

AFRICAN DEVELOPMENT BANK GROUP



**PROCESS REVIEW OF THE 1997 ANNUAL PORTFOLIO
PERFORMANCE REVIEW**

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

2 September, 1999

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List of Abbreviations and Acronyms

ADB	:	African Development Bank
ADF	:	African Development Fund
APPR	:	Annual Portfolio Performance Review
CPIP	:	Country Portfolio Improvement Programme
CPPR	:	Country Portfolio Performance Review
CSP	:	Country Strategy Paper
DO	:	Development Objective
ESW	:	Economic and Sector Work
IP	:	Implementation Performance
MPDE	:	Methodology for Project Design and Evaluation
NTF	:	Nigerian Trust Fund
OCOD	:	Central Operations Department
OPEV	:	Operations Evaluation Department
PAR	:	Project at Risk
PCR	:	Project/Programme Completion Report
PIP	:	Portfolio Improvement Programme
PIU	:	Project Implementation Unit
UA	:	Units of Account

Preface

1. This Process Review evaluates 1997 APPR from the standpoint of its declared objectives. These objectives are: to review and assess Bank Group portfolio performance; analyse implementation factor and their relationship to performance; and review performance improvement measures which have been put in place since 1996 APPR.

2. This Process Review found that the APPR process continues to improve alongside portfolio performance. But there are still areas for improvement. These are: the urgency in putting in place the much-awaited new rating format as a step towards a consistent rating methodology; the need to factor in quality-at-entry issues into the definition of Project-at-Risk; and the need to strive for 100% coverage in project supervision. As OPEV moves gradually to harmonise its ratings with other MDBs in order to ensure comparability of outcomes among these institutions, it is also desirable for the Operations Departments to harmonise their ratings with OPEV in order to ensure internal comparability of project outcomes.

1. **Introduction**

1.1 This report is a continuation of the effort begun in 1998, aimed at reviewing the process by which the Annual Portfolio Performance Review (APPR) is produced, including its methodology and output. The first attempt² subjected the 1995 and 1996 APPR to a joint evaluation. The objective of this report is to review the 1997 APPR a view to establishing whether or not it achieved the objectives, which it set out for itself.

1.2 Unlike earlier APPRs, the 1997 stated its objectives in clearer terms, thus making its evaluation a lot easier. These objectives are:

- i) a review and assessment of portfolio performance trends in sub-regions, countries and programming sectors;
- ii) an analysis of individual implementation factors and their relationship with project performance with a view to identifying critical areas of performance; and
- iii) A summary of performance improvement initiatives currently underway in various departments of the Bank aimed at improving the efficiency and developmental impacts of projects, including a note on progress to date in implementing the Global Portfolio Improvement Programme.

1.3 1997 APPR will be reviewed against the background of these objectives. The rest of this report is divided as follows: Section 2 summarises the main findings of 1997, while Section 3 contains OPEV's analyses and findings as they relate to the objectives of the APPR. In section 4, the implications of the findings of the APPR are further analyzed. The last Section contains OPEV's conclusions and recommendations.

2. **Main Findings of the 1997 APPR**

2.1 In 1997, Bank Group portfolio consisted of 654 on-going projects, programmes and technical assistance activities, where an "on-going" operation was defined as an operation with a positive balance and whose deadline for the last disbursement expired after December 31, 1996. Sub-regionally, North Africa accounted for 38% of the operations, West Africa 26%, Southern and East Africa each had 14%, and Central Africa 8%. But in terms of number of operations, West Africa had the most, at 218, and Central Africa, the least at 88.

2.2 In 1997, Bank Group net disbursement increased by UA 27.54 million (2.4%) over that of 1996. While ADB disbursement decreased relative to 1996, that of the ADF disbursements increased over the same period. NTF net disbursements registered no appreciable change. A notable feature of the portfolio is the ageing process, which it is undergoing. With few or no approvals, undisbursed balances are bound to decline, and the amount owed may increase, depending on existing payment schedules. Since fewer projects entered the portfolio during 1994-1996, the average age of the portfolio has continued to increase. But for 1997, the average age of the portfolio was less than 3 years of age, 41% of the portfolio were between the ages of 3-7 years, 17% at 7-9 years and 22% at years and above. More will be said on this later, but suffice it to mention that as the Bank approves new projects, the average age of the portfolio will decrease.

