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OED SPECIAL STUDIES

85035--02

*OED Annual Review of Project Performance Audit Results :
Seventh Annual Review, 1981-82*



1076382

A1994-137 Other # 3 Box # 204830B

Seventh annual review - set

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The World Bank

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With the compliments of

Shiv S. Kapur

Director
Operations Evaluation Department

04/27/82

Mr. Feather

As requested.

NSDP

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Washington, D.C. 20540

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Same title

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5. CITY AND STATE OF PUBLISHER

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7. SUBSCRIPTION PRICE (indicate differential rates)

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OFFICE MEMORANDUM

TO: Department Directors

FROM: James Feather, PUBDR *JF/jw*

SUBJECT: International bibliographic registration

DATE: April 8, 1982

Among the new tasks being undertaken by the Publications Department is to ensure that all publications of the World Bank--that is, all materials that are made publicly available--are properly registered with appropriate international and national bibliographic agencies. This step will make information about our publications available to a far wider audience than heretofore.

We need from you information about all series published by your department. A copy of the form that we shall fill in is attached (attachment #1) to show questions to which we shall have to respond. The agency, located in Paris, but administered locally in the Library of Congress, will supply us with an International Standard Serial Number (ISSN), and registration data (see attachment #2, from WDR81), which we shall then give you and ask that you have printed in all future editions of the series.

If the individual publications in your series have titles different from one another, or if you issue individual titles not in a series, it will be possible to register them also for "Library of Congress Cataloging in Publication Data" (CIP), which will greatly expedite the processes of library cataloging and shelving. A copy of that registration form is attached as well (attachment #3) to show what information we must supply.

Attachment #3 is the "copyright page" that we shall soon begin using for the Staff Working Papers series (the copyright page is customarily the back of the title page). A sample CIP, from a Bank book, is shown in attachment #4. We recommend strongly that you include a copyright notice as illustrated here, and such other description of the series, disclaimers, and the like as you feel are appropriate to the series or individual titles.

Please call Mr. Winterbottom (61641) if you need more information before replying to this request.

RM

*Please fill out the
 requisite form for the
 publisher version of the
 Annual Review*

0227
4/9

Oxford University Press
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TORONTO MELBOURNE WELLINGTON HONG KONG
TOKYO KUALA LUMPUR SINGAPORE JAKARTA
DELHI BOMBAY CALCUTTA MADRAS KARACHI
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330.9'172'4

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Record Removal Notice

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Subject / Title Seventh annual review of PPARs				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Ann May</td><td>Date November 05, 2021</td></tr></table>	Withdrawn by Ann May	Date November 05, 2021
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Record Removal Notice

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Subject / Title Minutes of Joint Audit Committee February 24, 1982				
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ROUTING SLIP		DATE: 2/3/82
NAME		ROOM NO.
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<p>Hooper was asked by IPT how many copies of the Annual Review he wanted. I saw his reply, which prompted my inquiry about his assessment of PPARs, which led in</p>		
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APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
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NOTE AND FILE	URGENT	
<p>MARKS:</p> <p>tion to this response. The last sentence suggests that the Resident Mission disagrees with PCR OR estimates, which are the ones usually used in PPARs. Could someone inquire further in the Region and give me a call? Which are these? What are HQ staff</p>		
FROM: Charles Cl	ROOM NO.: A110	EXTENSION: 72757

views? Should ODD have made its own reestimates in these cases? W2/s.

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REGARDS, NOOTER

248423 WORLDBANK
41273 INTBAFRAD

Copy to Pat
2/22/82
Ester Reyes

Can you locate
the ~~last~~ three
Tanzanian PPAR's
included in the
Seventh Annual
Review and
let me see.

2/19

FORM NO. 75
(9-78)

THE WORLD BANK

FEB 08 1982
0134

ROUTING SLIP		DATE: 2/3/82
NAME		ROOM NO.
Mr. Weiner SR (o/r)		
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REGARDS, NOOTER

248423 WORLDBANK
41273 INTBAFRAD

Copy to Pat
3/22/82
Ester Reyes

Can you locate
the last three
Tanzanian PPARs
included in the
Seventh Annual
Review and
let me see.

7/19

January 29, 1982

Mr. Rainer B. Steckhan
Director, European Office
World Bank
66 Avenue d'Iena
75116 Paris, France

Dear Rainer:

I asked you just the other day if your office could get for me a copy of the recent EEC audit report which I read about in our press clips. Since then, a copy of the document has been loaned to me; so, if you haven't done anything yet about this, just forget it. However, if a request to the EEC has already gone out, another copy will, of course, always be welcome.

I would appreciate any views you or your associates may have on the impact of this document on European perceptions of aid effectiveness.

Are there any things we might bear in mind in planning for the next Annual Review of Project Performance Audit Reports to make it more useful for the general public without impairing its primary objective of reporting to the Bank's shareholders and staff? I look forward to hearing soon from Munir Benjenk and Frank Vogl in this regard, and would also appreciate any thoughts that you may have.

With warm regards,

Sincerely yours,

Mervyn L. Weiner
Director-General
Operations Evaluation

cc: Mr. Benjenk
Mr. Kapur, OED ✓

December 9, 1981

Mr. Jeffrey B. Nugent
Professor
Department of Economics
University of Southern California
University Park
Los Angeles, California 90007

Dear Mr. Nugent:

I am enclosing a copy of the published version of the Sixth Annual Review of Project Performance Audit Results. This differs from the report released to the Executive Directors only insofar as the names of countries and projects concerned have been eliminated in order to maintain the confidentiality of much of the information on which it is based. The Seventh Review has not yet been released to the public; I shall send you a copy as soon as it is released sometime in the next month. I greatly regret I shall not be able to send you a copy of the Sub-Sahara report. This was never issued to the public and, as you can no doubt appreciate, we could not make available our internal documents for private research or other similar purposes. Let me add that this is a policy that we have consistently applied and that I am not in a position to make exceptions.

I hope you will find the enclosed Annual Review of some use.

Sincerely,

Shiv S. Kapur
Director
Operations Evaluation Department

Attachment

SSKapur:rmd

OFFICIAL FILE COPY



DEPARTMENT OF ECONOMICS
(213) 743-2487

November 18, 1981

Mr. Shiv Kapoor
Operations Evaluation Division
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Kapoor:

I would be grateful if you would please send me copies of the sixth and seventh Annual Reviews of Project Performance Audits and the Review of Sub-Saharan African Projects. Michael Lipton advised me that, although not generally widely distributed, these reviews could be extremely helpful to some of the research I am doing on rural development and income distribution.

