

CHAPTER III: KEY FACTORS AFFECTING PERFORMANCE QUALITY AND MEASURES TO ADDRESS THESE ISSUES

3.01 In the last chapter we looked at performance and quality issues of the Bank's portfolio. This chapter will look at what Management and Borrowers are doing about it. To understand the key factors affecting performance, we begin by examining the overall context in which projects were executed in 2001. To do so, ROS/PMP reviewed a variety of inputs prepared in 2001 such as the Country Portfolio Mission Reports for 17 countries, Annual Portfolio Assessments prepared by each of the Bank's 26 Country Office Representatives, 8 project mid-term evaluations, 46 PCRs, 24% of all PPMRs, 11 Country Papers, other relevant documents and PRI reports. This review process permitted the identification of a number of key factors affecting project success, important operational feedback and relevant lessons learned.

A. What Factors Contribute to Project Success and Promote a Results Framework?

3.02 A number of factors are known to affect project success and the promotion of a results framework^{16/}. Some of these factors are external and go beyond the control of the Bank. Some are project or sector specific; others are more IDB-related. The enabling environments for project success in borrowing member countries have to do with stable socio-political frameworks, macroeconomic and fiscal discipline and sound budgetary processes, congressional support, appropriate regulatory, monitoring and fiduciary frameworks, and capabilities and continuity of executing agencies. On the side of the Bank, it is crucial to maintain responsiveness and flexibility in meeting Borrower needs and changing dynamics, to have the right resources and skills mix in place, as well as strategies, products, tools and incentives to facilitate results-based approaches. Sound monitoring, reporting and evaluation systems to document results are part of the equation on both sides, to enable effective dialogue, close coordination on portfolio management and the assessment of development effectiveness of interventions.

^{16/} A **results framework** may be defined as the extent to which Bank interventions (projects, programs, country and sector strategies, etc.) are results-driven in terms of design, monitoring, management and evaluation. This includes the ex-ante definition of clear indicators of the intended outcome of those interventions (expressed in terms of quantity, quality, time and locations), as well as the baseline data against which progress is to be measured. Interim performance targets (if applicable), establishment and maintenance of the necessary information gathering and monitoring systems, and a clear definition of reporting responsibilities, content, and timetables are also key elements of a good results framework.

- 3.03 The analysis carried out in the elaboration of this report, particularly the review of PCRs and operational experiences indicates that good performance of projects was attributed to the following factors at the level of Borrowers and executing agencies:
- a. **Sound macroeconomic and fiscal environments** in which to execute projects, including the appropriate policies, regulatory frameworks, and fiduciary controls in place to ensure accountability.
 - b. **Strong political support from Executive and Legislative bodies** to ensure continued national priority for investments, timely allocation of local counterpart resources and the passage of laws, particularly critical to achieving success in reform operations.
 - c. **Technically and institutionally proficient executing agencies** with adequate managerial and operational capacity to comply with Bank policies and operational procedures, especially procurement of goods and services, and good inter-agency coordination skills to resolve potential problems in an opportune manner. These institutions were usually found to be empowered to make decisions for project management, have a low level of staff turnover and high continuity of dedicated staff during the life of the project.
 - d. **Active stakeholder participation and partnership at the design stage** to support project execution and contribute to a higher level of project “ownership”.
 - e. **Mutually agreed upon monitoring plans** to support project execution, including the establishment of built-in verifiable indicators from the outset to measure progress made during project implementation, and flexibility in design to facilitate mid-course corrections.
 - f. **Pro-active ongoing dialogue with the Bank** to discuss local counterpart and other implementation bottlenecks, anticipate and mitigate risks, and make timely decisions on project restructuring or cancellation when projects are non-performing and/or there are changes in national priorities.
- 3.04 On the Bank’s side, specific factors that impacted positively on good project performance included:
- a. **Proactive dialogue and client interaction** through: (i) ongoing discussions of the fiscal and sectoral context of projects; (ii) promotion of stakeholder participation and greater project ownership; (iii) Bank staff efforts to orient Borrowers on IDB policies and procedures, procurement requirements, and the logical framework and monitoring methodology; (iv) project start-ups, re-launching, administration and mid-term evaluation missions and portfolio reviews; and (v) team building and project team support exercises.

