Evaluation of Country Portfolio Review Reports

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I. INTRODUCTION

1.1 The purpose of this document is to present OVE’s evaluation of the country portfolio review reports (CPRs). In so doing, it seeks to answer three basic questions:

a. What is the CPRs role in the Bank’s oversight and evaluation system, what are their goals and objectives, and what contents should they have in order to fulfill these objectives?

b. What is the quality of CPRs, being that quality is understood as the ability of the reports to fulfill their purposes?

c. What is the effectiveness of CPRs in monitoring the portfolio and in operational and strategic management? In other words, what is the instrument’s capacity to bring about measurable improvements in project performance and in the programming and design of country action strategies?

1.2 The CPR evaluation is performed as part of the portfolio supervision and management exercise. The CPR serves as the portfolio’s annual report and summarizes much of the Bank’s work, by using an array of instruments. The key element in this assessment is the portfolio review mission, which culminates with production of the CPR document. Assessing both the report and the activities surrounding it presented several challenges.

1.3 First, the only information used in OVE’s review comes from the Bank’s own reports or other supervision documents, such as Project Performance Monitoring Reports (PPMRs) or reports generated by the Project Alert Identification System (PAIS). Consequently, this evaluation does not verify how accurately CPRs reflect the performance of the Bank’s portfolio, nor does the evaluation assess, in situ, the effectiveness of CPR action plans.

1.4 Secondly, it has been difficult to separate the evaluation of the CPRs themselves from the other supervision instruments that serve as inputs for the CPRs and vice versa. The Bank has a set of 16 supervision and management instruments, with which the CPRs should be integrated. The merits or shortcomings of those reports

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1 Management prepares an annual report on the status of country portfolios and the measures that are required to improve execution and development effectiveness. This supervision and management process is carried out during portfolio review missions, and the results, agreements, and conclusions are included in the CPRs. The portfolio supervision exercise, coupled with the project performance monitoring system (PPMR), are the most important instruments used by the Bank to supervise and manage the operational and development objectives agreed with the countries. The evaluation of both instruments was approved by the Board of Executive Directors in the 2005 OVE work plan, as a means of deepening analysis of the particularly relevant issue of Management’s affective capacity for self-evaluation and for taking timely and appropriate corrective action in its operations.

2 This evaluation, together with the evaluation of the PPMRs and PCRs, is performed as part of the evaluation of the project supervision system (RE-293).
cannot always be separated from those of the Bank’s other evaluation instruments, especially the merits and shortcomings identified in the PPMRs, PAIS, or Bank missions (Administration, Sector, Specific, or any other missions to monitor and manage operations).  

A. Methodology

1.5 The methodology for the evaluation was based on an analysis and systematization of relevant documents and interviews with staff from Headquarters and the Country Offices. That material and the Bank’s operations database were used to establish the goals and objectives of the CPRs, identify a typology for their content, evaluate the quality of reports produced, and measure the effectiveness of the CPR exercise in terms of the strategic and operational management and supervision of the portfolio.

1.6 Specifically, the evaluation is based on the following documents and information sources:

- The Bank’s strategic and policy documents, especially those relating to the supervision function.
- Detailed analysis of all CPRs completed during 2004 and specific analysis of selected CPRs for the 1998-2004 period, including an assessment of selected indicators and report characteristics.
- Analysis of execution indicators.
- Interviews with key staff from Headquarters, in order to elicit their views about the importance and effectiveness of the CPR reports, hear suggestions, and determine user satisfaction and expectations.
- Survey of technical staff from Headquarters and the Country Offices, in order to generate a broader range of views on the issues mentioned in the previous item.

B. Structure of the report

1.7 This report is divided into four chapters. Chapter two presents the frame of reference for the CPR evaluation. This is where the CPR’s role in the Bank’s evaluation system is defined, as well as its objectives and content, in accordance with established standards, the Programming Committee’s decisions, and opinions expressed in interviews and the survey conducted. Chapter three evaluates the quality of the content of all 2004 CPR documents in terms of fulfilling the objectives of portfolio supervision and management. Chapter four is aimed at evaluating the effectiveness of CPRs: i) as an instrument of country dialogue, ii) for improving the operational execution of loans, and iii) for improving the portfolio’s development effectiveness, in accordance with the country strategy. Finally, chapter five presents the principal conclusions of this evaluation and offers a number of recommendations.

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3 Document RE-293.
II. FRAME OF REFERENCE

A. CPRs: a continually evolving document

2.1 Three players are involved in the portfolio monitoring exercise. These are the Country Office (COF), which according to the Bank’s normative fulfills a basic function of directing and coordinating the mission, producing inputs, and providing guidance for dialogue with the country; the authorities and executing agencies in the countries with which the portfolio is discussed and the action plan agreed upon for the following year; and Headquarters, through the top regional forums (RE1, RE2, or RE3), which lead the dialogue with country authorities and prepare the CPR for submission to the Programming Committee.

2.2 The current normative regarding the preparation of CPRs is inadequate to accurately determine the range and scope of the CPR’s objectives. Moreover, the evolution of CPRs prepared over the period in which the current normative was in effect (1998-2004) shows that the CPRs have undergone continuous change, with their objectives and content gradually expanding. In fact, the CPRs started out as relatively short documents (1998) focused on project operational supervision and on the design of an action plan for problem projects or projects at risk. Since 2000, the CPRs have taken on additional content, even though the normative has not been formally modified.5

2.3 A variety of regulatory documents, drafted at different times in response to changing demands, have resulted in the lack of a clear and uniform standard. This has led the three Regions to develop their own guidelines for their CPR reports. At the same time, growing demands on the CPRs have led to the production of increasingly complex, dissimilar, and costly documents.6 OVE’s analysis of the Programming Committee minutes (see Table A.1 of the Annex) reveals that each year additional demands are placed on the CPRs; these new requirements have gradually been incorporated into the documents.

B. Role of CPRs in the Bank’s supervision system

2.4 The evolution of CPRs has grown largely out of rising demands for supervision of the Bank’s effectiveness in meeting the development objectives established in the country strategies. In the absence of other supervision instruments designed to track strategy results, the scope of the CPRs has evolved increasingly from their original profile, linked to operational considerations, to include strategic considerations. The existing normative was broad enough to accommodate topics associated with development effectiveness. In this sense, the CPRs began gradually to respond to the interest in supervising and managing the development effectiveness of the

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5 A description of the evolution of this framework is presented in Annex A.
6 OVE estimated the average cost of the portfolio review exercise at US$84,000. Annex E presents cost estimates for all CPRs for 2004.
Bank’s portfolio, without abandoning their original purpose of operational supervision.

2.5 At the level of operational supervision, the CPRs seek to gauge the progress of individual projects in order to ensure that the planned outputs are obtained and the fiduciary obligations acquired by the countries are met, and to identify the risks and agree on action plans with the country authorities that improve execution and increase each operation’s likelihood of success. Most of the instruments developed by the Bank (PPMR, PAIS, administration missions, and other inspection, monitoring, and evaluation instruments for operations carried out by Headquarters or the Country Offices) have been intended for this level of operational supervision. CPRs are the most holistic element in this system in the context of each country, and include the results, commitments, and forecasts set out in the other operational supervision instruments.

2.6 The Bank has fewer instruments at its disposal in the area of supervision and strategic management. Although clearly mandated under the Eighth Replenishment, the design of instruments to supervise development effectiveness has been slow and difficult. Given this deficiency, the CPRs seek to evaluate the portfolio’s effectiveness in attaining the established development objectives, identify development risks, and propose action plans for a results-based alignment of the Bank’s strategy and programming.