² ADB/BD/99/11

2.3 The first step in the assessment of portfolio performance is the analysis of rating as determined by staff using field or desk-based supervision ratings. Two separate scores are calculated from the ratings for each project. The first score represents the project's implementation progress (IP). This score is based on the average of 14 separately rated indicators. The second score measures the likelihood that the project will achieve its development objectives (DO). This is based on the average of four indicators (see Tables V and VI for the list of IP and DO indicators). The ratings for each indicator are based on a four-point scale (0,1,2,3). A score of less than 1.5 constitute a problematic rating. For a project to be considered problematic, it must score either an IP or a DO score with a value of less than 1.5.

2.4 The next step is to determine which projects have the potential of becoming problematic. The usefulness of this concept is that it signifies which projects, though currently performing satisfactorily on IP and DO ratings, are likely to become problematic over time. For a project to be classified as potentially problematic, it must meet at least two of the following criteria:

- Elapsed time between approval and effectiveness is greater than 12 months for project loans; 6 months for structural adjustment and TAF operations;
- Conditions precedent rated at 0 or 1;
- Procurement of goods and services rated at 0 or 1;
- Counterpart funds rated at 0 or 1;
- Country with high failure rate (PPAR rated as unsatisfactory or worse 50% or more of the time over the past 7 years and in which a country is judged to be a weak performer; and
- IP or DO ratings rated unsatisfactory two years in a row.

2.5 When potentially problematic projects are combined with actual problem projects, the measurement of the Project-At-Risk (PAR) is obtained. The PAR corrects for possible underestimation of problem projects by providing for a comprehensive assessment of the status of the portfolio.

Coverage

2.6 Although the portfolio comprised of 654 on-going projects, not all of them were rated for purposes of portfolio review performance. In order to decide which project to rate, a distinction was made between active and inactive projects. Inactive projects are defined as those that were at least 95% disbursed and/or 95% completed in terms of achieving physical output or were newly approved and had not yet experienced disbursement and/or had low levels of activity. As a result of this distinction, some 198 operations were not rated. Altogether, a total of 456 operations were rated, comprising 429 active operations and 27 inactive operations. Among the 198 operations not rated, were 79 operations approved in 1997 but not supervised, 86 inactive operations and 33 active operations that were not supervised for reasons of security. As a result of the distinction between active and inactive projects, the ratings' database is smaller than the total portfolio by about 30%.

Methodology and Results

2.7 In order to judge the performance of the portfolio, 1997 APPR utilised the ratings based on Implementation Performance (IP) and Development Objectives (DO) and the concept of Project-at-Risk (PAR)³. On IP criterion, the portfolio showed a substantial decline in problematic projects – from 26% in 1996 to 16% in 1997. On DO criterion, there was a slight

³ See section 3 for the explanation of these concepts.

decline over 1996 – from 16% to 15% in 1997. Together IP and/or DO problem projects declined from 29% in 1996 to 22% in 1997 (see Table I below). On the basis of these, 1997 APPR concluded that the trend in portfolio improvement, which started a few years ago, has continued to manifest itself.

Table I
Distribution of Operations Among Rating Categories

	<u>Implementation Progress</u>			<u>Development Objectives</u>		
	1995	1996	1997	1995	1996	1997
<u>Non Problem Operations</u>	70%	75%	84%	78%	84%	85%
Highly Satisfactory	7%	6%	9%	19%	19%	23%
Satisfactory	62%	69%	75%	58%	65%	62%
<u>Problem Operations</u>	29%	25%	17%	23%	16%	15%
Unsatisfactory	27%	22%	15%	19%	14%	13%
Highly Unsatisfactory	2%	3%	2%	4%	2%	2%

Source: 1997 APPR

2.8 Following the tradition, which was started in 1996, 1997 APPR went a step further to develop the concept of Project-at-Risk, which is a broader measure of portfolio performance. On PAR measure, 43% of the portfolio was at risk in 1997. This represents a marginal improvement over 1996, when it was 45%. On country basis, 13 countries had less than 25% of their projects at risk, while 7 countries had more than 70% of their projects at risk.