Sincerely yours,


Jeffrey B. Nugent
Professor

JBN/vps

NOV 30 1981

December 7, 1981

Mr. Muncie,

Re: Seventh Annual Review

We spoke briefly on the telephone this morning concerning the proposed changes in the attached document. As I said, I have no problem. I would however suggest that, if possible, the authorship of the Operations Evaluation Department be retained on the cover to indicate its independent position within the World Bank. For the rest, I don't think it is necessary for us to meet to discuss the proposed changes.

Shiv S. Kapur

Attachment

cc: Messrs. E. D'Silva
Kirk

SSKapur:rmc



Record Removal Notice

File Title Seventh annual review - set		Barcode No. 1076382		
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Correspondents / Participants				
Subject / Title Summary of Discussions at the Meeting of the Executive Directors of the Bank, November 10, 1981				
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Subject / Title Annual Review of PPARs				
Exception(s)				
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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION

A81-52
IFC/A81-31

FROM: Vice President and Secretary

November 6, 1981

NOTICE OF MEETING

Following an Executive Session (the notice and agenda for which will be distributed separately) commencing at 10:00 a.m. on Tuesday, November 10, 1981, a joint meeting of the Executive Directors of the Bank and IDA and the Board of Directors of IFC will be held in the Board Room. The agenda is as follows:

AGENDA

1. Report on Bank and IDA Operations (R81-285)*
2. Minutes of Previous Meetings (M81-50[IDA/M81-49]
M81-51[IDA/M81-50])
3. Proposed Loan - Yugoslavia (Kosovo Water Supply Project)
President's Report and Recommendation (R81-277,
R81-277-L and 2623-YU)
4. Proposed Loan - Indonesia (Eleventh Power Project)
President's Report and Recommendation (R81-276,
R81-276-L and 3307-IND)
5. Proposed Credit - Comoros (Second Highway [Maintenance] Project)
President's Report and Recommendation (IDA/R81-126,
IDA/R81-126-L and 1626a-COM)
6. Proposed Loan - Botswana (Third Education Project)
President's Report and Recommendation (R81-281,
R81-281-L and 1832-BT)
7. Proposed Credits - Benin/Togo (Power Engineering and
Technical Assistance Project)
President's Report and Recommendation (IDA/R81-127,
IDA/R81-127-L, 2079-BEN and 458a-TO) -- SPECIAL PROCEDURE
8. Report of the Joint Audit Committee (R81-269 and JAC 81-31)

*To be distributed

9. Annual Report on Operations Evaluation (R81-246)
10. Seventh Annual Review of Project Performance Audit Results (R81-265)
11. Record of Previous Approvals:
 - (a) Executive Session Minutes of October 20, 1981 (XM81-36 and XM81-36[Rev.])
 - (b) Further Grants to International Agricultural Research Programs in 1981 (IDA/R81-125)
 - (c) Executive Session Minutes of October 22, 1981 (XM81-37)
12. Other Business
13. Date of Next Meeting

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
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Vice Presidents, IFC
Directors and Department Heads, Bank and IFC
Secretary, IMF

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Senior Vice President, Operations

DATE: November 5, 1981

FROM: W. David Hopper, Vice President, South Asia

SUBJECT: Project Implementation Review - Special Topic

2. cc: CEOs + SEOs

- for discussion at next senior staff meeting
- to study and

Further to Mr. Wiehen's memo of October 30, 1981, I attach herewith a paper entitled "Project Lending as an Instrument for Policy and Institutional Change in South Asia". This constitutes our Fall 1981 "Special Topic".

to next Annual Review and PPARs generally.

→ SK : An excellent statement of the larger contexts of project lending, which PPARs should reflect, and assess, wherever feasible. Worth circulating.

W 11/6.

Distribution:

Same as Project Implementation Review Fall 1981

NOV 17 1981

SOUTH ASIA REGION

FALL 1981 PROJECT IMPLEMENTATION REVIEW

Special Topic

PROJECT LENDING AS AN INSTRUMENT FOR
POLICY AND INSTITUTIONAL CHANGE IN SOUTH ASIA

November 5, 1981

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PROJECT LENDING AS AN INSTRUMENT FOR POLICY AND INSTITUTIONAL CHANGE
IN SOUTH ASIA

Summary and Conclusions

1. Three principal themes characterize the South Asia experience of attempting to bring about institutional and policy changes through project lending:

- (a) The professional interaction between local staff and Bank staff on both technical and policy issues is of paramount importance in achieving policy and institutional change and progress towards principal sector objectives. This interaction leads to a deepening understanding of the issues involved and to adjustments in views by both the client and the Bank.
- (b) Lending for a sequence of specific projects ("micro-level" lending) will, if properly monitored, result in the gradual accumulation of performance and impact data which can support recommendations for change and provide a firm basis for decision making. Attention needs to be given to not only physical, financial and economic performance and impact but also to the political repercussions of policy changes being tested at the project level (e.g., a change from clearance of urban slums to improvements in situ).
- (c) In most sectors, objectives, issues and alternative policy directions are unclear at the outset of the client-Bank dialogue and a period of project-level lending, interaction and policy change is required before these sectors are sufficiently understood and therefore amenable to macro-level discussions (e.g., irrigation and urban development). Over time, fundamental policy issues will emerge through project work that (i) cannot be adequately addressed at the project level but require analysis and discussion in a broader sector or macro-economic framework, and (ii) may require macro-level leverage to affect change (e.g., through a lending instrument different from project lending). In irrigation, cost recovery is such a fundamental issue which has "matured" through project work. In urban development, emerging fundamental issues relate to municipal taxation, rent control and land legislation.

2. Embedded in these themes is the evolutionary nature of project lending in South Asia, from (i) an initial phase of learning, testing and demonstrating, through (ii) an intermediate phase of widespread policy and

institutional change where selected fundamental policy issues also emerge, to (iii) a "mature" third phase where a few well defined fundamental policy issues remain and have become the focus of the client-Bank dialogue at increasingly higher levels of decision-making authority. During the third phase, the interaction between the project lending instrument and other lending instruments available to the Bank becomes particularly important if further sector progress is to be achieved. This interaction should be designed to make optimum use of both project level sector knowledge, contacts and experience and macro-level overview and leverage.