C. CPR objectives and content

2.7 Given the lack of a clear and uniform normative, the evaluation had no benchmark that could be used to evaluate the CPR’s content and quality. Given this limitation, the evaluation team adopted an evaluation strategy based on the construction of a typology for the CPRs. This typology was based on: (i) contents that CPRs should have, based on OVE interviews and the opinion survey, and (ii) content that would be necessary in order to attain the various objectives set out in the different normative governing CPRs and in the resolutions adopted by the Programming Committee.

2.8 A number of key employees from Headquarters were interviewed (see Annex B), and a survey of staff from Headquarters and the Country Offices was conducted (see Annex C). A total of 18 individuals were interviewed face-to-face, and a total

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7 The established guidelines for preparing country papers (Country Papers, GN-2020-6, March 2002) require an annual report for submission to the Bank’s Board of Executive Directors (Country Paper Updated) that presents the economic and social conditions of each country, a general overview of IDB operations in the pipeline, and the most significant portfolio-related issues. The program of operations is also to be subject to annual review and submitted to the Board for consideration. None of these annual reports specifically includes a progress report on implementation of the country strategy, the development effectiveness of the Bank’s action, problems and risks encountered, or possible courses of action to address them. The country reports submitted to the Board during 2004 were quickly reviewed, and nowhere were measurements found of progress towards strategic objectives, an analysis of portfolio risks, or portfolio management plans based on the development objectives.
of 62 staff members were surveyed. The interviews and survey explored the Bank’s opinion regarding the importance of different CPR objectives and content, as well as the importance that these “should have” in order for the CPRs to fulfill their objectives in the Bank’s supervision system.

2.9 Table 2.1 presents the opinions gathered through the survey with respect to the current objectives of the CPRs (“IS”) versus the desired objectives (“SHOULD BE”). Survey respondents classified the importance of the proposed objectives into one of four categories: Not important, Somewhat important, Important, or Very important. The responses from the two extreme categories are reported in order to give a clearer picture of the opinions of respondents.

2.10 Interviewee responses were used to construct the indice de desajuste, which is a measure of the difference between the importance currently assigned to the proposed objective and the importance it should have. A ratio of 100 reflects opposing opinions on current versus hypothetical status, while a ratio of 0 means that opinions for the two scenarios are evenly matched.

2.11 The findings indicate a broad consensus that the CPRs are currently one of the Bank’s key operational management tools. There is also consensus that CPRs should also be geared toward strategic management of the portfolio. In nearly 90% of cases, survey participants responded that both objectives are currently important or very important for the CPRs. Likewise, most respondents believe those objectives should remain important or very important in the CPRs.

2.12 The objectives associated with current strategic management activities elicited the fewest “Very important” responses (31%) and the most “Somewhat or Not important” responses (29%). However, when opinions regarding the future emphasis of the CPRs were explored, negative responses decreased considerably (9%), and there was an increase (58%) in the level of importance assigned to the strategic objectives of supervision of development objective progress and of management of programming and the Bank’s country strategy. This result suggests that those strategic objectives are not adequately developed in the current version of the CPRs compared to the required level of depth.

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8 One hundred and twenty surveys were sent and 62 responses received, of which 59% were from Headquarters staff and the remaining 41% from the Country Offices staff.
9 Given the virtual lack of “Not important” responses (only 2% of the total), for purposes of our analysis, this category was combined with “Somewhat important”.
10 The index is a measure of the distance between two metrics, and is used in the hard and soft sciences to measure the difference between concepts that have more than one dimension. The mathematical formula is described in Annex D.
Lastly, while still a significant finding, the objective of “accountability” received the lowest “should be” rating in terms of importance. This result is odd, and may be attributable to a misunderstanding of the term “accountability”. If achievements are not assessed in light of pre-established targets, and if responsibilities, threats, and opportunities are not identified, it is impossible to properly manage risks and, consequently, the portfolio, in any of its dimensions.

The survey also enabled us to explore the opinion of the Bank’s staff on the current importance of CPR content and their perception as to what elements those reports should include for the objectives to be met. Based on responses obtained, a comparative analysis was performed of the opinions of respondents on the current importance of each proposed component with the required importance for the CPRs to meet their objectives.\footnote{The proposed content was developed based on a reading of the 2004 reports and the requirements derived from applicable standards and resolutions adopted by the Programming Committee.}

\begin{table}[h]
\centering
\caption{CPR Objectives (survey)}
\begin{tabular}{lrrrrr}
\hline
\textbf{Topic} & \textbf{IS} & & \textbf{SHOULD BE} & \\
 & (1) Not imp./somewhat imp. & (2) Very important & (3) Not imp./somewhat imp. & (4) Very important & \\
\hline
Identify and supervise the portfolio's operational and execution problems and risks & 14 & 55 & 0 & 76 & \textit{21.1} \\
Accountability with respect to the Bank's country portfolio & 14 & 47 & 13 & 41 & \textit{6.6} \\
evaluate progress in meeting development objectives & 22 & 45 & 10 & 49 & \textit{11.9} \\
to hold high-level dialogue with the country in order to identify the main issues with the portfolio & 8 & 52 & 2 & 63 & \textit{10.6} \\
serve as a basis for the Bank's programming and adjustments to the Bank's strategy with the country & 29 & 31 & 9 & 58 & \textit{26.3} \\
\hline
\end{tabular}
\end{table}

\begin{table}[h]
\centering
\caption{CPR Content (survey)}
\begin{tabular}{lrrrrr}
\hline
\textbf{Topic} & \textbf{IS} & & \textbf{SHOULD BE} & \\
 & (1) Not imp./somewhat imp. & (2) Very important & (3) Not imp./somewhat imp. & (4) Very important & \\
\hline
country context & 35 & 15 & 34 & 23 & \textit{8.9} \\
progress towards operational objectives & 6 & 53 & 7 & 54 & \textit{2.3} \\
progress towards development objectives & 41 & 24 & 7 & 53 & \textit{34.1} \\
risks that affect operational execution & 21 & 45 & 2 & 84 & \textit{39.6} \\
risk mitigating measures & 28 & 29 & 3 & 86 & \textit{57.2} \\
identification of problems identified by the government & 30 & 41 & 7 & 66 & \textit{24.9} \\
adjustments to the Bank's operational and strategic targets & 39 & 20 & 8 & 44 & \textit{31.0} \\
action plans & 9 & 53 & 5 & 72 & \textit{18.7} \\
follow-up on prior agreements & 24 & 32 & 10 & 55 & \textit{23.2} \\
lessons learned & 26 & 36 & 7 & 66 & \textit{29.2} \\
\hline
\end{tabular}
\end{table}
2.15 The comparative analysis based on the findings presented in Table 2.2 points to the following conclusions:

a. The analysis of context is perceived to be of little relative importance at present, and respondents do not consider that this low level of importance should change substantially in the future. Only 23% responded that it should be very important and so the \textit{indice de desajuste} is just 9.

b. The greatest attention is currently being given to topics directly related to operational and fiduciary monitoring, and to action plans, including their monitoring and lessons learned. These topics should remain front and center in the reports; lessons learned should increase their weight in the reports.

c. There is broad consensus on the need to strengthen the strategic and risk-related dimensions of the CPRs. Survey responses suggest that more attention should be paid to content associated with the strategic dimension, such as development objective progress (\textit{indice de desajuste} of 34). The disparity with respect to risk is even more significant, with the two risk-related questions reporting a \textit{indice de desajuste} of 40 and 57. According to survey respondents, the CPRs currently assign a low level of importance to the progress in meeting development objectives, which partially explains the perceived need to strengthen this component.

d. Finally, together with country context, the establishment of operational and strategic targets is assigned the lowest level of importance, consolidating the view that the reports do not fulfill an “accountability” objective in the sense of measuring achievements against pre-established targets.