- b. **The ability of the Bank to mobilize a wide array of instruments, and to expand its toolkit of financial and non-financial products to respond to Borrowers' needs** (see Box 3.1). The Bank's critical support to Borrowers through technical assistance grants, MIF operations, ongoing consultant support, policy advice and other non-lending services was noted as highly beneficial to project implementation.
- c. **Simple and realistic project designs** that allowed for flexibility during execution, limited the number of contractual conditions, and were dimensioned commensurate with institutional and financial capabilities.
- d. **IDB's ongoing training and technical assistance activities** during project implementation. In particular, beneficiaries continued to rate IDB training efforts (i.e. institutional analysis, procurement, Bank policies and procedures, monitoring and evaluation) through the C & D Training Program and other training activities as instrumental in promoting continuity in executing agencies and resolving difficulties during execution. Proactive supervision and support by the Bank, as well as specific technical skills of IDB staff, were also cited by Borrowers in most PCRs as key to resolving bottlenecks.

Box 3.1: Tailoring Lending to the Needs of Borrowing Countries

The Bank has been responsive to Borrowers' requests for alternative lending modalities. More than half of Country Offices reported in their Annual Portfolio Assessments that the Flexible Lending Instruments (FLIs)^{17/} approved in 2000 by the Board of Directors were meeting the needs of Borrowers. Approvals for FLIs in 2001 reached US\$996.6 million for 30 projects, up from US\$227.3 million in 2000.

A recent ROS review of the FLIs concluded that the expanded menu of Bank instruments has: (i) provided a number of alternatives to traditional lending mechanisms; (ii) helped "tailor" Bank interventions to particular needs of borrowing member countries by recognizing that "one size does not fit all"; and (iii) promoted a culture of results and greater flexibility in the design and processing of operations. Flexible Lending Instruments have also proven to be more than "*a sum of its parts*." In effect, the combination of these instruments enables the setting up of a successful chain of performance monitoring conducive towards attainment of expected outcomes.

Results to date show that:

- Innovation loans are particularly effective in smaller, Group D countries, permitting them to address new development issues, pilot reform efforts, and innovations.
- Multi-phase loans have been highly favorable, with active participation from A & D Countries. "Trigger" indicators have been effective in focusing operations on performance and results.
- FLIs represent an increasingly large percentage of the lending portfolios in some countries, and are demanding a new focus and expertise both on the part of the executing agency and Bank staff, in the way that the projects are monitored (i.e. more intensive monitoring and results orientation).
- Areas for improvement include strengthening of portfolio indicators, helping Borrowers to deal with these new results-based approaches, and additional training for Bank staff and Borrowers.

^{17/} On March 22, 2000, the Board of Executive Directors approved four new Flexible Lending Instruments consisting of: Innovation Loans (ILs) which support the testing and piloting of new approaches and emphasize capacity building and learning; Multi-Phase Loans (MPLs) which expanded the existing Bank program to provide continuous support for programs that require more time for fruition; an overall Sector Facility Framework and specific Sector Facilities (Education, Health, Trade and Disaster Prevention, the latter approved in 2001) to support rapid and tangible action in specific sectors; and a Project Preparation and Execution Facility (PROPEF), which amended the existing Project Preparation Facility (PPF) to include project start-up activities and support a more seamless transition to project execution.

B. What Factors Hinder Specific Project Performance?

- 3.05 This section focuses on key factors identified in the review of operational reports and feedback that hinder project implementation: (2) weak institutional capacity; (1) shortcomings in project design; and (3) deficiencies in monitoring and evaluation capacity to track and measure the results of interventions.
- a. **Shortcomings in project design** contribute to bottlenecks during project implementation. As noted, these deficiencies include: i) insufficient stakeholder analysis up front; ii) inadequate analysis of institutional workload and absorptive capacity; iii) complex and inflexible designs; iv) incomplete diagnostic of the problematic or understatement of the issues; v) lack of benchmarks and indicators to monitor progress in institutional development; vi) unrealistic project execution periods and over-dimensioning of project scope; vii) insufficient risk analysis; viii) unreliable and unquantified progress indicators (both intermediate and final); and ix) lack of built-in mechanisms for learning and self-evaluation to promote feedback in the design of new operations (see Box 3.2).