2.9 On regional basis (see Table II), the South region had the largest gains in improvement over the previous year as well as the lowest percentage of projects at risk among all the five regions.

Table II
Portfolio Performance by Region

<u>Region</u>	1997 – Problem Projects			Projects-at-Risk	
	<u>% IP</u>	<u>%DO</u>	<u>%IP&DO</u>	<u>1997</u>	<u>1996</u>
Central	33%	20%	26%	65%	62%
East	21%	19%	26%	53%	47%
North	7%	12%	12%	55%	22%
South	8%	5%	8%	25%	54%
West	18%	18%	27%	33%	42%
Total	16%	14%	22%	43%	45%

Source: 1997 APPR

2.10 This performance can be attributed to a decrease in the number of actual problem projects as well as a decrease in the number of potentially problematic projects. Although the Central region had the largest proportion of PAR, there was little change in the overall proportion of PAR from the previous year.

2.11 Table III below shows performance by sector. Multi-sector projects improved the most in PAR performance over 1996. It showed a decline of 25%, thereby bringing the sector in line with other sectors. This decline could be traceable to the fact that the sector had few rated

operations than other sectors (p.13, 1997 APPR). The agricultural sector had 49% of its projects at risk – a slight change from 1996. The industry sector similarly experienced little change – a decline of projects-at-risk from 41% to 40% in 1997. Improvements were also recorded in public utility and transport projects.

Table III
Projects-at-Risk by Sector

<u>Sector</u>	1997 – Problem Projects			Projects-at-Risk	
	<u>% IP</u>	<u>%DO</u>	<u>%IP&DO</u>	<u>1997</u>	<u>1996</u>
Agriculture	16%	14%	24%	49%	50%
Industry	17%	14%	23%	40%	41%
Multisector	19%	6%	18%	42%	68%
Public Utilities	13%	9%	14%	30%	35%
Social	25%	14%	28%	47%	40%
Transport	10%	10%	15%	42%	46%
Total	16%	15%	22%	43%	45%

Source: 1997 APPR

2.12 The best performing lending instrument in 1997 was the line of credit, which had 25% of its projects at risk (Table IV). This represents an improvement of 17% from the 1996 level. Adjustment loans continued to have the highest percentage of projects and commitment at risk. The small number of these operations does not make them strictly comparable to other lending instruments. Technical assistance operations make up almost one-third of problematic operations. This partially explains the fact that about 50% of these operations are PAR. For all of them, the problem, which they face, is that associated with the time required for their effectiveness and procurement issues.

Table IV
Projects-at-Risk by Lending Instrument

<u>Instrument</u>	1997 – Problem Projects			Projects-at-Risk	
	<u>% IP</u>	<u>%DO</u>	<u>%IP&DO</u>	<u>1997</u>	<u>1996</u>
Lines of Credit	13%	17%	25%	25%	42%
Project Loans	13%	10%	22%	41%	44%
Sector Investment	17%	20%	40%	40%	40%
Sector Adjustment	10%	14%	25%	50%	83%
Structural Adjust.	17%	0%	17%	83%	67%
Transport	10%	10%	15%	42%	46%
Technical Assist.	5%	6%	16%	50%	45%
Total	16%	15%	22%	43%	45%

Source: 1997 APPR

3. OPEV'S Findings

Effectiveness of the APPR Process

3.1 The Central Operations Department of the Bank (OCOD) took over the responsibility of preparing the APPR with the 1996 APPR. Hence 1997 APPR went through much the same process as its predecessor. The process was characterised by consultations with relevant departments in the Bank, including OPEV, and regular inter-departmental working group meetings, where successive drafts of the report were discussed. OPEV was represented at all the meetings. Thus OPEV's analyses are based on its review of relevant materials as well as by its participation at these meetings.