2.16 From the analysis, OVE’s review of the CPRs, interviews with Bank staff and to some extent in the opinion survey, it can be inferred that to fulfill their dual role, the CPRs must contain the necessary elements for portfolio supervision and operational and strategic management, based on an assessment of the risks and on an action plan to mitigate them. In accordance with best practices, the content has been grouped into five topics:

a. Country context: Description of the macroeconomic, financial, political, social, and institutional conditions in which the portfolio is executed, in order to identify the risks to the portfolio derived from the context.

b. Supervision of the portfolio’s operational and fiduciary dimensions. This includes issues related to the portfolio’s structure, evolution, and performance in terms of: (i) changes in the portfolio during the last year: approvals, completions, and restructurings; (ii) sector distribution of the portfolio and its relationship to the strategy’s objectives; (iii) trend in disbursements and net flows; and (iv) analysis of contractual conditions, pari passu, audited financial statements (AFS), project completion reports (PCRs), extensions, etc.
c. Portfolio outcomes in terms of outputs delivered and effectiveness in attaining established development objectives.

d. Risk identification: Based on the analyses in the previous points, identify barriers to: (i) execution in operative terms; (ii) attainment of the development outcomes or established targets; and (iii) compliance with fiduciary obligations.

e. Portfolio management tools: (i) review of achievements derived from the action plan defined in the previous portfolio review and the principal lessons learned; (ii) targets for the next portfolio execution exercise; and (iii) measures to mitigate risks identified and a proposed action plan.

III. QUALITY OF COUNTRY PORTFOLIO REVIEW REPORTS

3.1 The quality of CPRs was evaluated in terms of whether content identified as necessary for operational and strategic supervision of the Bank’s portfolio was included. To that end, the 2004 CPRs were reviewed in their entirety, including their annexes, and the content was identified and rated irrespective of where each item appeared in the report. Obviously, the lack of unified report guidelines posed a challenge to the evaluation, particularly in making quality comparisons.

3.2 Overall results are presented in Table 3.1. Detailed findings are presented in Annex H. The quality of the content of CPRs analyzed was given a score of 1 to 4, where 4 implied a higher qualitative rating of the content and 1 the absence of the content in the CRPs under review. Using the method described in Annex D, two indexes were then constructed to reflect the overall quality of the report as an operational and strategic management tool.
Calculations show that the CPRs are more extensive and complete in their treatment of topics associated with operational supervision of the portfolio. In fact, the average operational quality ratio for 2004 CPRs was 60, suggesting that, despite the content limitations identified in this report, the CPRs have the minimum content, analyses, and action plans necessary for use as operational management and supervision tools. The CPRs for GY (83), JA (76), and CH (75) scored the highest in terms of operational quality.

The shortcomings reflected in the operational quality ratio are largely derived from the low level of reporting of operational results and of monitoring of measures incorporated in the previous CPR exercise.

The average strategic quality index was just 24, i.e. the 2004 CPRs are much less effective as instruments of strategic supervision than of operational supervision, insofar as they present more deficiencies in terms of content, analysis, and action plans for strategic management of the portfolio. The dispersion in the strategic ratio is much greater than in the operational ratio, reflecting the CPRs’ different stages of evolution with respect to these topics.12

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12 This dispersion is also reflected in a high variance ratio for the strategic dimension (0.31) versus the operational dimension (0.17) of the CPRs.
3.6 The low quality of the CPR strategic dimension is due to a widespread deficiency in reporting development objective progress, monitoring the objectives defined in the strategy, and identifying risks associated with development effectiveness.

3.7 The differences in CPR quality across countries are marked and more profound in the case of strategic quality than operational quality. Although the two indices are correlated, a strict correspondence between both indices does not exist. While in all cases the CPRs are more robust in the operational dimension than the strategic dimension, there are multiple combinations of the ratios; each CPR is, to a certain extent, *sui generis*. Following is a detailed discussion of each component of the report, in order to identify the deficiencies that produce such a weak result in the strategic dimension, and the factors that contribute to the higher quality of the operational dimension.

A. Country context

3.8 All of the 2004 CPRs included an analysis of the country context, albeit with different degrees of depth. In 67% of the CPRs, the analysis was considered relevant to the extent that it identified the aspects of the macroeconomic and political context (risks) that could affect the performance of the Bank’s action in the country. However, in only six countries was content complete, in the sense that the report covered all topics considered to impact the portfolio, and relevant, in the sense that they addressed the potential impact of those topics on the Bank’s action.

3.9 In many of the CPRs analyzed (>75%), two aspects were excluded from the analysis. In fact, in spite of the importance of the institutional dimension and the fight against poverty, both were either poorly addressed or simply omitted. That is why some issues subsequently identified as problems are seldom derived from the context, although they are certainly determined by it. For example:

- Changes in public policies or the sector hierarchy that could impact the importance assigned to the portfolio’s development objectives or the priority given to a certain type of operation;
- Changes in social indicators that could impact the country’s priorities;
- Institutional changes or changes in legal frameworks that could impact execution.

B. Supervision of the portfolio’s operational and fiduciary dimensions

3.10 The bulk of the document deals with this topic, which is discussed the most extensively and in greatest detail. In all the CPRs reviewed, the description of the portfolio’s operational aspects was exhaustive in the sense that a detailed description (and in most cases, from an accounting standpoint as well) was provided for topics relevant to execution of operations.

3.11 The following points are included in that description:

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13 The correlation coefficient between the two indices is 0.64.
14 PE, CO, HO, GY, JA, and PR
Classification of operations in execution by category (investment loans, policy-based loans, technical cooperation, Multilateral Investment Fund, etc.)

Classification of operations based on the strategy’s development objectives

Disbursements and net flows of resources

Age of the portfolio

New approvals, cancellations, and completions of operations

Compliance with contractual conditions

Portfolio performance according to the Bank’s monitoring system (PPMR and PAIS)

Status of administrative/fiduciary issues: compliance with deadlines for preparation of the audited financial statements (AFS), pari passu, procurement, project completion reports, etc.

3.12 Notwithstanding the exhaustive treatment of these topics, two factors limit its usefulness in portfolio supervision and management. First, the information presented is not analyzed in a way that enables consequences to be identified, the impacts on portfolio performance measured, or conclusions drawn as to the inherent risks. Most of the CPRs fail to address some basic aspects of supervision:

- Is the portfolio better structured to respond to the established development objectives as a result of the new approvals, cancellations, and completions of operations?
- Does the trend in disbursements and net flows meet the targets agreed with the government, and if not, what are the consequences for programming?
- Are approvals of new loans within the guidelines? Or have unforeseen risks emerged that affect this dynamic?

3.13 Specifically, the routine and mechanical treatment of AFS and PCRs precludes optimum use of these instruments for identifying fiduciary risks and progress toward operational or development objectives.

3.14 Secondly, the topics listed above are not described using common metrics. This would be required for a concise assessment of the portfolio’s operational status, or for a cross-country comparison. It is as if a different template was used to prepare each CPR, with the same information presented in a different way.

