preparation (both at national and local levels in the case of decentralized operations).
  - d. Better institutional analysis of executing agencies and other line ministries participating in the project is needed during project design to avoid bottlenecks during implementation.
  - e. An overall strategy for development of a particular sector, along with high government priority, is critical to the reform process and project implementation.
  - f. A well structured monitoring and evaluation system from the onset of a project, along with relevant baseline data, is indispensable for appropriately tracking progress during project execution.
  - g. There is a greater need to improve focus on project outcomes in PCRs.

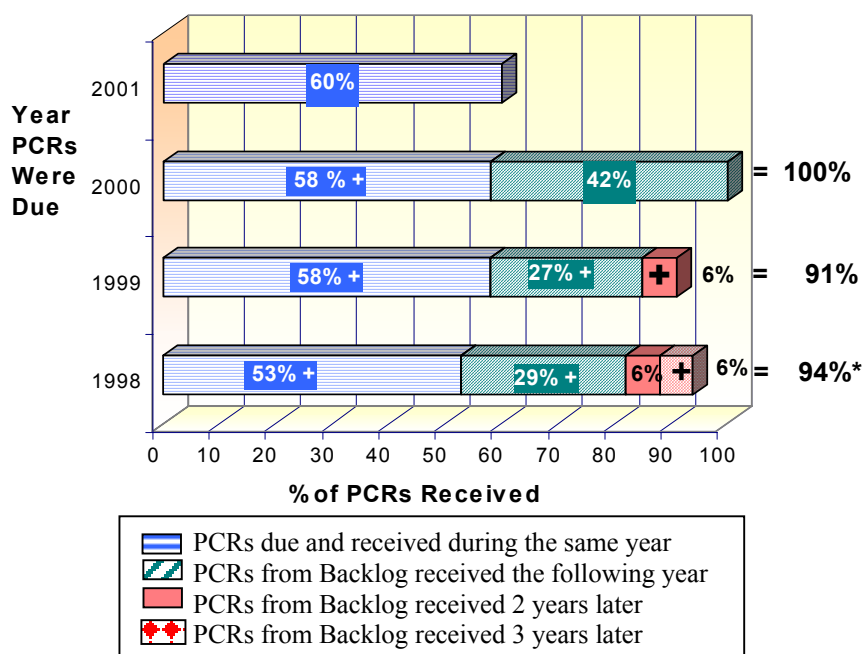
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<sup>12/</sup> Outputs are the specific products and services that emerge from processing inputs. Therefore, they relate to the *completion* of activities and are the type of result over which managers have a high degree of influence. Outcomes refer to the uses made by beneficiaries of the outputs produced by the project, and can thus be observed shortly after project completion.

### b. PCR Compliance

2.33 PCR reporting compliance rates improved slightly in 2001.<sup>13/</sup> Of the 72 PCRs due in 2001, 60% (43 reports) were received by year-end compared to 58% in 2000. In addition, 9 PCRs were received from the backlog of previous years, raising the compliance rates for past years as shown in Chart 2.8. Borrower participation in the PCR process was considerable: 92% of PCRs included the Borrower's section. In most cases, the information and the perspective provided by the Borrower simply complemented the Bank's self-evaluation, but in several cases reviewers noted that the Borrower's section was even more analytical in content than the Bank's. As the new PCR is revamped and deployed with a more user-friendly format and content, additional gains are to be expected.

Chart 2.8  
Evolution of PCR Compliance Rates



### c. Review of the Disconnect Issue

2.34 Despite the overall level of reliability found in the PPMR classification system, there still appears to be a “disconnect” or discrepancy of ratings for active and completed projects (this ‘disconnect’ is commonly observed by MDBs and Bilateral Agencies). Trends in project classifications indicate that ratings tend to be favorable at the early stages of project implementation, since implementation difficulties may not yet have surfaced and plenty of time still exists to resolve problems prior to the established date of final

<sup>13/</sup> In response to recommendations from OVE and the Board, Management established a fixed “PCR Due Date” field for each project in the Bank's LMS database. This new field is being used to monitor compliance with PCR reporting requirements.

disbursement. Project performance ratings indicated that 91% of active projects are currently expected to achieve their development objectives, while the ROS review of 46 PCRs received during the year concluded that the likely success rate in that group was about 73% (compared to 64% in 2000), thus indicating an improvement of the disconnect in 2001.