3.2 1997 APPR is a much-improved document. OPEV review of 1996 APPR commented on the size of the document and the fact that it was not reader-friendly. It is noted that many of the tables, which tended to make the report cumbersome to read, have now been assembled in the appendix. Also worthy of note is the exclusion of private sector operations from the analysis. In its review of 1996 APPR, OPEV had argued that the tools of analysis being applied to public sector operations are not strictly applicable to private sector operations, and that the operations of the latter should be subjected to a separate review. OPEV would like to note that the review of private sector operations is underway and it looks forward to conducting its process review.

3.3 Since taking over the preparation of the APPR, the Central Operations Department has done a fairly satisfactory job in the face of severe manpower constraints. Although the process of preparing the APPR has improved over time, there are signs that the process may be undergoing some strains. In several places of the document, OCOD wrote as if it is expecting some other unit, other than itself, to take some actions relating to the management of the portfolio. For example, in discussing the shortcomings of the realism index, the APPR argued that "Management should address this concern so that the overall assessment of the portfolio can be improved" (1997 APPR, p.15). Similar concerns can be found on pages 9 and 11. The dual role—as a Policy Department and the role of a Portfolio Management Department—could, presumably, have prompted this type of statement. This gap in the management of the portfolio ought to be closed. While OCOD can continue to take responsibility for the preparation of the APPR as a Policy Department, it is not a portfolio management unit. Preoccupied, as they are, with the management of their regional portfolios, the Operations Departments cannot take on the responsibility of managing the global portfolio either. In other institutions, for example, the World Bank, the solution has been found in the creation of a separate unit (the Quality Assurance Group in the World Bank) for managing and monitoring certain aspects of the portfolio. If the Bank were to establish such a unit, the unit would be able to monitor, on case by case basis, many of the problems raised in this review and in the APPR itself.

Objective 1: *To review assess portfolio performance trends in sub-regions, countries and programming sectors.*

3.4 One of the main conclusions of 1997 APPR was that on all indicators of performance—IP, DO and PAR-- Bank Group portfolio showed some improvement over 1996. On IP criterion, problematic projects declined from 26% in 1996 to 16% in 1997. On DO criterion, there was a slight decline—from 16% in 1996 to 15% in 1997. Together, IP and/or DO problem projects declined from 29% in 1996 to 22% in 1997. On PAR criterion, 43% of the projects were at risk in 1997 compared to 1996 when it was 45%.

3.5 While welcoming this gradual but systematic improvement in Bank portfolio performance, it is observed that no special explanation was provided for this improvement. Was it due, for example, to actions internal to the Bank or actions due to Regional Member Countries (RMC)? Was it due to improved supervision for example, or to the fact that some projects were excluded from the analysis? If it was due to actions an unusual action by the Bank, can such an action be factored into future portfolio management as a lesson of experience? One would need to know the answers to these questions in order to establish the degree of confidence to place on the results. Some of the results are, in fact, suspicious. On IP criterion, the number of problematic projects declined by about 10% in one year, while the number of projects at risk among lines of credit declined by 17%. These dramatic improvements call for explanation, without which one is bound to speculate as to whether or not these dramatic changes are not due to measurement errors in the data. These and other factors mentioned below are bases for cautioning against overly optimistic interpretation of the results of the 1997 APPR.

Methodology of Analysis

Coverage

3.6 1997 APPR utilised project ratings from 456 project supervision ratings, of which 65% were field supervised. This is a major improvement over 1996 when only 45% of the projects were field supervised, and should therefore improve statistical basis of the analysis. The Bank should however strive for 100% field-supervision, as this is the best way of eliminating subjectivity in the ratings. It should also be remembered that some 198 projects (30% of total portfolio) were not rated at all for one reason or the other. While the recorded improvement should be noted, it should be borne in mind that a third of the portfolio was excluded from this exercise. On page 10, 1997 APPR itself admitted that the decline in problem projects was probably due to the fact that many of the inactive projects were not rated. It remains uncertain what would have been the impact on the findings if they were rated and the results of the ratings included in the analysis.