3.15 The review of indicators used in the 2004 CPRs identified a total of 37 different indicators for portfolio execution, including: size of the portfolio: 2; approvals, cancellations, and completions: 3; disbursements: 7; age: 12; average execution period: 3; net flows: 2; and compliance with submission of AFS: 6. Table 3.2 presents those indicators pertaining to indicators of portfolio age, the dimension which has the most number of different indicators.
Table 3.2: Age Indicators in 2004 CPRs

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2000</th>
<th>2002</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>% portfolio older than 5 years</td>
<td>10</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>% portfolio younger than five years</td>
<td>10</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>% portfolio older than 4 years</td>
<td>12</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>% portfolio older than 6 years</td>
<td>7</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>% portfolio older than 10 years</td>
<td></td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>% portfolio older than 3 years</td>
<td>9</td>
<td>18</td>
<td>19</td>
</tr>
</tbody>
</table>

Table 3.3. Number of Indicators Used, selected CPRs

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2002</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>10</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>Bolivia</td>
<td>10</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Ecuador</td>
<td>12</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>El Salvador</td>
<td>7</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Guyana</td>
<td>...</td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>Peru</td>
<td>9</td>
<td>18</td>
<td>19</td>
</tr>
</tbody>
</table>

3.16 The number and type of indicator used to report the evolution of the portfolio also varies from year to year, thus preventing a historical monitoring of topics and a dynamic assessment. A comparison of the number of indicators used over the 2000-2004 period reveals a marked increase between 2000 and 2002, as well as in 2004, albeit to a lesser extent. Table 3.3 illustrates this situation for a select group of countries.

3.17 In order to address this dispersion, Region 2 began to implement a new format in 2005, which aims to systematize the content and analysis of the CPRs to be prepared by that Region. It also defines the indicators to be used and, in particular, includes two aggregate ratios that give a general idea of the portfolio’s status.¹⁵ The efforts made by Region 2 are headed in the right direction, insofar as they seek to systematize and synthesize the information contained in the CPRs, to permit comparison with previous years and other countries. Two issues, however, are worth mentioning in light of the conclusions and recommendations of this evaluation. The first is whether the proposed content and future implementation are truly adequate for the efficient management and operational and strategic supervision of the portfolio. The second is whether the indicators accurately reflect the portfolio’s substantive aspects.

3.18 With respect to the latter issue, two operational ratios have been included in recent CPRs, in addition to four of the categories already incorporated into the PAIS system. However, an analysis of two of the ratios incorporated—the proactivity and convergence ratios—raises several questions as to their relevance for

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¹⁵ The proposed model includes a set of operational management indicators for the portfolio that permit comparison of the country’s record to that of the Region to which it belongs and the Bank’s record as a whole. The ratios included are: 1) problem projects; 2) projects with unsatisfactory execution, 3) projects with extensions of more than 24 months; 4) projects pending eligibility for more than 12 months, 7) AFS at the contract date, and AFS 120 days after the contract date, all of which are derived from the PPMR and PAIS systems. It also incorporates two ratios that measure the overall operational effectiveness of the portfolio, known as the convergence ratio and proactivity ratio, which were adapted for the Bank based on the experience of the World Bank.
management. The convergence ratio measures the extent to which PPMR results and the PAIS system results vary from one another. While this exercise should probably be performed systematically to evaluate the quality of the indicators generated by the PPMR system, the convergence ratio does not measure portfolio quality, but instead is a measure of the quality of the subjective indicators generated by the Bank.

3.19 While the proactivity ratio measures the rate at which projects are upgraded from “problem project” status, the rate at which projects enter this category should also be measured from a risk management standpoint. If proactivity is understood as the ability to act before a problem materializes, the second rate—the rate at which projects become problematic—would be a better indicator of the proactivity of the risk management exercise. In any case, the ratio is only capable of measuring one component of the flows of projects that enter or are upgraded from “problem project” status. The second potential problem with this index is its reliance on the quality of data generated by the PPMR system. The relevance of the ratio is compromised to the extent that poor quality data is produced.

C. Portfolio outcomes

3.20 Reporting the outputs of projects in execution is not a widespread practice in the CPRs. In fact, in 2004 only 23.9% of projects in execution reported them. There are marked differences between countries in this respect. Only four countries report 50% or more of their operations in execution CH (71.4%), MX (66.7%), GY (58.3%), and BL (50.0%), of which all, with the exception of Mexico, have a fairly small portfolio that facilitates reporting. At the other extreme, 9 countries do not report even 10% of their operations.

3.21 Even when outputs are reported, there is no way of knowing whether actual outputs correspond to anticipated outputs (i.e. outputs attained are reported but not evaluated and compared to the targets planned or established ex ante). This makes it impossible to evaluate the effectiveness of the Bank’s action in terms of operation design or actual operational effectiveness compared with the effectiveness anticipated in the performance targets.

3.22 A less favorable situation occurs with information reported on attainment of development outcomes. Of the 21 CPRs for 2004 analyzed, only the CPR for Peru presented a quantitative evaluation of development objectives attained for the three defined strategic objectives. In three other countries (CO, RD, HO), despite a concerted effort, the evaluation was completed only for the measurement of development objectives associated with poverty and human resources.

3.23 These criticisms notwithstanding, a modest improvement has been observed since 2002, when the selected countries started making more effort to present some of

16 See GN-2215-5, “Proposal for Medium-Term Portfolio Management Performance Goals and Benchmarking. Revised version”.
these figures. Tables 3.4 and 3.5 show the frequency of action plan reports, outcomes achieved for development objectives, and the percentage of CPRs that comply with content and quality standards.

3.24 The difficulty of measuring the effectiveness of the Bank’s actions in country development goes beyond the portfolio review exercise and has been a cause of ongoing concern in many of the documents that address the Bank’s action. Two limiting factors in this area are a lack of appropriate baseline indicators for project design and deficiencies in country statistical systems that make it difficult to monitor key indicators and compound the problem of “ownership of outcomes”.

| Table 3.4: Percentage Reporting of Outputs and Outcomes |
|---|---|
| **Projects in execution** |  |
| Outputs | 23 |
| Outcomes | 6 |
| **Projects with 2+ years in execution and <5 years** |  |
| Outputs | 6 |

| Table 3.5: Percentage Reporting of Content |
|---|---|
| **Percentage of CPRs that include** |  |
| Context | 67 |
| Monitoring of agreements and measures in previous CPR | 33 |
| Analysis of progress towards the portfolio’s operational objectives | 100 |
| Monitoring of development objectives | 14 |
| Analysis of operational risks | 67 |
| Analysis of development risks | 0 |
| Analysis of fiduciary risks | 14 |
| Identification of mitigation measures | 14 |
| Lessons learned | 71 |
| Alignment with operational targets | 10 |
| Alignment with development and strategic targets | 0 |

3.25 Both of these issues are frequently pointed out in the selected CPRs as the cause of the low measurement of development outcomes, and limit the Bank’s ability to measure the effectiveness of its actions on country development. In order to overcome them, a short-term effort is required to identify secondary indicators that are reported by the current system while progress is being made with the country in improving the basic sources of information and the project design.

**D. Risk identification**

3.26 The Bank’s portfolio is vulnerable to three types of risks: risks that impact the execution of operations; risks associated with meeting development objectives; and risks that affect compliance with fiduciary obligations. Of these risks, the only ones typically identified are those that impact execution relating mainly to the availability of counterpart funding and delays in reaching a political consensus to ensure that operations will be approved by the legislative bodies in the countries, or fulfillment of conditions. Other risks are poorly addressed in the CPRs.