3. Depending both on country and sector circumstances and on the Bank effort involved, progression through the three overlapping phases of the evolutionary model outlined above is likely to take a minimum of ten to fifteen years in any single sector. This is a long time span when related to Bank staff continuity and institutional memory, particularly "divisional memory." Some of the key features of the project lending approach may therefore not be used to their fullest because of lack of attention to the approach itself and to how far the client and the Bank have evolved in a particular sector and what the strategic priorities should be at that stage. Considering also the accumulation of experience from sector and program lending, and the emergence of new lending instruments such as Structural Adjustment Lending, it may therefore be timely to give more attention to the basic nature of each lending instrument and to the manner in which they could interact to maximize overall lending impact.

4. It must be emphasized that this review of the South Asia experience of the project lending approach is experimental and selective, and the evolutionary model which has been put forward is tentative and open to challenge and adjustment. Assuming, however, that the evolutionary model is largely representative of successful sector experiences, a few further tentative conclusions might be drawn concerning key elements of divisional and sector strategies that can maximize project lending impact:

- (a) The development of intermediaries is in many sectors a well established feature of institution building through project lending. The importance of early identification of potential intermediary institutions and the early establishment of working relationships takes on additional significance when viewed in the context of the evolutionary project lending model. Intermediaries can become central repositories of the learning experience from project lending and can become key instruments in spreading this experience to other agencies and states. More explicit attention to such technical and policy intermediation may be appropriate, in addition to financial intermediation per se.

- (b) The monitoring and evaluation of project impacts could in many instances be more effectively designed and utilized if explicitly viewed in the context of long term sector objectives rather than, as is sometimes the case, in the context of specific project objectives which may only be derivatives of broader sector objectives.
- (c) Staff skill requirements in a projects division are likely to change with the evolution of project lending. Initially, a fairly wide range of skills is likely to be appropriate while, over time, an increasing emphasis on conceptualization and economic skills may be required to address emerging fundamental sector policy issues and to participate in the application of other lending instruments.
- (d) The need for close interaction between project lending, particularly in "mature" sectors, and macro-level lending instruments suggests that more attention needs to be given to (i) how the Bank is organized to make optimum use of different but interacting lending instruments, (ii) how responsibility and accountability can be clearly defined for each instrument and sector and (iii) how resources can be allocated accordingly. An understanding of the project lending instrument--how it works and lessons learned--is a good starting point.

PROJECT LENDING AS AN INSTRUMENT FOR POLICY AND INSTITUTIONAL CHANGE IN SOUTH ASIA

Introduction

5. At a time when more emphasis is being put on SAL, it is interesting to assess the strengths and weaknesses of project lending as an instrument for bringing about necessary institutional and policy changes. This paper is a preliminary attempt to review the Bank experience, in some sectors, with project lending in South Asia in the 1970s.
6. During that period, a number of changes took place in Bank project lending. First, the Bank approach to development became broader, with a more diversified lending program and a wider distribution of benefits; a special focus was given to the poorest sections of society, both rural and urban. Second, in line with the general increase in the volume of lending, the average size of loans and credits increased substantially in South Asia, from US\$20 million in FY70 to US\$67 million in FY81. Third, the character of Bank projects changed dramatically; not only did projects become bigger (covering entire States in India, for example), but they became more complex with more emphasis on institution building and training, and more indigeneous in their preparation as well as in implementation through less reliance on foreign expertise and talents. Finally, as a result of the reorganization of the Bank in 1972, lending objectives progressively became clearer and better defined; drawing from their accumulated knowledge of the country and sector and from the lessons learned from previous projects, regional staff were able to pursue institutional and policy improvements instead of concentrating only on the viability of individual projects.
7. A comprehensive assessment of the Region's total effort in bringing about institutional and policy changes is not feasible; thus this paper deals with the Region's efforts to improve the security of food supplies, in particular through irrigation ^{1/} and its efforts in the new sectors of urbanization and small-scale industries.

^{1/} To support this thrust, complementary efforts have been made through expanding the flow of resources for (a) agricultural credit (to finance groundwater development and similar minor works) and (b) agricultural extension. Related actions were also taken and/or encouraged for increasing the supply of fertilizer (domestic production, financing of imports). In fact, about 70% of Bank/IDA lending for "Industry" during FY73-81 was for fertilizer production and a substantial part of sector lending was for fertilizer imports.

8. This paper discusses Bank experience and initiatives in irrigation (India, Pakistan and Bangladesh), urban projects and small-scale industries. In addition, an Attachment gives some background information on the focus of Bank lending in South Asia since FY74.

DISCUSSION OF SELECTED BANK PROJECT INITIATIVES

A. SECURITY OF FOOD SUPPLIES - ROLE OF IRRIGATION

9. High returns from investments in irrigation require the availability of high yielding varieties (HYV). HYV for wheat and rice became available during the mid-1960s, so that potential high returns from investments in irrigation were available when the Bank began to expand its lending program for irrigation in South Asia. The crucial ingredients for extracting returns from the available HYV technology were (1) reliable irrigation supplies, (2) adequacy of fertilizer supplies, (3) adequacy of locally adapted HYV seeds, (4) knowledge of the right cultural practices, (5) availability of cash and credit to finance working capital and/or the minor irrigation works (tubewells, low lift pumps), and (6) remunerative input-output price relationships. This complementary package was promoted by the Bank in India, Pakistan and Bangladesh. The actual evolution of the Bank's portfolio varied among the three countries depending on (1) the geo-political situation in the area, (2) the level of development of country institutions, and (3) investment needs of the sub-sectors. But in each case, the effort was continual, solutions to obstacles were found, and in all cases a measure of success was achieved. The varying patterns of development for the three countries are described below.

India - Evolution of Lending for Irrigation

10. Our definition of objectives has been based on our technical judgment, balancing what we understood at any given time to be needed against what we considered achievable through persuasion and project leverage -- in other words, the art of the possible. It has been a constant learning process, in terms of both what we understand to be needed (the objectives) and what we find by trial and error to be achievable and acceptable.

11. Also, a large part of our effort has been aimed at the attitudes and thinking of the Indian engineering community itself, and the provision of actual performance data from the field to support our recommendations for change and improvement. Ten or even five years ago it was almost impossible to tell Indian irrigation engineers that their irrigation systems had serious design and operational problems, even though macro evidence was available from the low yields of irrigated crops (among the lowest in the world). Indian engineers were justifiably proud of having the world's largest irrigated area, and the largest surface systems in the world. Increasingly,

however, their attention had to be turned to quality and to improved performance standards; this change in thinking has been occurring gradually over the last few years.