Rating Methodology

3.7 In its review of 1996 APPR, OPEV called attention to the inherent weaknesses in the rating methodology of the APPR. These weaknesses, which leave too much room for subjectivity in the ratings, were acknowledged by the APPR itself. Hence it put up an in-depth review of the ratings and proposed a new rating format. But unfortunately there was not enough time to test and use the new format. The 1997 APPR, in effect, continued with the old rating system. In as much as this is so, the criticisms of 1996 APPR (for example) are equally applicable to 1997 APPR. Those criticisms will not be repeated here as it is noted that efforts are being made to use the new rating format for 1998 APPR.

3.8 Since it embarked on the process review of the APPR, one issue which OPEV has persistently raised, has been the possible underestimation of problem projects. In an attempt to respond to this concern, successive issues of the APPR have been calculating the realism index. This index, which is designed to serve as a check on the extent of underestimation of the number of problem projects, is calculated as a ratio of PP and PAR. As this ratio approaches 100, the smaller the gap between problem projects and projects-at-risk. In other words, a high ratio indicates that most projects at risk have been identified as problem projects.

3.9 This index has two minor problems—one dealing with the way it is measured and the other, with its application to the 1997 APPR. Firstly, the interpretation of the index can be subject to ambiguity since it includes, from the definition of PP, the projects that are potential

candidates for PAR. Let's ignore this ambiguity for a moment and observe the application of the index to 1997 APPR. In 1996, this index was 63%, whereas it declined to 49% in 1997. 1997 APPR attributed this decline to the fact that "staff flagged more projects as having a less than satisfactory performance in one of the PAR criteria, while operation was judged to be satisfactory overall" (1997 APPR, p15). The APPR then went on to suggest (on the same page) that the decline supports the need for continued modifications to the present rating system in order to get rid of optimistic ratings by staff who perceive poor project ratings as reflecting unfavourably on them. This statement is nothing more than an admission that the ratings are subjective. It would also tend to reinforce OPEV's position for a rating system that is sufficiently robust to eliminate or at least reduce, subjective and sometimes, overoptimistic ratings.

Definition of PAR

3.10 The concept of Project-At-Risk was developed as a means of identifying potentially problematic projects. This measure is to assist Management in identifying those projects, which could become problematic over time even though they are currently performing satisfactorily on both IP and DO criteria. For a project to be rated potentially problematic, it must meet two of the criteria listed in 2.4. The development of this concept should be commended. But a careful examination of the criterion would suggest a need for its improvement as a measure of portfolio performance. All the criteria, except that on PPAR rating outcome, are implementation-related indicators. This then gives the impression that the PAR measure is nothing more than an extension of the IP criterion. In order to make the measure of PAR more robust, the condition required for a project to qualify for a PAR status ought to include those that make up the development objective indicators and any of the other (mostly IP) conditions. This would give the indicators of development objective the importance they deserve as potential sources of risk to the outcome of a project.

3.11 Even if DO were to be included in the form suggested above, the definition of PAR would still not be sufficiently robust. There are other factors besides those contained in IP and DO which could pose serious risks to a project. A good example here is the initial conception of the project. A badly designed project faces as much risk of failure as an on-going, well-designed project, which is facing implementation problems. These initial preparatory works—called the quality-at-entry—go a long way in shaping the final outcome of a project. Such works include upstream activities like project identification, preparation (including economic and sector work), and appraisal. OPEV's recent studies on quality of economic analysis and Bank Group experience with policy-based lending operations were all attempts to establish the extent to which these factors were playing a role in the final outcome of projects. A portfolio performance report is usually carried out on on-going projects after they have entered the project pipeline. It is therefore difficult to talk of quality at entry at that stage. But one way out is to score projects for their quality at their points of entry, and keep a trace on such scores throughout the project cycle, for eventual use at the level of the APPR. In addition, a correlation analysis between the scores at entry and ultimate index of performance at APPR would enrich the findings of the APPR.