Box 3.2: Project Design Still Needs Improvement

Some examples of issues and lessons learned identified in Country Portfolio Reports:

- Institutional capacity of executing agencies over-estimated during project analysis. In particular, project design in countries with high levels of international donor assistance should limit conditionalities and avoid over-burdening institutions that manage various projects.
- Project scope over-dimensioned and execution periods unrealistic. In the design and cost of new operations for sub-national entities and social sectors, longer execution periods should be considered.
- Insufficient project preparation and inadequate analysis of executing agency management capacity. More in-depth analysis of the financial capacity of beneficiary institutions should be carried out during project preparation, especially in the case of Congress, municipalities, and other autonomous institutions.
- Lack of sufficient attention to maintenance and sustainability of investments, and no indicators to monitor supervision of works.

- b. **Weak institutional capacity of executing agencies** is also a major deterrent to project quality. This point has been reiterated in past Annual Reports and is an ongoing area of concern. Institutional deficiencies such as lack of project management skills, technical expertise, leadership, reporting and monitoring systems to track results were consistently reported by 77% of Country Offices as the primary bottleneck affecting project implementation. High levels of staff turnover in executing agencies, as well as changes at the level of minister, for example, in the case of Colombia, also continued to undermine gains in project performance as shown in Box 3.3. In addition, some institutions continued to suffer from “*executing agency overload*,” which occurs when institutions are flooded with resources from

external donors, but cannot perform up to their expectations due to their limited absorptive capacity. This situation commonly occurs after emergency situations, for example, in Central America after Hurricane Mitch, as noted in the Country Portfolio Reports for Guatemala, Honduras, and Nicaragua, or in Bolivia where there is significant international donor assistance, signaling a need for better donor coordination. Furthermore, the decentralized nature of projects in the social and MOS sectors place additional burdens on already weakened institutions, since they require substantial inter-agency coordination and resource management, often in conjunction with private sector and civil society organizations.

Box 3.3: How Do High Levels of Staff Turnover in Executing Agencies Affect Project Execution?

65% of Country Offices reported in 2001 that staff turnover in Executing Agencies negatively affected project execution. This problem was most prevalent in Group D countries (8 of 11 countries), but also affected 3 of the 4 Group A countries, 2 of the 3 Group B countries and 3 of the 8 Group C countries.

How Are Projects Affected by Staff Turnover?

- Continuity in project activities is curtailed: delays are common (stop and go), project execution periods usually require extensions to last disbursement, cost overruns are likely to occur and benefits to intended beneficiaries postponed
- Extensive efforts by Bank staff must be made to train new staff, especially in procurement monitoring parameters and operational policies and procedures. If new staff is appointed on the basis of political preferences instead of technical merits, the situation is exacerbated.
- Priorities may change with new staff and leadership, frequently resulting in lengthy delays, or reformulation/cancellation of project components
- Procurement processes are delayed or rendered more problematic, often resulting in higher costs.

How do Changes in Ministers Affect Projects? In the case of Colombia:

The effect of institutional changes on projects was analyzed by RE3. A review of projects approved since 1990 revealed that:

- *For every change in minister of the sector in which the project is located, there is a delay of one year if the change occurs during project preparation, and an additional delay of a year every time a change occurs during project execution.*
- *Ministers changed an average of two times during project preparation and three times during project execution.*

- c. **Deficiencies in monitoring and evaluation systems** affect the proper documentation of results and managerial attention to improving project performance. At the project level, if reliable monitoring systems are not set up at the onset of project execution, it becomes difficult to measure progress in terms of “outcomes”^{18/}. At the sector level, improperly designed indicators and benchmarks make it more difficult to articulate project interventions with overall sector and country strategy approaches. It is also important to “close the loop” between the results of ongoing project implementation and new programming and project design.

3.06 As the following section will indicate, the Bank is moving towards the development of a results-oriented and systematized approach to country programming, project preparation,

^{18/} Outcomes refer to the uses made by beneficiaries of the outputs produced by the project, and can thus be observed shortly after project completion.

monitoring and evaluation processes with relevant indicators, and expected results defined at country, sector and project levels.