12. Sector objectives largely reflect this process. Canal lining and watercourse lining have obvious and measurable benefits in saved water. While disagreements on the level of technology and economic extent of lining are still unresolved, lining is both readily achievable and acceptable to State governments, as an effective means for achieving improved conveyance efficiencies. Similarly, good canal and farm to market roads have been recognized as a basic requirement for efficient canal operations and for improving farmers' returns. Extensive canal lining and farm road systems were among the first types of improvement which were widely accepted and are now being implemented on a very considerable scale. It has become possible to develop composite irrigation projects (such as Maharashtra II Irrigation Project) which finances such specific design and operational improvements throughout most of a State.

13. We have also recognized that the performance of major irrigation systems will ultimately depend on the minor engineering works for water delivery as much as on the quality of major works (which heretofore have received the most attention because of their glamour and cost) and also on the capabilities of operational staff. We have started to incorporate training components in projects aimed specifically at field and junior engineer design and operational staff, such as the Water and Land Management Institute in Maharashtra (launched in October 1980 after about a year of ad hoc pilot training courses). Efforts to establish similar training programs are underway in Gujarat and Andhra Pradesh. For senior irrigation engineers, the opinion leaders in the irrigation sector, we have for the past three years financed and helped organize Study Tours aimed at providing examples in other countries of both improved technology and institutions for efficient delivery of water and its use. The specific examples were chosen to teach particular lessons of relevance to India, and focus on broadening exposure and attitudes rather than on specific hardware or techniques. We expect the spin-off from the Study Tours to have a substantial impact in the years to come, as Study Tour participants move into positions of greater responsibility.

14. A major objective of the training efforts is also to upgrade management of irrigation systems. Unfortunately, there are serious technical and institutional barriers to improved efficiency in the existing irrigation systems. Institutional barriers include a total lack of performance incentives for professional staff working on the planning, design and operation of the project, lack of effective farmer participation, as well as water charge systems which tend to promote inefficient use of water by farmers. Bank efforts at improving cost recovery for irrigation projects are considered by the State and Central governments to be policy issues, unrelated to the efficient delivery and use of water; cost recovery as an objective appears to be a dead end street, both in terms of achievability and acceptability.

Indian planners and policy makers clearly see irrigation investment as a public good rather than a private good supplied by the public sector. This attitude is clearly not limited to India, as experience in the Western USA shows.

15. Water charges and cost recovery are related to efficiency of water distribution and use through the value of water delivered at the farm gate. High value water -- water delivered at the right time and in the right quantity -- can command a high price, as indicated by high demand of privately owned tubewells which entail very high costs for the farmer compared to canal water charge costs.

16. In addition to institutional barriers, we are now encountering a second tier of physical or engineering constraints built into the design of Indian irrigation systems. Removing these constraints through, for example, upgrading control structures, better design and construction standards, improved farm level technology and better construction quality control, all aim at providing a more valuable water supply to the farmer, and presumably a water supply for which he would be willing to pay more. Surface systems should be able to provide a water supply to each farmer of equivalent value to tubewell water as far as timeliness and reliability is concerned; i.e. water should be available on demand, within the limits of availability, capacity and economic feasibility.

17. Overall, it is clear that our irrigation program has by necessity progressed in stages. Initially, simple replication of existing systems was tried. In the process, we identified some basic engineering improvements such as canal lining. That still did not solve the problem of getting the water from the canal to the farm, hence the push for better designed and operated minor systems. This effort showed some fundamental inadequacies in staff capabilities, leading to specific efforts on training. And even with highly capable staff, it was found that major engineering and design constraints were built into irrigation systems. These problems have been uncovered in layers, with one leading to the other. We are just beginning to deal with the problem of main network operations and the parallel modernization of system management.

18. For success with any of these objectives, experience indicates three elements are essential:

- (a) recommended changes and improvements must be demonstrated and proven to work, particularly in terms of increased efficiencies;
- (b) the individuals involved, particularly the engineering community, must have a "cover" for these sometimes radical breaks with the past to avoid loss of face; and

- (c) the changes should not raise serious social or political objections.

Some objectives such as cost recovery suffer on all three accounts, especially the last, and are probably both unacceptable and unachievable in a project context. Other objectives such as improved water law and water rights, are probably acceptable but difficult to achieve. And still others like canal lining and other engineering improvements are both achievable and acceptable. Very much of our effort at persuasion has concentrated on increasing the range of objectives which are both acceptable and achievable.

19. The table on the next page assesses our present views on achievements, and estimated chances for further progress.

Pakistan - Evolution of Lending for Irrigation

Relevant Background to Bank's Involvement

20. The case of Pakistan's irrigation development is radically different from that of India's. Pakistan's major agricultural areas lie within the basin formed by the Indus River and its tributaries. The irrigation system which exists today has been built up over the course of more than a century. Today, it is the largest contiguous irrigated area of the world with a gross commanded area of 40 million acres comprising 45,000 miles of canals, a million miles of watercourses, a series of dams (Tarbela, Mangla, Warsak), nine river barrages and canal headworks, and eight large link canals. The Partition of the Indian sub-continent fragmented the previously integrated irrigation system of northern India; so that, in the early 1950s Pakistan's main concern was to protect the water supplies of its eastern canal commands which, before Partition, had been obtaining water from rivers originating

INDIA

Objectives in the Irrigation Sector

	<u>Stage 1/</u>	<u>Achievable</u>	<u>Accepted by GOI</u>
<u>Infrastructure and Equipment 2/</u>			
Design and Construction Standards for Better Conveyance and Operation	2	yes	yes
Canal Lining	5	yes	yes
Water Course Lining	5	yes	yes
Upgrade Control Structures	1	yes	yes
Improve Communications	1	yes	yes
Canal Roads	5	yes	yes
Construction Quality Control	2	yes	yes
Improved Farm-Level Technology	1	maybe	yes
<u>Management and Institutions 2/</u>			
Modern System Management	0	yes	yes
Management Information (MIS)/Monitoring	4	yes	maybe
Cost Recovery, Water Charges, Betterment Levy	1	maybe	no
Water Charge Systems (Efficiency)	1	maybe	yes
Farmer Organization and Participation	1	maybe	maybe
Performance Evaluation/Accountability	0	maybe	maybe
Performance Incentives	0	maybe	maybe
<u>Training of Irrigation Staff</u>			
Field-Level Staff	4	yes	yes
Junior Engineering Staff	4	yes	yes
Middle Level Management	2	yes	yes
Senior Management	4	yes	yes
Policy/Design Staff	1	yes	yes
<u>Research</u>			
Engineering Data Needs	4	yes	maybe
Testing/Adaptation of New Technologies	2	yes	yes
Evaluation of Technological Alternatives	1	yes	yes
Farmer Organization/Participation	1	yes	maybe
Water Law	0	yes	maybe
Agricultural Economics of Irrigation Alternatives	0	yes	yes
<u>Policy and Future Directions</u>			
Definitions	1	yes	yes
Future Requirements	1	yes	yes
Performance Standards for the Future	1	yes	yes

1/ Stage is based on a scale of 0 (nothing) to 5 (underway).