3.27 The CPRs do not deal explicitly with risks or systematically include a section summarizing the risks impacting the portfolio derived from both the country

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context and the evolution of the portfolio and outcomes obtained. A reading of the CPRs shows that discussion of the risks is dispersed throughout the document, but not always very explicitly, relying exclusively on qualitative criteria. As a result, the same problem may be referred to differently in each CPR and appear in different sections of the report, without ever revealing the magnitude or even the importance of one situation compared to another. Furthermore, no monitoring is done to evaluate the evolution of risks over time or to compare risks across countries.

3.28 Most of the problems identified during 2004 are discussed in the section on lessons learned. Strictly speaking, as the name implies, lessons learned should generally include design or execution practices that have resulted in experiences that should be shared so that they can be adopted if the results have been favorable, or avoided if the expected benefits did not materialize. In other words, lessons learned should be derived from execution, and more specifically, from the experience gained from addressing the various risks faced during execution. However, this section includes a sui generis mix of relevant experiences, problems, or risks encountered and recommendations for mitigating them. For 2004, the lessons learned section included 154 issues, of which less than 30% were actually lessons learned, 50% might or might not be interpreted as references to explicit problems and recommendations on overcoming them, and 20% referred to topics of interest for the portfolio that did not fit easily into any of the previous categories.

3.29 The quality of CPRs for evaluating the problems (risks) of projects is almost completely dependent on the information supplied by the PPMRs and PAIS system. Thus, the relevance of problems identified in terms of their timely and appropriate association with execution failures, is closely related to the relevance of those supervision systems (PPMR and PAIS). An evaluation of the relevance or suitability of those project supervision systems is beyond the scope of this report. However, two considerations suggest deficiencies in those systems that could cause us to doubt their effectiveness in ensuring the quality of CPRs.

3.30 First, many of the country program evaluations (CPE) produced by OVE in 2004 included an analysis of operations executed that in many cases turned up differences between the PPMR and the OVE ratings. Secondly, without judging the reliability or accuracy of information in the PPMRs, some of the 2004 CPRs reviewed included projects “subject to preparation of an action plan”, even though they had not been classified as problem projects in the PPMR or PAIS. This occurred explicitly (>40%) in 7 of the 20 countries for which a CPR was prepared in 2004.

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18 This evaluation exercise is not intended to pass judgment on the quality, timeliness, or effectiveness of the PPMR or PAIS system as tools of operations evaluation. That is the purpose of another exercise currently being developed by OVE.

19 This situation was striking in the case of ES for projects ES-0108, ES-0053, and ES-0115.
3.31 The risks most frequently identified by the Bank are those related to disbursements and procurement, while those with more structural causes, such as project design risks, are rarely reported. This could mean the CPR is more limited in its ability to evaluate risks attributable to the Bank’s direct actions. Even without the means to test this hypothesis, it seems reasonable to assume that such imbalances result from the method of preparing the CPRs, in which the same technical experts and managers responsible for the design, approval, and execution of operations also perform the portfolio review. The way in which the CPRs are prepared precludes the necessary separation between what is evaluated and the evaluators, an essential condition for a reliable evaluation. Given these circumstances, the diagnostic performed as well as the identification of risks and risk mitigation measures could be affected by the high level of involvement of those performing the evaluation. This risk is also present in the PPMR individual project evaluations, which constitute a key input of the entire portfolio review exercise.

E. Management tools

3.32 This category includes the evaluation of the quality of content associated with the design of targets that permit comparison between the portfolio’s actual performance and its anticipated performance, as well as action plans to mitigate the risks identified and to monitor the previous plan. The purpose is to derive lessons that improve execution and development effectiveness.

F. Perspectives for the future and monitoring of the Action Plans

3.33 With respect to perspectives for the future, the only variable for targets were set was disbursements, and even in this case in only 2 of the 21 countries analyzed (BO and GY). Other than those countries and that variable, no additional estimates were made regarding the portfolio’s future performance, or at least those estimates are not reflected in the CPRs. In particular, there is no reference to the possible evolution of the portfolio’s outcomes. Consequently, the CPRs do not include a th elements required to track and update the development and operative objectives identified in the country strategy.

3.34 Only 7 of the 21 CPRs analyzed monitored the actions of the operative action plan included in the previous exercise. Furthermore, those seven cases only reported whether the measure had been executed, but not whether the agreed measure actually had the anticipated effect in terms of improving portfolio execution and performance. In these circumstances, a valuable opportunity is lost to identify true “lessons” learned that can be applied in subsequent exercises.

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20 It could also indicate that there are no problems associated with the design of operations. However, the large number of project cancellations in recent years and the limited development successes in certain countries of the Region suggest that some projects were fundamentally flawed. In that regard, the conclusions of some of the sector evaluations performed by OVE are worth reviewing.
G. Action plan

3.35 In general, the action plans formulated during the portfolio review missions and reported in the CPRs are related to individual operations considered to be low risk. None of the 2004 documents analyzed included strategic action plans; meaning a set of measures, a schedule for their implementation, identification for those responsible for implementation, all geared toward solving risks that could impact the attainment of development objectives.

3.36 Five of the 21 CPRs analyzed (BR, RD, CO, GY, and JA) included a greater effort to propose strategic actions in order to resolve structural problems in the portfolio. This effort was notable in the case of GY and JA. In neither case however were the recommendations transformed into an action plan per se. In countries like Argentina, where the portfolio underwent major restructuring to align it with the country’s new strategic objectives, the restructuring effort occurred outside the context of the CPR exercise; the only role of the CPR was to eventually report, for informational purposes and in the following year’s CPR, on the decisions surrounding the restructuring that had taken place.

3.37 Preparation of the plan of action (POA) for individual operations is an activity included in all the CPRs prepared during 2004. In nearly all of the countries (13 of 20), the AWP was prepared for all projects classified as “problem projects” by the PPMR system. For all other countries, except NI, an AWP was prepared for more than 50% of problem projects. This means that more than 85% of projects classified as problem projects by the PPMR had action plans. This percentage was lower for projects classified “on alert status” by the country system, but was still considerable (75%).

IV. Effectiveness of CPRs on Portfolio Performance

4.1 In order to measure the effectiveness of CPRs on portfolio performance and operations, we will analyze three dimensions, namely (i) their effectiveness in country dialogue, (ii) their effectiveness for improving the execution of operations, and (iii) their effectiveness for impacting programming and the Bank’s country strategy.

A. Effectiveness of country dialogue

4.2 The objective of maintaining an open, fluid, and candid dialogue with the country is one of the most clearly established objectives in the standards of the missions that produce CPRs. It is likewise true that more than 90% of survey responses received indicated that the objective of “creating opportunities for high-level dialogue with the country in order to agree on the portfolio’s main components” was important or very important, both in opinions regarding the CPR today, as well as in opinions regarding what the CPR “should be”. Nonetheless, it was not possible based on a reading of the 2004 CPRs to determine the effectiveness of the exercise for
improving the quality of the relationship between the Bank and the country. It is reasonable to assume that the annual meeting between senior officials of the Bank and of the country is an opportunity to resolve differences and strengthen consensus. However, the report structure makes no direct reference to the country’s opinion on the portfolio’s progress and effectiveness, nor to the problems encountered and possible solutions. The only evidence available in this regards is from interviews with government officials in a very small set of countries. In these instances the CPR mission was identified as an opportunity for the country and Bank to discuss operative issues of the portfolio, as well as coordination issues across line ministries.