C. Measures Taken by Management to Address Key Project Performance Issues

3.07 The existing and upcoming challenges of portfolio management require new approaches to be taken by the Bank and Borrowers. Actions already underway are presented in the following paragraphs. Areas that require additional efforts will be discussed in the next section. Activities currently in process include:

- a. **Measures to improve project design** during 2001 such as intensified efforts to involve stakeholders early on in the project design phase, and to build project ownership on the part of Borrowers and executing agencies. The Regional Operations Departments also stepped-up efforts to improve project design through promotion of the use of the logical framework early on in the project cycle, internal quality reviews and more active participation of Country Offices through the use of technology, and measures to simplify project design and reduce the number of contractual conditions required before first disbursement. Several logframe training workshops for project teams, Deputy Representatives and Division Chiefs were carried out in 2001. In addition, a prototype of a new Logframe virtual “Help Desk” was created to assist project teams through the provision of best practice Logframe models, monitoring indicators, and just-in-time support in the preparation of better logical frameworks. Regional Departments are also taking actions during project design to improve the financial controls, including the assessment and design of executing agencies’ financial, accounting and internal control systems, and later the use of concurrent audits and ex-post review of disbursement justifications.
- b. **Measures to improve institutional development capacity** such as: i) project team-building workshops supported by the Office of Learning; ii) promoting an integrated approach to capacity-building by incorporating specific institutional development components into project design; iii) ongoing training of Bank and Borrower staff in institutional analysis; iv) the use of the PROPEFs to set up baseline data, and project monitoring and evaluation systems; and v) working to improve the sustainability and effectiveness of projects by fostering beneficiary participation, mobilization of local resources, and strengthening of local institutions.

To support project teams in institutional analysis, ROS/PMP developed an on-line institutional checklist that provides guidance in examining relevant dimensions of the issue, including preparation of an institutional development plan to track progress made in strengthening executing agency capacity. In addition, a draft Institutional Development Sector Facility has also been prepared by RE2 (and will be presented for Board approval in 2002) specifically to support capacity building activities in borrowing member countries. The Facility is expected to support the quality, capacity, and efficiency of public sector institutions.

- c. **Measures to reduce the lag between project approval and eligibility for first disbursement** were taken in 2001, in response to the issues identified in Chapter II (paragraphs 2.18-2.21). These included the use of PROPEFs to assist in setting up project implementation units, the hiring of consultants to support the compliance of conditions prior to first disbursement, the execution of project start-up workshops with Borrowers and executing agencies, and seminars for legislators to help reduce bottlenecks associated with the ratification of contracts or passage of laws by Parliament. Revised procedures for contract signature, legislative ratification, and extensions to the date of final disbursement were approved to tighten existing procedures, and will continue to receive priority as part of Management's Portfolio Improvement Action Plan. The main changes include the following:
1. Maximum deadlines for contract signature and legislative ratification of loans: In the case of investment loans, only under exceptional circumstances may the period from Board approval to legal effectiveness exceed 24 months (i.e., from Board approval to contract signature, a maximum of 12 months; from contract signature to legislative ratification, a maximum of 12 months). The EVP must approve all exceptions.
 2. Extensions to the date of final disbursement: Country Office Representatives have been granted the authority to extend the date of final disbursement for a maximum of 24 months. The Regional Manager may approve an additional 12-month extension. Requests for extensions over 36 months will require the EVP's approval.
 3. Loan repayment starting date: A new standard contract clause will be introduced whereby loan repayment would start on a fixed date rather than a moving date based on the date of last disbursement. This is intended to avoid moving the repayment date forward in cases where the date for final disbursement has been extended.
 4. Cancellation of small loan balances: All uncommitted loan balances of less than 5% would be cancelled when no disbursement activity has been registered in the previous 12 months.

It is worth noting that, in addition to the measures taken above, several countries have now taken decisive measures to reduce the delays between project approval and contract effectiveness. For example, in Nicaragua, the National Assembly has 60 days to ratify loan contracts. If the contract has not been ratified during this period, a presidential decree can be issued ratifying the contract. In the case of Colombia and Brazil, loan contracts are not signed if the conditions prior to first disbursement have not been substantially completed. These types of initiatives have been useful in helping reduce project start up delays.

