

CHAPTER IV: CONCLUSIONS AND OUTLOOK

- 4.01 This report pointed out a number of factors affecting portfolio performance in 2001 in the region. 2001 was a difficult year for the borrowing member countries. External factors beyond the control of the Bank were noted, such as the worsening macroeconomic and fiscal environment, fluctuations in commodity prices, natural disasters, and/or country specific political changes. Some countries experienced a reduction in the availability of counterpart resources needed to execute projects, as they tightened fiscal and monetary policies to maintain macroeconomic stability. Institutional weaknesses were also manifested in limited absorptive capacity of Borrowers, high levels of staff turnover and overload in executing agencies. Specific sector or project-related factors were also mentioned in this report. In addition, the ARPE pointed to a number of internal IDB-specific areas that need to be addressed to improve the effectiveness of the Bank's portfolio management activities and proactivity in supporting Borrowers and executing agencies. These range from enhancements in project design; the need for better stakeholder analysis up front; improvements in performance indicators to measure and monitor progress; more realistic dimensioning of projects and execution periods; more streamlined project management procedures; greater proactivity in portfolio monitoring, as well as improvements in the monitoring and evaluation systems of both the Bank and the Borrower.
- 4.02 The report noted an overall improvement in 2001 in the number of projects and amounts tied up in problem project status from the year before. There was a slight increase in alert status projects in terms of number and commitment values, signaling the need for continued proactive monitoring. The quality review carried out of the portfolio and an analysis of the measures taken by Management indicate that while the Bank is moving towards a greater focus on a results culture, there is room for improvement.
- 4.03 Specifically, it has been noted that:
- The quality of PPMRs has improved, although results are still uneven. PCRs have also shown advances in terms of better quality and reduction of the backlog from previous years. A significant contribution in improving the results chain consisted of the advancements made by Management in responding to OVE's recommendations on the Bank's monitoring system.
 - Progress has been made on project design issues, including greater simplicity of designs and built-in flexibility to facilitate course correction and incorporate lessons learned from operational experiences into new projects.
 - Efforts to more actively involve stakeholders in the entire project cycle are underway, with added focus on project quality at entry to set the stage for better measurement of project outcomes.
 - Specific measures have been put in place to improve project implementability and evaluability, including increased emphasis on operational review procedures, logframe preparation, supported by staff training and the development of new

- instruments and tools (institutional checklist, logframe Help Desk, performance indicators, etc.).
- Efforts have moved forward to improve the results focus orientation of country strategy guidelines and sector strategies, and the measurement of results, whether at the country, sector or project level.
 - The Bank and Borrowers have placed more emphasis on the appropriate dimensioning of country specific portfolios, in response to macroeconomic and fiscal constraints. In this regard, a collective partnership was underscored as there was evidence of more joint proactive attention to project reformulations, cancellations and restructuring, particularly in the case of problem or alert status projects.
 - Procedures were tightened by Management to address delays in legal effectiveness and extensions to disbursement periods. While the effects of these changes are still to be seen, Management will proactively track progress in these key areas.
 - Management expanded its toolbox of instruments, and showed responsiveness to Borrower requests for more innovative-type lending and results-based tracking, as evidenced by the recent assessment of the flexible lending instruments.
 - Portfolio enhancement activities and the improvement of monitoring tools continued to move towards fruition, such as the full deployment of the Project Alert Identification System, the design and testing of the revamped PPMR system, revamping and streamlining of the PCR and progress reporting, development of the Lessons Learned Retrieval Network, as well as the linking up of operational systems. All of these advances support the goal of results management and the better documentation of development effectiveness, crucial for operational feedback and managerial decision-making.
 - Internal and public dissemination of portfolio reports, such as the 2000 ARPE, sector portfolio reviews, operational lessons learned, web-based and sector network-related information to support staff efforts increased throughout the Bank.
 - Heightened training and technical assistance efforts to support Borrowers also played a crucial role in disseminating knowledge about the Bank's policies, procedures, and operational practices in the region.

4.04 The report also noted areas where improvement is still needed:

- Better operational risk analysis and assessments of institutional capabilities of Borrowers, and further work with Borrowers to ensure more realistic dimensioning of projects and execution periods commensurate with fiscal and institutional absorptive capacity.
- Increased efforts with respect to the quality of portfolio monitoring and reporting at all levels. More focused attention should be given to the monitoring of the problem and alert status projects, as well as specific sectors, sub-sectors or country portfolios where key issues or hot spots were noted in this report. It is expected that the analysis contained within the ARPE will serve as a tool to provide feedback and guidance to operational staff in addressing country and sector-specific portfolio issues, and in enhancing the dialogue with Borrowers.

- The need for the Bank to focus more on enhancing the monitoring and evaluation capacity of borrowers, and on results, in tandem with its own initiatives to revamp its own monitoring and evaluation frameworks and systems.
 - Further measures to promote more effective donor coordination both by the Bank and borrowers are needed, particularly in a number of Group D countries that have received significant amounts of international assistance. Attention should be geared towards avoiding executing agency overload in these particular countries.
 - Continued efforts to tackle the pervasive institutional weaknesses that continue to erode potential gains in development interventions must be sustained. While the Bank can continue to provide support for longer-term institutional capacity building, these efforts cannot substitute for far-reaching reforms that must be undertaken by countries in the region.
- 4.05 Management has demonstrated that it is committed to improving the quality of its products and ensuring heightened attention to development effectiveness at all levels, but many challenges lie ahead. A key challenge is to promote a results-oriented operational framework in a holistic manner throughout the Bank. This task will first require a common understanding within the Bank of the concept of development effectiveness and what it may entail. The approach taken should not be piecemeal, but should be systematic, even if gradually developed over time and implemented in phases. As partners in the development process, it will also be crucial for the Bank to engage the Borrowers in dialogue and partnership on these matters.
- 4.06 A critical part of moving forward will consist of implementing the actions outlined in Management's Portfolio Improvement Action Plan. This plan must be flexible and should be reported on in the ARPE, to reflect progress made on specific activities. In the 2002 ARPE, Management will also follow-up and report on the recommendations of this report presented in Chapter III.
- 4.07 Throughout this process of improving portfolio quality and implementing actions aimed at enhancing development effectiveness, the Bank will continue to maintain contact with Borrowers, MDBs, bilateral agencies and cofinancing partners to exchange experiences on portfolio management, results-tracking methodologies and practices to gauge outcomes. As these measures take shape, with both Bank and Borrower partnership, gains in portfolio quality can be consolidated.