B. Operative effectiveness

4.3 Before discussing the findings regarding the operative effectiveness dimension, it is important to point out that what is being evaluated is not the effectiveness of the portfolio review report itself, but rather the effectiveness of the mission and surrounding activities. The issue of the effectiveness of the document itself is treated in section C, where an analysis is done regarding how the documents are disseminated and at what point in the CPR cycle are managerial decisions made. In this section we are defining the effectiveness of the CPR in terms of the effect of review mission activities on measurable improvements in portfolio metrics. Certain effectiveness dimensions do not fit the qualitative analysis and are not analyzed in this section. The hypothesis is that if a CPR process produces a correct diagnosis of issues, and identifies solutions that can be implemented, that the results should be an improvement in the overall portfolio performance, and in the performance of particular projects.

4.4 The concept of effectiveness is best described as the effect of the portfolio review mission—and surrounding activities—on observable metrics that measure both the operational dimension of the Bank’s portfolio as well as the development effectiveness of the same. Here the evaluation is constrained as to what can be said by the availability of information. Given these constraints, the evaluation focuses on measures of execution, such as disbursement indicators, indicators of problem projects in PAIS, and on self-reported indicators of project development objectives, delivery, and materialization of risks, as presented in the project PPMRs.

4.5 Country portfolio review missions are performed annually, and in the two most recent years have been performed systematically. The mission involves inputs from both the Country Office and from the operative regions as well as considerable expense, with the average cost of the 2004 CPRs at $84,000 (see Annex D). As part of this process specialists produce diagnostics of their projects, usually as part of the PPMR updating. This information, as well as other relevant information is then used to produce a preliminary report. Using the information in this report the CPR mission reviews the portfolio in situ, meets with government officials, and agrees on operative measures to be implemented.
4.6 The table below shows the frequency distribution of the missions. As can be seen the missions concentrate their activity in the second half of the year, with activity then subsiding by December. This implies that in most cases the information provided in the June PPMR is used during the mission—and indeed the preparation of the PPMR is usually timed so that the mission occurs after or around the PPMR update cycle.

Table 4.1: Frequency Distribution of CPR Missions

4.7 In terms of the conduct of missions over time, in the early years the compliance with CPRs was incomplete (this finding was also reported in RE-293), with slightly over 50% of the mission reports actually being presented to the Programming Committee. However, in recent years the missions have been done systematically, with nearly 100% compliance.21

4.8 Before progressing further conceptually on the issue of effectiveness, it is useful to describe, in broad terms, the spacing between missions, and the distribution of this spacing by region, sector, and country. This information is presented in Annex I. The data are calculated based on the average time between missions for each of the projects in each of the categories, for the period 2002-2005. As can be seen, the degree to which portfolios are supervised in larger countries tends to be greater than that in smaller countries. In addition, countries in the English-speaking Caribbean (JA, BA, BH, GY, BL, TT) are notably less supervised than the Bank average, with an average time between missions of 18.4 months. With respect to the decomposition by region, there is a substantial difference between Regions 1 and 2 and Region 3. The first two have averages hovering around 13 months, while Region 3 has an average of 15.7 months. If one eliminates the English-speaking Caribbean countries the difference shrinks substantially (14 months).22

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21 With the exception of Haiti, for which there are very few instances of documented portfolio review missions.
22 Only missions culminating with submission of a CPR to the Programming Committee are identified.
4.9 In order to identify changes in performance metrics one has to look at the dynamics over time of the metrics that are to be evaluated, starting with the date on which the mission took place. And it is precisely the variation in the timing of missions (and variations in their annual compliance) that allows for an assessment of these dynamics. In other words, given that at any given point in time the time elapsed since the last mission will be different for groups of IDB projects, the impact of the mission can be ascertained by comparing the performance of projects with more and less elapsed time after the CPR mission.

4.10 The metrics looked at are grouped into four categories: (i) metrics derived from disbursement flows, (ii) metrics derived from compliance with requirements in order to attain eligibility, (iii) metrics derived from compliance with audits, and (iv) metrics related to subjective assessment of project performance, risks, and development objective progress.

4.11 In the case of the first metric we rely mainly on the percentage of outstanding balances disbursed in the three previous months. The data were calculated from monthly disbursement flows for each project in execution and from the Loan Management System (LMS) database. In addition to disbursements, the analysis also looked at each project’s classification according to the PAIS system and to the PPMR system. In the case of the former, measurements are available twice a month; in the case of the latter updates occur when the Country Office specialists fill in the PPMR system for every project. This usually takes place every six months.

4.12 Table 4.2 below describes the change in portfolio performance metrics maintained by the Bank, according to the months elapsed since the last portfolio review mission. The center line indicates the estimated impact of the mission, while the upper and lower lines indicate the 95% confidence interval (CI). The two metrics reported are the probability of being on “alert” according to the Bank’s PAIS system, and the probability of being a “problem project”, according to the Bank’s PPMR system. In both cases we see that the parameters are very imprecisely estimated, and that there is no discernable change following the mission. Details on the estimation method and results are presented in Annex D.

23 Other measures used were the proportion of outstanding balances disbursed in the last month, the change in log disbursements, and the proportion disbursed divided by the proportion of time elapsed. See Annex D for more details.

24 The LMS database is the Bank’s primary source for operation financial data.
To observe the short-term effects, we estimated the change in disbursements, defined as the proportion of outstanding balances disbursed over a three-month period. Table 4.3 presents the results of the estimated change in disbursements. As can be seen, there is a small change in disbursements following the CPR missions, which subsides after six months, followed by an additional increase in disbursements. Unlike the PPMR and PAIS results, the dispersion of results is not as large, allowing for statistically significant results in three of the months. However, by the end of the years the rate of disbursement has returned to its initial value. There are also differences across regions. Region 3 shows the largest response to the review missions. The disbursements of Region 2 also increase modestly following the mission, whereas there is no change for Region 1.

Table 4.3 presents the aggregate results on the portfolio; however, they do little to answer why these changes take place. There are two potential impacts associated with the CPR missions. The first occurs at the macro level and the second one at the micro or operative level. The macro impact can be due to the Bank and country agreeing on new fiscal ceilings for operations. This can theoretically affect all Bank operations, by freeing additional resources for execution. In addition, during the CPR mission the Bank will usually hold a meeting with Finance and with the line ministries, in which major issues are dealt with such as coordination problems.

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25 Given the unstable nature of disbursements, it is important to exclude the factors that skew the estimates. This was accomplished by estimating the parameters, while controlling for (i) the project age (projects disburse at different rates depending on their age), (ii) the month in which the observation is made (the Bank tends to disburse more in the second half of the calendar year), and (iii) the fixed effects for each project (which means that changes are identified net of variations within project execution). See Annex for more detailed information.
counterpart funding, etc. These meetings can lead to the solution of problems that are holding up execution, eventually leading to greater disbursements. The second instance is at the sector level, and involves meetings with the government entities responsible for executing projects that are supported by the Bank. In this case projects that are identified by the Bank as problematic are intervened, and meetings are held with the executing unit and with the corresponding line ministry in order to agree upon measures to be undertaken. Accordingly, plans of action are identified for each project that receives this specific treatment. This too can lead to specific improvements in selected projects.