- d. **Initiatives to reduce procurement bottlenecks** were carried out by the Procurement Office of ROS and consisted of: i) the preparation of procurement templates and checklists to assist in project preparation; ii) further streamlining of procurement procedures; iii) the evaluation of national procurement systems in collaboration with the World Bank, with the eventual goal of issuing joint Country Procurement Assessment Reports; iv) the execution of 3 regional training workshops in procurement (in Jamaica, Panama, and Paraguay), along with preparation of guidelines detailing the essential steps and concepts of the procurement process; v) the initiation of a web-based modular procurement training program to be recognized by certificates of achievement, in collaboration with the National University for Distance Learning of Spain (UNED); and vi) start-up of an initiative to promote of the use of electronic means in government procurement to increase transparency, competition and due process in public procurement.
- e. **Initiatives to enhance financial management** included the use of concurrent audits during project execution as well as the use of SAFOBID, a financial management tool, provided by the Bank to executing agencies which also supports the preparation of annual audited financial statements. In addition, an Audited Financial Statements Action Plan (AFS Plan) was prepared by the Regional Operations Departments, with the support of ROS/DAU. The AFS Plan identifies relevant issues and presents recommendations for: (i) reducing delays in the submission of AFS by Borrowers/executing agencies; (ii) improving the quality of audit reports; and (iii) increasing the use of external audits as a monitoring tool for project execution. To help implement the AFS Plan, ROS/DAU carried out the following activities.
1. New terms of reference for external audits of the Bank-financed projects were finalized, to increase the scope of work to cover operational project audits, with emphasis on internal control systems, in addition to the traditional financial audits. They also constitute an important tool in providing standard guidelines for independent auditors and in facilitating the understanding of Bank's audit requirements.
 2. New Bank-wide standard bidding procedures for selection and contracting of private audit firms were implemented to assist Borrowers/executing agencies to carry out the bidding process, as well as improve selection and contracting process of auditors.
 3. New standard guidelines were designed to facilitate the analysis of AFSs by Country Office Financial Specialists.
 4. Comprehensive missions were undertaken by ROS/DAU to Country Offices in Belize, Bolivia, Dominican Republic, Mexico, Nicaragua, Panama, and Paraguay to provide technical assistance and training on the Bank's disbursements and external audits policy and operational procedures for Bank staff, executing

agencies, and external auditors. Quality control reviews of external auditors' work were performed on a selective basis, including the assessment of institutional capacity of the Supreme Audit Institutions of Panama and Chile.

5. In September 2001, the Bank sponsored a two-day meeting of the MDBs' financial management technical working group representatives. These meetings facilitated the review and harmonization, to the extent possible, of MDB policy and operational procedures on project financial management. Along the same line, the Bank, in conjunction with the World Bank, performed Country Financial Accountability Assessments (CFAA) for several borrowing member countries.
 6. Project documents submitted to the Management Review Committee were reviewed to ensure quality at entry in the consistency, integration, and standards on the interpretation and application of the Bank's disbursements and external audit requirements.
- 3.08 **Actions to improve results-based frameworks** were strengthened in 2001 in an effort to work towards the goal of enhancing development effectiveness in Bank interventions. Key steps taken by Management in this direction are described below:
- a. **Refocusing of country strategies (Country Papers)** has already begun to include targets and indicators for measuring impact at the country and sector level. New guidelines for country strategies have been approved and will be put into practice in 2002. Regional Departments also worked closely with national authorities to carry out programming missions shortly after portfolio reviews, adding value to policy level discussions.
 - b. **More proactive dialogue with national authorities to monitor performance** was clearly evident in Country Portfolio reports. Country Offices are discussing performance issues on a regular basis with national authorities. For example, in the case of Colombia, in 2001, the government approved a document (CONPES 3119) which authorizes the allocation of both credit and counterpart resources for operations programmed by the country. Once assigned to the budget, they remain in effect for the duration of the project. Regional Departments and Country Offices have also set up effective "control tower" mechanisms, usually through the Ministry of Planning or Finance, to oversee project performance in the entire country portfolio, and to advise authorities on key portfolio issues. Other initiatives include the proactive re-dimensioning of ongoing projects, and mutually accepted cancellation (partial and total) of project to cut losses or focus on new priorities.
 - c. **At the project level, Management has been placing more emphasis on quality at entry in the project preparation phase.** Project documents are being reviewed more closely through internal quality enhancement within the Regional Departments and at formal Management Review Committees. Appropriate indicators are being emphasized in project design conducive to building up a results framework and the

monitoring and measuring of progress. In addition, mid-term evaluations (MTEs) are now being included as part of the project design in specific projects to facilitate mid-stream corrective measures and enhance results and learning (see Box 3.4).