**Table 2.2**  
**Time Progression of Performance Classifications for the**  
**Cohort of Normal Projects from 1997**

Classification	1997	1998	1999	2000	2001
<b>Problem Projects</b>	0	2%	7%	12%	10%
<b>Unsatisfactory IP</b>	0	7%	11%	13%	16%
<b>Low Assumptions</b>	0	1%	3%	2%	2%

- 2.35 As illustrated in Table 2.2, there is a steady progression in performance problems during execution, as well as an overall increase in the identification of obstacles to achieving development objectives. As a result, it is not surprising that success rates for projects based on reviews of PCRs are lower than those reported for ongoing operations. As improvements are made in the results chain from project design (logframes) to monitoring (PPMRs), mid-term evaluation and project completion (PCRs), it is expected that more realistic ratings will be observed throughout the entire project cycle, therefore resulting in less of a disconnect of ratings for active and completed projects.

#### **5. Review of Borrowers' Maintenance of Information on Performance Indicators**

- 2.36 So far the analysis of quality in performance monitoring and classification has focused on the Bank's own internal instruments; however, this information must also be viewed in terms of the Borrower's role in the implementation process and its implications for solid portfolio management. Based on the information provided in PPMRs of the 508 projects in the reported portfolio, Country Office specialists indicated that 21% of Borrowers were not maintaining adequate information on performance indicators. Of these Borrowers, 17% were located in Group A countries, 14% in Group B countries, 16% in Group C countries and 53% in Group D countries. In terms of sector distribution, more than half of the 109 projects identified as having inadequate Borrower progress information were in the social sector, followed by 26% in the MOS sector. More than three fourths of the 109 projects were also approved in the last 5 years. These findings show that there is a need to focus more attention on setting up the right performance monitoring systems at the Borrower level *up front*, particularly for: a) social and MOS sector projects in all country groups; and b) C and D countries where institutional capacity is more incipient.

#### **6. Application of New Portfolio Performance Tools**

- 2.37 In addition to the exercises previously described, ROS carried out a new assessment in 2001 to gain additional perspective on portfolio performance. In response to the Board's request in 2001 for the development of additional portfolio quality metrics, Management

developed a new tool called the **proactivity index**, in consultation with OVE. This index is a measure of Management's efforts to improve the performance of problem projects and projects with unsatisfactory implementation progress, and looks at the degree to which actions are taken in a timely manner to pro-actively change their status. Hence, the proactivity index represents the proportion of projects identified as problematic or with unsatisfactory implementation progress during the previous 12-month period, that were upgraded, restructured, reformulated, or had total or partial cancellations during 2001. When applying this tool to the portfolio in 2001, the pro-activity index was 66%. During the 2002-03 period, this index will be applied on a trial basis, and efforts will be made to ensure that there is a common understanding of the index among staff, given the absence of an established track record. Subsequently, Management will assess the appropriateness of establishing targets for improvement in the future. The review of this portfolio enhancement measure has been included in Management's Portfolio Improvement Action Plan for follow-up. Another portfolio quality index aimed at testing the realism in reporting is currently being developed, and will also be followed up in the Action Plan and reported on in the 2002 ARPE.

### **7. Conclusions on Quality of Performance in Bank Projects**

- 2.38 Based on the overall quality review of performance reporting described in this chapter, it is possible to formulate several conclusions. First, we have seen that ratings of problem projects and poor implementation progress are generally consistent, while "outliers" with ratings of high probability for development objectives, high assumptions, and very satisfactory implementation progress tend to be over-optimistic. Second, we have seen that the internal logic in the PPMR rating system is consistent, indicating that specialists are generally applying the system as originally anticipated. Third, there is general consistency between IDB and World Bank ratings for cofinanced projects as one might expect, given that projects are in the same country and sector and involve many of the same stakeholders. Fourth, improvements have been noted in the level of disconnect for active and completed projects.
- 2.39 All of the above-mentioned points indicate that advances have been made in performance reporting since the PPMR system came online in 1997. But the review has also shown areas that require additional attention to enhance quality in reporting and quality of the system itself to strengthen the overall results chain in project implementation. More focus must be placed on: a) improving project logframes through the sharpening of goals and better definition of key performance indicators to track outcomes; b) correctly applying the logframe to the PPMR; c) improving the realism in performance reporting (for example, for newer projects and for "normal" projects having the highest Development Objectives, Implementation Progress and assumptions ratings); d) ensuring that appropriate monitoring systems are in place in executing agencies; and e) intensifying quality control functions by Regional Departments to ensure better documentation and greater evenness in indicators and in performance reporting across the board. Advances being made in this direction are discussed in Chapter III.