Objective 2: To analyse individual factors underlying project performance

3.12 1997 APPR also tried to identify the factors, which influence portfolio performance. The purpose was to assist Management to have predictive tools by which to anticipate difficulties in the management of its portfolio. The results are contained in Tables V and VI below. Table V shows that there were improvements in four categories of the implementation factors—

compliance with legal covenants, and procurement performance. Financial performance and Activities and works remained largely unchanged between 1996 and 1997.

Table V
Implementation Progress Indicators
Percentage of Projects with Unsatisfactory Ratings

	Compliance Legal Covenants		Procurement Performance		Financial Performance			Activities and Works			
	A1	A2	B1	B2	C1	C2	C3	D1	D2	D3	D4
1997	18%	23%	24%	24%	8%	24%	32%	59%	17%	27%	28%
1996*	28%	35%	33%	39%	13%	28%	34%	64%	22%	28%	33%
Change in points from 96 to 97	-10%	-12%	-9%	-15%	-5%	-4%	-2%	-5%	-5%	-1%	-4%

Source: Annex 1 Table 39

Key

- A1: Loan conditions precedent
- A2: General Conditions
- B1: Procurement: Consultancy
- B2: Procurement: Goods and Services
- C1: Foreign Exchange
- C2: Local Currency (Counterpart Funds)
- C3: Disbursement Flows
- D1: Adherence to Implementation Schedule
- D2: Performance of Contractors
- D3: Performance of Contractors
- D4: Project Management

3.13 Table VI below (on DO indicators) shows that while the percentage of projects with unsatisfactory ratings was uniform across the indicators; they showed some decline over 1996.

Table VI
Development Objective Indicators
Percentage of Projects with Unsatisfactory Ratings

All Rated Projects	E1	E2	E3	E4
1997	14%	14%	14%	15%
1996*	15%	23%	22%	20%
Point change from 96 to 97	-1%	-9%	-8%	-5%

Key

- E1: Achieving Project Objectives
- E2: Benefits sustained beyond investment stage
- E3: Contributions to institutional Capacity
- E4: Expected Rate of Return

3.14 These analyses are impressive in bringing out those factors, which influence the performance of projects. Without distracting from the quality of the work done by the APPR, it needs to be pointed out that the indicators considered here are, except those relating to DO, all implementation-related. While they are all critical to the outcome of a project, they are certainly not the only factors. A similar point was made earlier in the discussions of project-at-risk. As a group, they constitute what one may call indicators of inputs into a project. By concentrating solely on them, the APPR is leaving out the output side of the project cycle. For sometime now, all MDBs as a group, have been trying to come to terms with this output side of a project cycle

(a project's development effectiveness) by developing uniform indicators by which a project could be evaluated. The indicators are:

- Relevance: the consistency of a project with a country's development strategy and the MDB's strategy for the country;
- Efficacy: extent to which project a project achieved its development objectives as articulated at approval;
- Efficiency: extent to which project benefits, at evaluation, are commensurate with inputs (i.e cost-benefit analysis);
- Sustainability: likelihood that project results at evaluation, will be maintained over the intended useful life of the project life; and
- Institutional Development.

3.15 OPEV is in the process of adapting these indicators, with their appropriate ratings, for its use. Their uniform application by all MDBs would permit unambiguous comparisons of evaluation results across these institutions. Similarly their adoption by the Operations Departments of the Bank would make it easier to conduct the "disconnect" analysis, which the APPR is heavily relying on to gauge the extent of underestimation in project ratings.

Objective 3: *To provide a summary of performance improvement initiatives in the Bank.*

3.16 The final objective of the APPR was to provide a summary of the performance improvement initiatives that have been put in place since 1996 APPR. These initiatives are to be found in the efforts made to provide implement the Global Portfolio Improvement Programme (GPIP), address the problem of ageing and problematic projects, and the feed the lessons learnt from OPEV evaluation work back into operational activities, among others.