2/ Flexibility is a primary consideration for both infrastructure and management objectives. The only thing we know for certain is that the future will be different from today. If we can today build-in flexibility through improved infrastructure design and management, new irrigation systems will be able to adapt to the needs of the future. This concept of flexibility is at the heart of modern planning and design and deserves especially strong emphasis with irrigation projects, given their very long gestation period and life.

in Indian territory. To do this Pakistan made substantial protective investments for barrage construction and link canal expansions to transfer water to its eastern canal systems.

21. The Bank's involvement with Pakistan's irrigation sector began when it offered to mediate the Indo-Pakistan Indus basin water distribution dispute. Its efforts proved successful and the Indus Basin Treaty between India and Pakistan was signed in 1960. The Treaty required massive investments in Indus Basin Plan (IBP) "Replacement" works comprising the Mangla dam, eight link canals, five barrages and one syphon. These works were called "Replacement" because they were essentially compensation for the irrigation supply system lost due to Partition and legalized through the Indus Basin Treaty. During the 1960s, Bank's project related involvement was, therefore, largely confined to assist the implementation of the IBP works, except for a small Drainage and Reclamation Project in Khairpur. However, Bank's sector related involvement was deep and the monumental sector study (1964-68) under the leadership of Dr. P. Lieftinck provided the Government of Pakistan (GOP) with a plan framework for optimal development of its water and power resources. This plan included (1) the construction of the Tarbela dam, and (2) phased public sector development of Pakistan's waterlogged and salinity affected areas through Salinity Control and Reclamation Projects (SCARPs). This plan explicitly discounted the possibility of private development of Pakistan's untapped sweet groundwater aquifer.

22. From 1967-75, Pakistan's water sector effort was dictated by the Lieftinck Plan. Tarbela dam was built on schedule, but later (1975-80) encountered operation problems. These were addressed through engineering solutions and two Supplementary Tarbela Credits by the Bank. Resource constraints during the 1970s, Pakistan's truncation through the creation of Bangladesh, and Tarbela's first claim on available resources led to the starvation of the SCARP program.

Bank Water Sector Activities during the 1970s

23. With the completion of IBP Replacement works, and the expected completion of Tarbela, Bank's efforts in early 1970s were essentially focussed on accelerating the slow moving SCARP program since it had been a central component in the Lieftinck Plan. But (1) the 1971 separation of Bangladesh, (2) the continuing resource constraints, (3) the implementation difficulties of the SCARP program, and (4) the ambitious expansion of the public sector role during 1971-77 prevented coherent movement on any pre-determined path. Consequently, the Bank attempted to create a new sector framework while continuing to address the immediate problems arising from unprecedented floods (1973, 1976) and the operational difficulties of Tarbela. The new sector planning effort was executed by the Bank through a UNDP financed operation and its central objective was to develop a Pakistani, rather than a Bank prepared (as was done in the mid-1960 Lieftinck study), water sector plan. This sector planning effort produced what has come to be known as the

Revised Action Plan (RAP) and the recommendations of RAP are now embedded in GOP's policies and investment plans.

24. Bank's current objectives in the water sector support priorities and sectoral objectives articulated in RAP and are:

- (a) rationalization of price structure for farm inputs and outputs;
- (b) privatization of fresh-groundwater development (through credit rather than direct public subsidy) with public sector concentrating on drainage of saline groundwater;
- (c) rehabilitation of the irrigation/drainage system; and
- (d) improved water management through more efficient utilization of available water resources in the short and medium-term, while making provisions for long-term investment requirements.

Three lessons were learned during Bank's execution of the RAP Study:

- (a) it is productive to develop a sector framework through deep dialogue with our borrowers, particularly when it is combined with project leverage,
- (b) if borrowers accept our ideas as their own there is better chance to get them implemented, and
- (c) an intensive sector cum project dialogue is a learning process for both Bank and borrower.

25. The current Bank lending matrix in the Irrigation Sector has emerged from the sector level planning effort and basically combines the long-term infrastructural development needs of a vast and old system (Drainage, Reclamation, Rehabilitation) and the short term needs of extracting returns from underutilized assets. Kalabagh, LBOD^{1/} and system rehabilitation would support the former, and the latter would be supported by projects in on-farm water management, research, extension, credit, operation and maintenance support, command water management, private tubewell electrification, and SCARP transition. An example of the effective use of sector

^{1/} Left Bank Outfall Drainage

cum Project lending in Pakistan was the conditionality associated with the recent Fertilizer Imports Credit. Under this Credit, GOP undertook to reduce the fertilizer subsidy to zero by mid-1985 and to use the released resources for rationalization of Pakistan's investment portfolio for the water sector. In order to facilitate the intended rationalization, a project preparation effort has been initiated so that the new projects in the pipeline conform to GOP's and Bank's new strategy. This was felt an essential element of the investment rationalization package by both GOP and the Bank.

Policy Conclusions

26. Based on Bank's recent experience to assist Pakistan's water resources development, it is clear that project lending and sectoral dialogue can be most effectively complemented, preferably under a well defined macro-level inter-sectoral development strategy. Problem projects experience in slow start-up of the priority projects of SCARP Mardan and SCARP VI demonstrates the need for placing individual projects as an integral part of a rational sectoral investment plan based on full realization and acceptance of national and provincial resource implication by the Federal and Provincial Governments, if the project is to be successfully implemented. Phasing of the major national investment projects in water sector, will make the adoption of the above approach an absolute necessity. Furthermore, rationalization of the water sector investment program will ultimately require completion of some concrete political and economic agreement/compromise between Federal and Provincial Governments on sharing of development budget and on interprovincial water rights. Inducing the Governments to move into these difficult areas could only be facilitated if Bank's project lending leverage in major projects such as Kalabagh, LBOD and sectoral objectives and overall macro-economic policy dialogue between the Bank and Government are consistently linked. In the absence of the above agreements, Bank's direct involvement in financing of such projects as LBOD (with inevitable serious investment displacement effect) would critically depend on divisibility of such projects into self-contained and viable projects as well as their overall priority.