Box 3.4: What Have We Learned From Mid-Term Evaluations (MTEs)?

The purpose of MTEs is to help monitor various aspects of project implementation to determine whether or not the project is on track, and whether or not any mid-course corrections are needed to achieve the project objectives. This evaluation is usually done halfway through the project's originally projected execution period.

Positive Results:

- MTEs promote results-oriented dialogue with Borrowers.
- MTEs encourage Borrowers to set up monitoring systems to track progress.
- MTEs facilitate mid-course corrections during project execution.
- MTEs enhance operational learning and contribute to better assessment of outcomes at project completion.
- MTEs contribute to better project outcomes.
- MTEs provide an improved monitoring framework for later evaluation of impact.

Improvements Needed:

- Regional Departments should expand the use of MTEs for all projects that could benefit from it, but especially for projects in the social and MOS sectors.
- Results of MTEs should be incorporated in PPMR updates opportunistically; inconsistencies in progress were occasionally noted among MTEs results and PPMR content.
- Cost of MTEs should be shared with the Borrower to ensure accountability on both sides.
- Regional Departments should maintain an on-line database on MTEs to be carried out, along with their submission/compliance dates.
- To promote lessons learning and cross-fertilization among Regional Departments, as well as an independent view of project progress, the Bank team preparing the MTE should include staff from HQ and COFs responsible for project supervision, and to the extent possible, at least one other staff member from another Regional Department, SDS or another office with relevant expertise in the particular area being evaluated.
- A template for the preparation of MTEs is being prepared to promote greater consistency among regions.
- MTEs should be made available for reference on the Bank's intranet site.

- d. **Support to Borrowers and executing agencies in project management and monitoring systems remains a priority.** Many Country Offices supported executing agencies in 2001 through the C and D Training Program, particularly in areas related to procurement, the logical framework, and project monitoring and evaluation. To address specific deficiencies noted at the Borrower level during project preparation, a number of projects approved last year included some type of technical assistance to help executing agencies set up monitoring systems. In many instances, these systems were added as conditions prior to first disbursement, since they were not in place prior to project approval. In other cases, systems were set up as part of the project reporting preparation phase through the use of the PROPEF facility. The planned Institutional Development Sector Facility previously mentioned in this chapter will also assist borrowers in setting up monitoring and evaluation systems as an integral part of institutional development and the attainment of a results culture. The Bank

will also support clients through the development of an online logframe training module and web-based project monitoring module, both of which are currently in preparation and expected to be online during 2002. Many of these initiatives taken by Management support the recommendations made by OVE on the Bank's monitoring system, and represent an important nexus with OVE in building monitoring and evaluation capacity in borrowing member countries.

- e. **Enhancement of Management's monitoring and reporting systems continued in 2001**, through the full deployment of PAIS, the revamping of the PPMR system, and first stage upgrading of the PCR system. The improved on-line PPMR system has already been tested in several Country Offices, and will also incorporate MIF projects and eventually, selected non-reimbursable technical cooperation operations. The enhanced PPMR system has been designed to include historical information to facilitate preparation of the PCR, and will be linked in the future to other relevant reports and monitoring systems, including PAIS. In addition, the new PPMR will capture important data related to financial and sustainability issues, institutional development and lessons learned. The system will be launched in time for the June 2002 portfolio review, accompanied by new guidelines and training for specialists both at Headquarters and in the Country Offices.

The focus of the revamped PCR will be on *results*: comparing ongoing achievements with original expectations and performance indicators, analyzing project execution problems and the effectiveness of corrective measures, and emphasizing lessons learned in the process that can be fed back into the design and execution of future projects. The new, streamlined PCR will comply with OECD/DAC guidelines for MDBs, include an evaluation of both Bank and Borrower performance, an assessment of the project's contribution to institutional development, and an outlook on expectations regarding the project's ability to continue to deliver benefits in the medium and long-term. Finally, to make the PCR process more participatory and results-oriented, the Country Offices will organize a "project exit meeting" to discuss the report with Borrowers, and to jointly prepare an action plan for any operational follow-up as need it. This plan, along with the Borrower's contribution, will represent an integral part of the PCR that will be sent by the Country Office to Regional Department Management for review, and eventual posting to the PCR intranet site. The revamped PCR format and content will be fully completed by year-end.