Ageing and Problem Projects

3.17 1996 APPR identified a list of 269 problem and ageing projects. These were subjected to review in order to determine their status. As a result of this exercise, 217 of them were considered to be no longer problematic, closed, cancelled, complete or nearly finished. By the end of 1998, the remaining would have either ceased to operate or would have been cancelled. These closures, cancellations, or completions are indications of the extent to which the portfolio is being actively managed, and they can be captured by one composite index—the proactivity index. In the present case at hand, this index, which is calculated as the number of actual problem projects closed or cancelled in a year, divided by the total number of actual and potential problem projects, comes to 81% (i.e. 217 divided by 269). This is a useful index, which the APPR may wish to include in its list of indicators to be calculated annually. This review takes note of the high score of this index and it is hoped that such proactive measures would become a regular feature of the management of the Bank Group portfolio.

Global Portfolio Improvement Programme

3.18 1997 APPR also reported on the progress made in implementing the GPIP put forward in 1996 APPR. While some progress has been achieved in this area, OPEV is unable to find any report on the persistence of problem projects in the agriculture and multi-sectors in Bank portfolio. Similarly it is unable to find any concrete progress report on efforts to address the poor state of the portfolio in the Central region.

Feedback Mechanism

3.19 1997 APPR reported on the extent to which the findings of OPEV studies are being incorporated into the operational work of the Bank. For example, in response to the finding of the study on the quality of economic analysis, OCOD initiated steps to put in place a set of guidelines for by which to judge the quality of economic analysis in projects that are about to enter the project pipeline. In a similar fashion, OCOD has taken measures to address the shortcomings identified by OPEV in its other studies on quality of supervision and the use of the Technical Assistance Fund. While noting these positive responses to the various studies, it is hoped that the strong working relationship, which the two units of the Bank have developed, would continue as a step towards further improvement in the portfolio.

4. Implications of the findings of APPR

(i) Aggregate Performance

4.1 Although this review has expressed some reservations on certain aspects of the results of the APPR, it is nonetheless true that the analysis of aggregate portfolio performance was fairly satisfactory. But there remains another source of concern, which remains neglected to date. This has to do with the differential between IP and DO ratings. In a similar review of 1996 APPR, the observation was made that "... the size of the gap between IP and DO ratings is a measure of the risk that individual country portfolio will not achieve its development objectives, particularly when this gap is considerable and the portfolio is a large one. What this means is that the reported implementation problems may preclude the attainment of development objectives" (ADB/BD/WP/99/07, p.7). In annex I, table 17, 1997 APPR reported the differences between IP and DO for 1996 and 1997. While this gap has declined, Bank-wide, from 9% in 1996 to 1% in 1997, it is still high for some countries. In order to ensure that implementation problems do not preclude the attainment of development objectives, it is hereby recommended that countries with large IP/DO differentials and with large portfolios be carefully examined, project by project, as a step towards taking corrective measures.

(ii) Sectoral Performance

4.2 Since the beginning of systematic review of Bank Group portfolio in 1995, some sectors have showed persistent problems. The agricultural sector for example, has been exhibiting persistent weakness in terms of the high number of problem projects and the number of projects within it that are at risk. In 1996, 50% of the projects in the sector were at risk. This fell only marginally to 49% in 1997. The sector has also been harbouring a large number of problem projects—33% on IP and 32% on DO in 1995; 29% on IP and 23% on DO in 1996; and 16% on IP and 23% on DO in 1997. While the number of problem projects appear to be declining, the same is not true on a more robust measure of performance—the Project-at-Risk. The record of the social sector (health and education) is along similar lines—40% of the projects within it were at risk in 1996. In 1997, it was 47%. These findings are also confirmed by successive OPEV evaluation reports. These findings are worrisome, given the importance of these two sectors for Africa's development, and the role, which the Bank attaches to the sectors in its strategy for poverty alleviation in the Continent. These two sectors are not only the flagships of the Bank Group in its crusade against poverty, they are central to its newly developed *Vision*. In addition they constitute the *raison d'être* of ADF intervention in Africa. In its review of 1996 APPR, OPEV raised concern about the poor performance of these key sectors of the African economy. But the APPR did not offer any explanation for this poor performance and neither did it propose any special portfolio improvement programme beyond the general measures that are supposed to be applicable to all problem projects. This need not be so. Given the centrality of these two