27. Through our recent years' water sector project experience we have also come to realize certain basic sub-sectoral or sectoral policy objectives cannot be effectively achieved through project-specific covenants only, unless they are pursued in a general policy framework with overall consistency in a reasonable and practical way. Inappropriateness of raising irrigation water charges principally through project specific covenants in Pakistan has been no exception to Bank's general experience in this area. Inappropriate, unreasonable or impractical pursuit of policy for institutional reform through micro level project covenants may achieve semi-legal compliance; however, such covenants are likely to result in violation of the spirits of the agreements.

Bangladesh - Evolution of Lending for Irrigation

28. The evolution of Bank-Bangladesh dialogue is similar to that of the Bank-Pakistan dialogue except that it began in 1971 and that Bangladesh's needs and resources were very different. Bangladesh is predominantly reliant on agriculture for both sustenance and export earnings. It is characterized by both extensive floods during the monsoon and droughts during the dry season - November through April. In early 70s, a Bank sector review recommended pump irrigation (low lift pumps and tubewells) and small scale drainage and flood control schemes. Over the past decade, the Bank has approved a succession of credits in support of this type of quick-yielding investment. As this minor irrigation works program expanded, so did resource constraints, which then became the focus of project conditionality and of sector work. The Bank's "minor irrigation" investment thrust has been significantly assisted by the use of sector lending (Fertilizer Imports Credits) to increase resources available for, and to improve the productivity of, agriculture by requiring that GOB undertake to:

- reduce fertilizer subsidies so as to phase it out by the end of FY85, and
- review of foodgrain procurement prices periodically, particularly at the time of any increase in fertilizer prices, in order to provide adequate production incentives to farmers.

The total amount of this subsidy had increased to about US\$80 million by FY78 accounting for about three-quarters of the agricultural sectors' development budget and 10 percent of the Government's entire development budget. As a result of the measures required by the Fertilizer Import Credit, the total amount of the fertilizer subsidy has stopped increasing and the share of fertilizer subsidy in the agricultural sector's development budget decreased from 75 percent in FY78 to 30 percent in FY81 and from 10 percent to 4 percent for the total development budget.

29. Bank/IDA has worked with GOB to develop a Medium-term Foodgrain Production Plan (MTFPP) to make effective use of the released resources (complemented by additional domestic and foreign resources). The MTFPP represents an effort to shift the emphasis of planning and implementation efforts from the ad hoc management of a still largely subsistence-oriented agricultural sector and stop-gap attempts to cope with food shortages and crises as they occur to an orderly administration and implementation of a consistent and forward-looking development strategy in the agriculture sector. The MTFPP aims at achieving self-sufficiency in foodgrains by FY85, the terminal year of the Second Five-Year Plan (SFYP). About 85% of total outlays, including private sector investments under the MTFPP are designated for three crucial programs that are designed to stabilize the economic and natural environment within which farmers operate: (1) irrigation, drainage

and flood control to reduce natural hazards; (2) input delivery and distribution systems to ensure the availability of inputs; and (3) the development of market facilities and roads to permit an expanded foodgrain procurement and marketing and the maintenance of incentive output prices. The portfolio consists, except for some carry-over conventional major irrigation investments that warrant completion, of technically simple, divisible, quick-to-plan and quick-to-implement projects. The danger of scarce financial resources being allocated to major indivisible and irrevocable commitments is thus minimized and emphasis can be changed as experience or changing needs and situations dictate.

30. Complementary activities for strengthening Bangladesh's agricultural credit and agricultural extension institution have also characterized Bank's involvement in this resource poor South Asian nation. In addition, the Bank has supported the distribution of high yielding wheat seed and contributed to rice variety development through a seeds project. The prospects of immediate success are not very bright, but the medium-term outlook is far less grim than it was in the early 1970s.

31. The above three summary introductions to Bank's responses to the food security needs of India, Pakistan and Bangladesh effectively indicate that "project lending" was used in a flexible but efficient manner to accomplish the central goals that were set.

B. EVOLUTION OF LENDING FOR URBAN PROJECTS

32. Urban projects entered the Bank vocabulary about 1972. The first urban project in South Asia was approved in FY74. There were no further urban projects in South Asia until FY77 but since then six more projects have been approved, all in India. All are "single-city" projects and focus on major metropolitan areas. A series of statewide "medium-sized cities" projects is now also under consideration in India and the first one, in Madhya Pradesh, is expected to be appraised in mid-1982. These statewide projects are expected to be undertaken jointly with the National Housing and Urban Development Corporation. Thus, while the initial urban effort of the Bank was concentrated on major metropolitan areas, attention is now on evolving a more comprehensive national program in India. A project-by-project approach will continue to be necessary in order to (a) introduce and demonstrate the appropriateness of policy changes and management improvements in the urban sector, and (b) develop intermediaries at metropolitan, state and national levels. Urban operations are also being initiated in Pakistan and in Bangladesh.

Principal Sector Objective

33. The principal objective being pursued through urban projects in South Asia is to help establish efficient programs to provide land,

infrastructure and other urban services to the growing urban population at affordable costs. Such programs would enable cities to relieve serious service deficiencies while improving financial solvency, and also help create environments in which human and physical resources can be used productively. Ongoing projects cover both physical investments (sites and services, slum improvement, urban transport, etc.) and institutional strengthening programs (accounting, financial management, resource mobilization, staff training, etc.). Policy adjustments being introduced through these projects aim at: reduced design standards and more efficient land utilization; provision of security of land tenure; improved cost recovery, including higher interest rates and user charges; and better utilization of existing facilities, including improved productivity in the delivery of urban services. Progress towards these secondary sector objectives is discussed in more detail in para. 35 while institutional strengthening and change are discussed in paras. 36 and 37.

34. While a preliminary assessment of progress towards specific secondary objectives in individual schemes and projects can be made at this time, it is too early to assess overall progress towards the principal objective on a city-wide or sector-wide basis, with one exception. In Madras, policy adjustments introduced through sites and services and slum improvement schemes in two urban projects, and the gradual incorporation by State and Local Governments of these policies into their own programs, have led to a land, infrastructure and shelter program which now is coping with the growth of the city and also is beginning to reduce the backlog. This is in sharp contrast to the situation about five years ago when the slum population (living on unserviced land without security of tenure) was increasing at a rate of about 4.5% annually and had reached a level of about 1.2 million people. The key policy features of the Madras program are being emulated by other cities in South Asia.