- f. **Advancements in PRI's monitoring and reporting systems in 2001** included the preparation of a proposal for self-evaluation activities, semi-annual project reporting, PCRs and the capturing of lessons learned^{19/}. The proposed system for PRI operations will be designed along the lines of the Bank's existing PPMR/PCR system, while addressing the unique and confidential aspects of PRI's operations and incorporating MDB-ECG Standards for evaluations for private sector operations. It is anticipated

^{19/} Specific lessons learned from PRI operations have been included separately in Appendix 11 for information.

- that further advancements will be made in 2002 to get the relevant systems in place and operational.
- g. **Development of a Lessons Learned Retrieval Network (LERN) to capture operational lessons learned.** To enhance feedback and loop-in of lessons learned into the design of new operations, ROS/PMP has developed a prototype of a lessons learned retrieval network that will capture lessons of operational experience from the revamped PPMR and PCR systems (eventually from the PRI monitoring system), from other sources, including OVE recommendations. To assist project teams working on new operations as well as other interested parties, the system will also include a text-search facility for lessons learned, and will be accompanied by rollout training for Bank staff when it becomes fully operational by year-end. In a future phase, it is planned to extend access to the system selectively to Borrowers/executing agencies.
 - h. **Management's Self-evaluation Plan for 2002** will focus on improving the evaluability of Bank interventions, as well as on the quality of performance monitoring and reporting. Initiatives specified in Management's 2001 Work plan on Evaluation and Performance Reporting will be reported on separately in 2002.
 - i. **Actions to automate and link up the pieces in portfolio monitoring and management** were initiated in 2001 and will be continued in 2002. Efforts will include a series of actions to link up the PPMRs, PCRs, MTEs, and other loan administration documents in one place, as recommended by OVE (see Appendix 12 for details regarding implementation of OVE's 12 Recommendations on the Bank's Monitoring System). The revamping of the PPMR and PCR systems constitute a major part of this task, which will be complemented by links to other relevant project performance reports, and selective sharing of information with borrowers and executing agencies at a later date.
 - j. **Ongoing collaboration with other institutions and executing agencies to support project monitoring activities** included the provision of assistance by ROS/PMP to the Central American Bank for Economic Integration (CABEI) in helping this institution set up its own monitoring system. In addition, technical advice was provided by Management to Colombian authorities in charge of monitoring performance and quality of execution of Bank-financed projects, and to the Nordic Development Fund in the development of its new on-line monitoring system.
 - k. **Ongoing inter-agency collaboration for enhancing project performance reporting of cofinanced projects** continued during the year. ROS/PMP and the Cofinancing and Export Promotion Division of RE2, in conjunction with Regional Departments, co-sponsored a workshop in 2001 on performance ratings of cofinanced projects, which provided a forum for sub-regional development banks, the World Bank, and bilateral cofinancing partners to exchange information on project monitoring experiences, methodologies and challenges. Specific case studies were

reviewed. This event served to broaden awareness on different performance measurement methodologies and improve ways to coordinate among cofinancing partners. Management will continue to collaborate with other MDBs in comparing performance methodologies and the monitoring of development results in 2002.

D. Areas Requiring Additional Efforts by the Bank and Borrowers

- 3.09 Based on the analysis of the status of the portfolio and the findings of this report, it is recommended that the Bank and Borrowers scale up attention to the following areas described below:
- 3.10 **Closer articulation of country strategies, sector strategies and specific project interventions.** The new sector strategies being developed will incorporate sector performance indicators. Strategies are being developed for the Bank's two overarching goals (Poverty Reduction and the Promotion of Social Equity, and Sustainable Economic Growth), as well as for the four priority areas of the Institutional Strategy (Social Development, Modernization of the State, Competitiveness and Regional Integration). These six areas will provide a strategic framework for the Country Strategies and Country Portfolio Reviews, and enable the articulation of the new sector strategies with programming strategies and operational activities of the Bank.
- 3.11 **Institutional development and sustainability.** Institutional weaknesses in the region have been highlighted in the ARPE as one of the major impediments to achieving development objectives. Intensified efforts by the Bank and Borrowers are needed to continue addressing capacity building and institutional sustainability to ensure continuity in project implementation and to promote long-term development results. To support this process, attention is needed by the borrower in developing sound civil service programs to eliminate politicization in staff assignments and to reduce the high levels of staff rotation that impede the achievement of development results. The Bank, for its part, will continue to provide assistance to Borrowers to boost civil service and institutional reform, and to address long-term institutional development needs.
- 3.12 **Political commitment of Borrowers and project ownership.** For successful project implementation and achievement of development results, it is imperative that national commitment be demonstrated in the timely ratification of loan contracts, assignment of counterpart resources, and passage of laws in support of the modernization of the state process. The execution of projects within the appropriate legal and regulatory frameworks should also be accompanied by streamlined national procurement systems that ensure transparency. The Bank should continue rationalizing its procurement procedures, and promote the use of electronic means in government procurement to increase transparency, competition and due process in public procurement.
- 3.13 **Intensified efforts to improve project design.** Efforts must be strengthened to ensure relevant stakeholder participation and consensus building; appropriate dimensioning of projects commensurate with Borrower capacity; built-in flexibility in project architecture;