sectors for the Bank Group development policy for Africa, the time has probably come for the Bank to take a more critical look at each individual project in these sectors as a step towards the initiation of appropriate corrective measures.

(iii) Performance by Lending Instrument

4.3 The performance of some of the lending instruments has been as disappointing as that of some sectors mentioned above. Sectoral adjustment lending and structural adjustment lending have performed particularly badly. In addition to having, on the average, about 15% of problem projects, sectoral adjustment lending had 83% and 50% of its projects at risk in 1996 and 1997 respectively, while structural adjustment lending had 67% and 83% of its projects at risk in the two years. In its review of policy-based lending operations, OPEV had called attention to the problems (mostly design and implementation) of this lending instrument. It is no surprise that this concern is being confirmed by the findings of the APPR. Sector and structural adjustment lendings are required if only to help create a conducive environment for other types of lending. This is why it is important that the projects in these sectors be examined on case by case basis as a step towards taking appropriate corrective measures.

5. Conclusions and Recommendations

5.1 1997 is a well-written document. In many respects, its quality has improved considerably. While the process of preparing it has also improved, there is now a need for a unit, (separate from OCOD, which prepares the APPR), to assume responsibility for monitoring and managing Bank Group portfolio. The statistical foundations of the findings are also more robust as they are based on field supervision of about 65% of Bank Group projects. The ideal situation would be to have all projects field supervised for this exercise, as desk supervisions are usually subjective. Robustness of data also calls for the rating (and inclusion) of all projects irrespective of whether they are active or not. The few reservations herein expressed on the findings mean that the results should be interpreted with caution. These notwithstanding, 1997 is a good document, which has achieved its major goal of assessing, and providing information on, the state of Bank Group portfolio.

5.2 In OPEV review of 1996 APPR, the point was made that the rating methodology remained the Achilles' heel of the APPR. In so far as the new rating methodology is yet to be introduced, OPEV's reservations on 19 96 APPR remain valid for 19 97 APPR. It is however noted that the new rating format will be applicable in the 1999 APPR.

5.3 The major purpose of a process review of the APPR is to contribute to its improvement. In that spirit, the following recommendations for further improvement of the APPR:

- The quality of the findings of the APPR is dependent on the quality of the rating methodology, which generate the initial data. As of now, the quality of that data is questionable. This is why every effort must be made to put the new rating methodology in place for the use of the 1999 APPR.
- Considerable progress has been made in widening the coverage of supervised projects, which form the basis of the ratings. But more can still be done beyond the 65% coverage, which 1997 APPR achieved. Similarly, efforts should be made to ensure that all projects—active or inactive—are included in the rating system.

- The definition of PAR appears to lean too heavily on the side of implementation-related factors. As factors other than implementation factors, influence the outcome of a project, efforts should be made to include these other factors, particularly those relating to quality-at-entry. This can be done by scoring projects for their quality at their points of entry into the pipeline, keep tracers on such scores for later use at the level of APPR preparation.
- Before long, OPEV would be using a new set of indicators for judging development effectiveness. The adoption and use of such indicators by Operations Departments is recommended, as this would permit easy comparisons of development outcomes across the Bank.
- The dual role of OCOD as a policy department and as portfolio monitoring unit leaves a gap in portfolio management in the Bank (see Para. 3.3). The Bank may therefore wish to consider the possibility of creating such a special unit for the specific purpose of managing non-departmental specific portfolio problems that may arise in the preparation of the APPR or in OPEV's review of same.