Policy Change and Progress Towards Sector Objectives

35. At this time, about six secondary sector objectives have been defined and are being pursued in the context of urban projects in South Asia. In some instances, substantial policy changes have been introduced, which contribute to achievement of the principal sector objective. However, both we and our clients are still at an early stage of learning, testing and demonstrating appropriate urban development approaches. A brief overview follows.

- (i) Reduce design standards and land utilization costs to affordable levels.

Through sites and services and slum improvement schemes, public sector costs per household have been reduced by about 75%, compared to costs in traditional public sector shelter programs for low-income groups. Intense technical discussions of individual slum improvement and sites and services schemes

are required to achieve the necessary adjustments, which are mainly: a change from slum clearance to in situ improvements; reduced plot sizes and more efficient land utilization for new development; and reduced public sector involvement in the provision of housing per se while relying more on self help and the private sector for housing finance and construction. Initial projects have demonstrated feasibility and public acceptance of modified approaches.

(ii) Provide security of land tenure.

For new land development (sites and services), this has not been an issue. For slum improvement, security of tenure is much more difficult to introduce. Although the principle is becoming accepted, it has so far actually been implemented only under the Madras projects and only after lengthy discussions. However, community response in these initial projects helps demonstrate the need for and the appropriateness of secure land tenure, which has led to increased self-help improvements and attraction of other sources of finance with land title used as collateral. Security of tenure will also be introduced in slums being improved under the Kanpur project. In Calcutta, the legal and political issues involved are still under discussion.

(iii) Introduce cost recovery and improve collection of payments.

Again, this has not been a major policy issue for new land development. Cost recovery from the sites and services schemes in the first Madras project is excellent, with negligible defaults. For slum improvement, however, introduction of direct cost recovery is a departure from previous practice. Experience from the Madras projects is limited but mixed. The timing of the collection of the first payment vis-a-vis completion of works and provision of land tenure is important. So are community relations and, in particular, the delivery of other municipal services and maintenance. We and our clients are gradually coming to grips with these complex issues.

(iv) Raise interest rates to levels which better reflect the cost of capital and which allow private sources of finance to be tapped.

By making the selection of the interest rate an integral element of the project design process, substantial increases over previous levels have become accepted and have been proven feasible. A 12% interest charge to beneficiary households for sites and services and slum improvement is applied in the two Madras projects and the Kanpur project. The same interest rate is being used in the design of the Madhya Pradesh project. Interest rates typically charged in public sector land development and housing schemes for low-income groups in India are otherwise about 4-5%.

(v) Make better use of existing facilities.

One example of the application of this objective is in urban transport. In most South Asian cities, the traditional response to traffic congestion and delays has been to implement road widening schemes and/or to build new roads. All urban projects in South Asia incorporate components that demonstrate the alternative approach of increasing the capacity of existing facilities through improved traffic engineering and traffic management. There is now a growing acceptance of this approach. Other examples of significant attempts to make better use of existing facilities include sewer desilting programs, various maintenance improvement programs, bus route rationalization, etc.

- (vi) Improve productivity and financial viability of public sector undertakings.

This objective is most explicitly pursued in urban transport (bus and tram transport) but we are increasingly trying to pursue it also for other municipal services (such as solid waste management, water supply, etc.). In urban transport, limited progress is being made, through both productivity improvements and fare increases. Public sector transport undertakings in Bombay and Madras are approaching financial viability, while in Calcutta recent deterioration in productivity has offset the effects of quite substantial fare increases.^{1/} Only over the past 18 months, bus fares have been raised by about 45% in both Madras and Calcutta and 20% in Bombay. Immediate further increases in Bombay are under discussion. These fare increases were not easy for the State Governments to implement ^{2/} and continuous project level discussions were required.

Institutional Strengthening

36. To achieve the sector objectives, the full range of "urban management" institutions need to be strengthened, through: improved organization, management and finance systems; improved mobilization of financial resources; and staff training. Some progress is being made with certain sub-sector specific institutions, such as public transport undertakings, land development agencies, and water supply agencies, but much less has been achieved vis-a-vis municipalities and local governments per se. We and our clients have gradually, through individual projects, come to realize that the strengthening of municipalities is a highly complex process, involving not

^{1/} However, in Calcutta, two project actions—bus fare increases and conversion of all private sector temporary operating permits to "permanent" permits—have greatly supported private bus operators who appear to have substantially expanded their operations as a result.

^{2/} For instance, in Calcutta some 20 buses and trams were destroyed and other vehicles were damaged in public disturbances caused by the most recent fare increase.

only a large number of infrastructure and urban service sectors and different functions (such as tax assessment and collection, collection of user charges, accounting and cost control, stores management, urban planning, construction, and maintenance), but also politically very sensitive aspects, such as allocation of powers between state and local government, property tax legislation, rent control and land legislation. In urban projects in South Asia, the groundwork is still being laid. For instance, in Calcutta, a few effects brought about through ongoing projects are:

- (a) Introduction, over the past three years, of new accrual accounting and financial management systems in CMDA 1/ and CC, 2/ stores organization and control system (CC), project monitoring and control system (CMDA), and investment impact evaluation system (CMDA);
- (b) Over the past two years, CMDA audits have been brought up-to-date, after having been seven years in arrears; CC audits are in the process of being brought up-to-date (CC audits for 1971/72-1977/78 have been completed over the past 18 months);
- (c) New Municipal Corporation Bills for Calcutta and Howrah have been prepared and passed by the State Assembly and are awaiting Presidential assent; these Bills revise the executive structure of the corporations and introduce new financial provisions, including the establishment of Municipal Funds to help finance operation and maintenance in critical sectors such as water supply and sanitation;
- (d) A new West Bengal Central Valuation Board for assessment of property values for property tax purposes has been established and has recently started operation;
- (e) Collection of municipal taxes is being improved; for instance, collections in the CC area have increased about 45% in the past three years (prior to improved assessments through the Central Valuation Board).

37. One of the most significant institutional changes being introduced through urban projects relates to adjustments in planning methodologies and planning processes to incorporate, inter alia, the various sector objectives,

1/ Calcutta Metropolitan Development Authority.