4.15 Given that the macro-fiscal effect should impact all operations, and the micro-operative effect only impacts supervised operations, it is possible to separate the two effects by comparing projects that were intervened (T) with those that were similar in terms of disbursement and other characteristics, but whose performance was not poor enough to be intervened (C). So that the operative impact can be estimated as T – C. Similarly, the macro-fiscal effect can be computed as the change in disbursement for all projects, excluding treatments (A).

4.16 Table 4.4 presents the results of the proportion of balances disbursed, for treatment projects (T), comparison projects (C), and for the aggregate portfolio (A). Details of the model estimated are presented in Annex D.

4.17 As can be seen from the right panel, the accumulated macro impact reaches 1% of disbursements. This can be attributed to higher fiscal space or to the impact of high-level meetings on coordination between ministries. This is a modest, albeit sustained result. In the case of the micro results, presented in the graph at left, when comparing the treatment projects with the comparison, it is clear that the initial impact on disbursements reaches its maximum value of 1%, but then dissipates over time. These results suggest a small but significant impact of review missions on disbursements: short-run in the case of operative results and longer-run and sustained in the case of macro results.

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26 For example, during the mission to Honduras in November 2005, the government stressed the role of the high-level meetings as an instrument for solving problems between ministries.

27 This description is based on interviews with staff in charge of the CPR missions in each of the three Regions.
Table 4.3: Changes in Disbursements

<table>
<thead>
<tr>
<th>Change in disbursements and 95% CI</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0</td>
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<tr>
<td>-1</td>
</tr>
<tr>
<td>Months before (-) and after (+) mission</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in disbursements, by Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0</td>
</tr>
<tr>
<td>-1</td>
</tr>
<tr>
<td>Months before (-) and after (+) mission</td>
</tr>
</tbody>
</table>

Table 4.4: Impact of Portfolio Review Missions on Disbursements

<table>
<thead>
<tr>
<th>Cumulative increase in % disbursed, T and C groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>-1</td>
</tr>
<tr>
<td>Percent increase</td>
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<table>
<thead>
<tr>
<th>Cumulative increase in % disbursed</th>
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<tbody>
<tr>
<td>0</td>
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<tr>
<td>-1</td>
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<tr>
<td>Percentage increase</td>
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</table>

C. Strategic effectiveness

4.18 A second way to look at effectiveness is to analyze the context in which CPRs take place, including the pathways by which strategic issues raised in CPRs are addressed. The natural starting point is the Programming Committee, which is the highest level of managerial authority to which the reports are presented.
4.19 The Programming Committee is management’s top-level forum for decision-making. All CPRs are presented to the Programming Committee for their consideration, and indeed, for 2004, this occupies roughly 30% of the Committee’s time.

4.20 The first question regarding the strategic effectiveness has to do with the process of decision-making and where and when it takes place. The CPRs are presented to the Programming Committee, which takes them under recommendation. To what degree are strategic decisions made by the committee regarding the effectiveness of the portfolio, the risks faced by the portfolio, and solutions to such risks?

4.21 OVE reviewed the decision-making by the Programming Committee regarding CPRs during the 2004 and 2005 cycles. For comparability, the 2004 cycle was taken so as to match the information collected regarding content, evaluated in the previous chapter. The results of this review are presented in Annex I. As can be seen, although the committee discusses issues of importance to the portfolio, there were no documented instances of instructions given or decisions taken by the Committee regarding issues identified. There is no formal decision-making at this level; the only discernable purpose of the meeting is to inform top management of problems identified and decisions already made.

4.22 The third dimension of development effectiveness is the CPR’s ability to recognize developing risks, and to link these to the portfolio and to the development objectives of the portfolio. The first finding is that there is no systematic assessment of risk or a metric by which risk is gauged, nor is the issue of risks presented in relative magnitudes. Risks are textually described with no distinction as to degree. The absence of risk metrics makes it difficult to measure the effectiveness of risks vis-à-vis anticipated risks and risks that took place.

4.23 An alternative approach is to look at major crises that took place in the first half of the decade and how these were treated in the CPRs. This was done in the case of the fiscal crisis in Argentina (2001-2002), the political crisis in Bolivia (2003), the banking crisis in the Dominican Republic (2002). (See Annex F).

4.24 The review of the years leading up to each crisis shows that, in two of the three cases (Argentina and Bolivia), the Bank recognizes the existence of a fiscal (Argentina) and political (Bolivia) risk. In other words, there is some mention of the destabilizing factors. However, in both cases the identification of the risks is incommensurate with the gravity of the risks realization. In the case of Argentina the magnitude of the crisis facing the country is not reflected in the CPRs. It should be noted that in this case the collapse in late 2001 was preceded by two recessionary years—1999 and 2000—so in some ways this is a good example of the Bank’s ability to interiorize new information as it becomes available and react accordingly.

4.25 In the 1999 Argentina CPR there is only passing mention of the international finance crisis, which by then had already thrown the country into negative growth,
and likewise was already impacting the portfolio. One year later, in October of 2000, when the country is in a full-blown recession, the CPR acknowledges what is taking place, but even then the optimistic predictions made of a rapid recovery suggest that the Bank did not recognize the inherent risks that would materialize only one year later “Las perspectivas a partir de 2002 son más optimistas, ya que se perciben señales concretas de mejorías en las tendencias de crecimiento económico a partir de enero de 2001”. In 2001, the CPR recognizes that the predicted recovery did not take place: “Hasta el momento no hay señales de recuperación de la inversión y del consumo doméstico...las previsiones oficiales para 2001 apuntan un retroceso de 1,4% en el PIB...” However, the CPR once again does not anticipate the collapse that would happen just two months after the mission takes place, quoting instead predictions of a no-growth year for 2002, “Tanto el gobierno como los observadores privados prevén ya para 2002 una tasa positiva, con mayor probabilidad de ser inferior a 1%.”. The 2002 CPR then recognizes, ex post, the significance of what is happening, “A partir de diciembre de 2001 y tras casi cuatro años de recesión, Argentina entró en una profunda crisis política, social y económica... Estos acontecimientos y la incertidumbre que surgió como resultado de los mismos agravaron la depresión de la economía, que presentó una caída de 16,3% en el PID durante el primer trimestre de 2002...”

4.26 In the case of Bolivia the risk is only identified in the 2003 CPR mission, which took place two months prior to the resignation of the then president Sanchez de Lozada. The magnitude of the risk is reflected in the 2003 diagnostic: “Bolivia se encuentra en una situación que desafía la capacidad de sus instituciones democráticas para avanzar en una propuesta concertada con los diferentes sectores de la sociedad.” And ex post the 2004 CPR accurately reflects the severity of the Bolivian crisis: “El último año ha sido escenario de la crisis política más aguda que ha vivido Bolivia desde su retorno a la democracia...” In the case of the Dominican Republic, although there was no recognition by the Bank of the impending banking crisis, there is also, ex post, an assessment of previous events past: “...la desaceleración se acentuó por la crisis originada en la quiebra del Banco Internacional... una substantiva asistencia de liquidez por parte del Banco Central... ha exacerbado la desconfianza de los agentes económicos, estimulando fugas de capital; ha ejercido presiones adicionales sobre las tasas de interés, el tipo de cambio y los precios; y ha debilitado las finanzas públicas y la posición de reservas internacionales del país.”

4.27 The three CPRs above are illustrative of the Bank’s reaction prior to and during a developing crisis. In two cases we see that the Bank correctly identified the makings of a crisis, but did so only immediately before the crisis was to occur.28 In a third case there was no such identification. However, in general the CPRs have not served as instruments that identify mitigation measures prior to crisis. In other words, when risks are identified they are not coupled with specific activities to address them. This is certainly seen in the case of the three countries looked at.