## F. Portfolio Performance of Private Sector Operations

- 2.40 The performance of private sector operations is tracked through Semi-Annual Reviews (SAR) that cover all the “active” projects (all approved loans and guarantees which have not been cancelled nor fully repaid). Therefore, active projects fall into three main categories: (i) approved and still under negotiation prior to signing/closing; (ii) signed/closed and under disbursement; or (iii) fully disbursed and being administered throughout the entire amortization period. As of December 31, 2001, there were 47 active projects. Private Sector project performance is rated in the Semi-Annual Reviews on a four point-scale and projects are classified as: Excellent, Satisfactory, on Watch List status, or on the Impaired Status list (see Appendix 4 for category definitions).
- 2.41 The table below corresponds to the classification, which took place in November 2001, and was then revised in January 2002 to reflect the current developments in the projects and in the region. As of the most recent project rating period, there were 40 signed/closed projects, but only 37 had outstanding balances and thus were assigned a risk rating as of year end 2001. According to the last SAR, 73% of the projects analyzed fell within the “Excellent” or “Satisfactory” categories (see Table 2.3). Overall, the review reported that the risk profile of the active portfolio had increased compared to 2000, primarily due to the macroeconomic situation in Argentina which led to an increase in the number of projects placed in the “Watch List” (4 were on watch list in 2000 compared with 5 in 2001) and “Impaired” categories at year-end. Borrowers in Argentina were affected by the change in the currency convertibility law and peso exchange rate, as well as regulatory changes incorporated into the emergency legislation with respect to Argentine public utility projects. In addition, future revenues of private sector Borrowers in Argentina have been impacted by the economic downturn in general.

**Table 2.3**  
**Private Sector Projects by Performance Classifications**  
**As of December 31, 2001**

Category	Number of Projects	% of Total	IDB Exposure (US\$ Millions)	% of Total Exposure
Excellent	4	10.8%	285.1	20.4%
Satisfactory	23	62.2%	701.3	50.3%
Watch List	5	13.5%	224.1	16.1%
Impaired	5	13.5%	185.0	13.3%
Total <sup>14/</sup>	37	100.0%	1,395.5	100.0%

- 2.42 Placing projects on the Watch List (similar to the “on alert” status of public sector projects or “yellow light” projects of the MIF) provides a means for intensifying monitoring, dialogue and facilitating improved project performance. Discussions and client meetings have been employed to both calculate project risk, and to identify solutions for working with Borrowers to resolve difficulties. As a result of this process, one of the projects in this category is expected to be upgraded from the “Watch List”

<sup>14/</sup> As of 12/31/2001 out of the 47 active projects, 37 had not yet reached the project completion stage.

status in the coming months, after more than two years of very close proactive monitoring.

### **G. Private Sector Projects and Future Project Completion Reporting**

- 2.43 In 2001, only 10 PRI projects had reached project completion status<sup>15/</sup>. Out of this universe of projects, most will have reached a level of maturity to qualify for PCRs in either 2002 or 2003. To date, PCRs (under the Bank's current definition) have not been prepared for any PRI projects, but in 2000, a review of the private sector portfolio (all signed projects) was commissioned by OVE in the context of the External Review Group of private sector operations. Twenty-five credit reviews were undertaken by specialized consultants in private sector evaluation. In addition, 11 projects were evaluated from a similar perspective as the PCR, since the reviews were carried out to evaluate criteria including business, environmental and social performance, contribution to economic growth, improving living standards, and private sector development.
- 2.44 In anticipation of PCRs to be completed in the future, progress was made in 2001 to prepare a PCR reporting format and guidelines in collaboration with ROS, the Regional Departments, and the EVP's Office. These PCR guidelines will address unique aspects of PRI operations, and will comply with the MDB-Evaluation Coordination Group standards for evaluation of private sector operations. Preparation of the first PCRs in compliance with this methodology for PRI projects is scheduled to commence in 2002. Results of these reports will be reported on in the 2002 ARPE.

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<sup>15/</sup> The concept of project completion is defined very differently in private sector operations, since it follows the physical and financial completion stages. The latter stage consists of certain contractual conditions based on financial ratios that once achieved, mean the project has proven itself to be economically self-sustainable. It is at this stage that the project is considered to be sufficiently mature for project completion reporting to be undertaken.