realistic cost estimates and time frames; and appropriate indicators and targets to measure development effectiveness. These actions are all critical to enhancing project success and should be intensified by both the Bank and Borrowers.

- 3.14 **Improvements in managing for results and in monitoring and evaluation systems.** Support should be continued at the national, sector, institutional, and project levels in order to realistically track results, and to improve articulation between programming, operational interventions, monitoring and evaluation. On the one hand, there is a need for Borrowers to boost efforts to enhance performance measurement. The Bank, on the other hand, will complete its revamped PPMR and PCR monitoring and reporting system by year-end, including the incorporation of Multilateral Investment Fund (MIF) operations in the on-line reporting system, and subsequently, selective non-reimbursable technical cooperation operations. At a later stage, PRI should conclude the work on its semi-annual reporting system, and begin the preparation of project completion reports during 2002. At the project level, guidance and technical support to project teams in the development of appropriate indicators, including those for PBLs, will be continued. Bank training and skills building of staff in this critical area will be emphasized.
- 3.15 **Boosting self-evaluation efforts and in-house learning.** It is important to capitalize on operational lessons learned to continue improving new project design. The prototype of the LERN electronic database should be tested and made operational throughout the Bank during 2002. Evaluation efforts by the Bank should also systematically involve borrowers as part of a national capacity building process in the region. Such efforts will also be supported by the preparation of a training module and CD-Rom for borrowers currently under development. ROS will also continue efforts to develop system interfaces with Borrower systems to selectively share key project information electronically, as part of the Bank's Project Information Operations System (POIS).
- 3.16 **Increased focus on portfolio quality enhancement and reporting by Management during 2002.** As requested by the Board during the discussion of the 2000 ARPE, Management will implement a Portfolio Improvement Action Plan which is being presented simultaneously with the 2001 ARPE to the Board Committee. This Plan will support key initiatives already underway, as endorsed in Chapters 3, 4, and 5 of the 2000 ARPE, as well as follow-up on actions proposed in this report aimed at improving quality assurance and portfolio performance. In general, these initiatives will address: a) "hot spots" identified in the portfolio that need attention; b) governance and institutional weaknesses at the national and project level; c) lags between project approval and eligibility for first disbursement, as well as the issue of extensions to last disbursement; d) deficiencies in Borrowers' results-based management systems and monitoring and evaluation frameworks; e) internal Bank shortcomings in design, monitoring and evaluation systems, performance reporting and knowledge management for results; f) new portfolio quality indices, comparative studies on portfolio issues, including exploration of possible areas of benchmarking of IDB performance; and g) continuing efforts to review the quality of performance reporting, including random sampling of PPMRs and ongoing review of PCRs to ascertain progress in tracking of performance

indicators and outcomes, consistency of ratings, quality of reporting on implementation issues, relevance of actions taken and lessons learned.

- 3.17 **Heightened attention to development effectiveness.** Measures are needed to assist in defining options, alternatives and incentive frameworks to systematically forge a results-oriented framework for the Bank's development assistance efforts. In addition, dialogue on development effectiveness should be promoted throughout the Bank, between the Bank and Borrowers, and among MDBs and other pertinent institutions. To arrive at a common understanding, symposia or workshops should be organized between the Bank and Borrowers within the next year to exchange experiences and discuss methodologies for measuring and documenting development results.