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28 In the case of Bolivia at the time of the document’s presentation to the Programming Committee the risk had in fact already materialized.
However, ex post the documents do report on portfolio restructurings and cancellations done in response to each of the three crises.

4.28 Moreover, the identification of risks is not coupled with the potential consequences of risks, beyond the execution rate of the portfolio. And even in these cases, few CPRs actually identify operations that may be impacted by risks and the extent to which they may be impacted.

4.29 One last pattern detected in the review is the undifferentiated treatment of risks for countries not in crisis. Here we see that the documents do not distinguish between countries with serious risks and those with mild risks. For example: in most countries issues of human resource competence and public service turnover are identified as risks; also in most countries issues of fiscal space and counterpart funding are identified as risks. Yet, there is no method by which the magnitude of these risks can be measured, or the impact that their realization may have (or is currently having) on development or even disbursement results.

4.30 The effectiveness of the CPRs for supervising and managing the Bank’s country strategy is severely limited by weaknesses in the quality of information. In fact, although there is a growing expectation that the CPRs will fulfill this purpose, the lack of information on development objective progress and a failure to adequately identify existing risks and, consequently, actions to mitigate them, seriously limit their usefulness for supervision and prevent relevant conclusions from being drawn when the new strategy is designed and approved.

4.31 This weakness in strategic supervision will be a growing challenge as the Bank’s new strategy for lending instruments and conditions takes shape. In accordance with that strategy, the Bank is increasingly oriented toward a programmatic alignment of the country portfolios in order to meet the development objectives agreed to ex ante, based on a detailed analysis of the existing challenges and opportunities. In very broad terms, while the agreements reached in Okinawa retain the Bank’s three basic categories of loans (investment loans, policy-based loans, and financial emergency loans), they create a new lending framework characterized by the following:

a. Places greater emphasis on the portfolio’s results and its impact on country development, and, in general, aligns the focus of the Bank’s activities with the needs and challenges of the countries.

b. Expands the scope of sector operations associated with meeting development objectives, consolidating with public policy programs with other agencies and international or national lending organizations.

c. Demands greater harmonization between the Bank’s strategy and programming, proposing the use of its entire array of tools to increase development effectiveness.

29 See CA-450-1.
d. Proposes the adoption of more flexible policies and procedures with respect to investment loans, eliminating restrictions and relying more on the countries’ own systems and less on the Bank’s own fiduciary control systems.

4.32 This new lending framework will most certainly affect the way the Bank operates at all levels, and will particularly demand greater precision and efficiency from instruments used for strategic and programmatic supervision, in order to accurately evaluate the sector risks and opportunities, and country capacity for execution, supervision, and control.

4.33 The deficiencies identified in the CPRs for fulfilling their strategic purposes could become veritable bottlenecks for implementing the new lending strategy. In this sense, two areas require attention in the short term. First, the analysis of the country context and the sector and institutional diagnostic should be expanded, to identify more precisely the development and operational risks and to establish the most suitable corrective actions. Second, a more specific agreement should be reached as to the development objectives and metrics that will be used for supervision purposes, in order to ensure effective and timely monitoring.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

5.1 Based on the evaluation performed, the following conclusions are drawn and recommendations made.

5.2 The portfolio reviews essentially gather operational information concerning operations at the individual project level. The analysis of disbursement performance and interviews conducted suggest that the portfolio review activities developed by the Bank have an effect on the performance of portfolio execution. In particular, high-level meetings held during the missions have an effect on operational aspects, such as those related to coordination or related to discussing the necessary fiscal space to meet counterpart funding commitments.

5.3 The review of the CPR documents shows that they contain the minimum operational supervision information required to describe the execution of the Bank’s portfolio. In general, the CPRs present an adequate summary of macro considerations, as well as action plans at the individual project level. From an operational standpoint, the lack of systematic set of metrics, along with targets, both of which are necessary to track performance over time and across countries, is an issue that still needs to be resolved.

5.4 The main conclusion drawn from this evaluation is that the portfolio reviews do not contain the necessary elements to assist with the strategic supervision of the Bank’s

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portfolio in terms of its outcomes and risks. Based on an assessment of the content of CPRs, it is clear that portfolio review reports do not contain information on outcomes required to either track the effectiveness of the Bank’s strategy with the country or to identify the impact that the Bank supported operations are having in the each of the sectors in which the Bank is engaged. The outcome analysis is incomplete, and is usually limited to project activities and the outputs obtained.

5.5 In terms of risk management, the CPRs do not systematically evaluate factors that can adversely affect the execution or scope of program outcomes. The CPRs tend to identify risks at a generic level, or to identify risks after they have taken place. At the levels of generality that risks are identified (or if they are identified ex post) they are not useful in decision-making.

5.6 In large part, the problems detected in the CPRs can be attributed to a lack of a clear and consistent normative over time, the lack of guidelines which prioritizes supervision of the portfolio’s outcomes, and to a vague assignment of responsibilities. Because of the lack of specific guidelines, the CPRs have been evolving in response to changing demands, paying insufficient attention to data, information, and resource requirements. Weaknesses identified are also related to the absence of a system that can supply timely information on risks and outcomes.

5.7 Finally, the presentation of relevant supervision considerations of the CPR to the Programming Committee has generally not been reflected in decisions made and adopted within the Committee’s purview.

B. Recommendations

5.8 **Recommendation 1.** A results-based review of the Bank’s portfolio is key for Management to carry out its fiduciary responsibilities of supervising the Bank’s assets. It is also a requirement for the Board to adequately discharge its corporate governance responsibilities. In order to facilitate these tasks the review of the Bank’s portfolio must:

- Analyze and report on the progress toward the Bank’s development and strategic objectives. This assessment should be linked to the goals and targets established in the Bank’s country strategy. The focus of this review should be at the sectoral and programmatic level.

- Review and update the risks identified in the Bank’s country strategy, as well as appropriate mitigation measures. This review should focus on the main development risks facing the Bank’s portfolio. Likewise, the scope of the Bank’s supervision of risks should be determined by the incidence that each risk has with the Bank and country development objectives.


It is further recommended that:
The results of the Bank’s portfolio review should provide the analytical basis for the Bank’s annual programming exercise.

The portfolio’s development results, along with the portfolio’s risks and the main findings regarding quality of supervision should be presented to the Board, in the context of the objectives, goals, and targets established in the Bank’s country strategy.

5.9 **Recommendation 2.** An integrated supervision system of the Bank’s operations, capable of generating trustworthy data in a timely fashion, is a necessary for management based on results and on risk mitigation. In order to for such a system to be implemented, the Bank should:

- Develop a framework for the identification, analysis, and mitigation of the operative, fiduciary and development risks that face its operations. This will require the identification of risk indicators, as well as the information required to track them within a timeframe that would make them useful for the supervision of the Bank’s portfolio.

- Identify and develop information systems that will generate the data required to track results. This system should be based, to the degree possible, country institutions. Likewise, the Bank should establish, within the context of its supervision instruments, milestones and targets for portfolio results, and track and report on progress toward these targets.

5.10 **Recommendation 3.** The operative review of the Bank’s portfolio should be conducted in the context of the Bank’s continuous management activities. In order for this review to be effective the Bank should standardize the performance indicators it tracks and the contents of the reports it produces.