2/ Calcutta Municipal Corporation.

policy considerations and options referred to above. The principal features of these planning adjustments are:

- (a) Broader and less compartmentalized planning analysis. Urban planners have traditionally been physically oriented through training and tradition. However, economic and financial considerations are now increasingly brought together with physical considerations.
- (b) More iterative and less sequential planning processes. The need to plan iteratively, or to go back to check/modify previously made assumptions depending on later findings, is becoming accepted.
- (c) Exploration of alternatives. There is an increasing readiness to look for and to consider alternative means of achieving a given sector objective.
- (d) The use of affordability criteria. The increasing acceptance by urban planners and policymakers of the need to explicitly consider affordability and resource constraints at the outset of the planning process is important.
- (e) Adoption of programmatic planning approaches. While urban planning traditionally emphasizes physical master plans and individual development schemes, a more programmatic approach is gradually being adopted. For instance, after the initial sites and services and slum improvement demonstration schemes had begun in Madras, the attention of local planners started to shift towards programmatic issues, relating the new policies and schemes to overall sector requirements and constraints in a time-bound program.

Conclusion

38. The evolution of Bank urban lending in South Asia is still at an early stage but progress so far has been encouraging. The current focus on a principal sector objective--the efficient provision of land, infrastructure and other urban services at affordable costs--contributes to this progress. To develop a better understanding of the sector, to help introduce specific policy changes and to help strengthen urban institutions, the project lending instrument has been of vital importance and will continue to be so in the medium term, until new urban development approaches have taken root more firmly. Within the project lending framework, a gradual evolution of the dialogue with our clients can be expected over the next few years, towards more emphasis on institutional strengthening ("urban management") and less emphasis on physical investments. It is envisaged that we and our clients,

through the urban management focus, will also gradually be able to tackle more directly the broader conceptual issues related to the economic efficiency of urban development, including the provision of a physical and institutional setting which is part of and helps stimulate broader economic development.

39. It should finally be noted that policy adjustments in the urban sector are at this stage being achieved to only a very limited extent through project leverage and conditionality. It appears that the professional interaction between Bank staff and local staff is far more important. This interaction leads to a deeper and mutual understanding of the policy issues involved, and eventually to policy adjustments by both the Bank and the client. It remains to be seen whether fundamental policy issues will emerge which cannot be effectively addressed through individual projects, for instance, in the areas of municipal taxation, rent control and land legislation.

C. EVOLUTION OF INDUSTRIAL LENDING

40. During the 1970s, the Region has focused on three main areas: (1) small and medium industry (SMI) projects, (2) traditional DFC operations, and (3) direct subsector projects, program credits and overall sector work activities. Of these, SMI lending has grown most rapidly and has had considerable institutional impact. In DFC lending, although institution building continues to form a major part of the lending operations, changes have been less noticeable because of the well-established nature of most of the DFCs in the Region. In the sector-related lending operations, subsector-related institutional and policy issues have been addressed. Also, in the limited area of program credits, a reasonable amount of success has been achieved in sector policy changes. The Region's thrust in SMI lending is discussed below.

Small and Medium Industry Operations

41. The three SMI projects in Bangladesh, two in Sri Lanka, and one each in Pakistan and Nepal demonstrate the region's increased emphasis on using projects to attain reforms in industrial policy and institutions, while achieving direct impact on employment, output, and exports.

42. Building the Banks. The lending components of these projects have brought about major changes in institutional credit to SMIs. In all cases, prior to Bank involvement, the responsibilities for SMI lending were split between the Banks and a government SMI development agency. Now, the commercial banks, which have branch networks and the ability to mobilize resources are responsible for appraisal, supervision, and collections on all SMI loans, regardless of funding source. IDA-financed projects have increased the bank's capabilities to lend on the basis of project evaluation rather than

clients' collateral by: establishing small industry departments and providing trained SMI branch officers in each bank; incorporating attractive spreads and partial guarantees to make SMI lending profitable and reduce perceived risks; and installing simple systems for appraisal, supervision, and reporting. Subproject review and refinance capabilities have been established for SMI lending in a development finance institution or the central bank. In Pakistan and Nepal, this process is at an early stage; in Bangladesh and Sri Lanka, the banks have responded well, with a rapid expansion of lending to viable SMI projects. The successful building of the banks' SMI lending capabilities has enabled early, substantially larger "repeater" projects in Bangladesh and Sri Lanka. The institutional impact of these projects extends beyond SMI lending. In Sri Lanka, for example, the first SMI project included consultancy to establish direct lending as well as refinance operations in the new National Development Bank; an Industrial Investment Project involving NDB finance of larger projects is now being processed.

43. Technical and Commercial Services. While these projects provide credit to a range of small enterprises, technical and commercial service components focus on promising SMI subsectors in which SMI producers can be competitive; substantial export or local growth prospects exist; and problems are identified which can be tackled in the context of a project. This product focus, which also prevails in public enterprise projects dealing with the textile and jute sectors in Bangladesh, reflects the recognition that provision of finance and influence on macro-economic policy are not sufficient to strengthen the industrial base in South Asia; firm level technical and commercial services are at least as important in improving industrial performance and accelerating growth. In these public sector projects trade-offs often must be made between "ideal" policy reforms and the urgent need to expand production and more improvements in operating efficiency. In the SMI projects, various measures have been introduced to enable SMIs to gain some advantages of scale in input supply, marketing, and production functions; and tap private sector knowhow rather than build government bureaucracies in providing the needed services. SMI projects in each country include establishment of export and product development funds for light industries, under which exporters are assisted in expanding the decentralized production base. In providing commercial services, the region has been successful in dissuading governments from relying on public agencies to provide raw material or marketing services; rather, SMI projects have promoted private input supply companies and marketing concerns. In technical services, some strengthening of government promotion and extension programs is being achieved with private participation in product specific service centers in Pakistan, Sri Lanka, and Bangladesh, and establishment of SMI consultancy funds to tap private knowhow in addressing firm-level technical problems in Sri Lanka.

44. Policy Impact. As SMIs constitute the majority of private industrial investment and output in these countries of South Asia, SMI projects provide

a forum for some influence on industrial policy. In Nepal, UNDP Project Preparation funds for the cottage Industry Project were utilized to finance consultancy in preparing the new Industrial Enterprise Act, which now incorporates a number of our recommended reforms. In Sri Lanka, the first SMI project financed a study and development of a phased action program. The SMI projects did not provide sufficient leverage to induce tariff reforms; however, as a result of these studies and dialogue, program loans or IMF involvement in Sri Lanka now could incorporate implementation of an agreed action program of tariff reform which incorporates the principle of effective protection. In Bangladesh, informal policy dialogue during appraisal of SSI III resulted in GOB's modification of the draft Second Year Plan to replace differential interest rates and subsidies for SMI with a focus on improving credit, technical, and marketing services for viable small firms. A more substantial program for trade and industrial policy reform is now being launched, which is expected to form the basis for conditionality in future program credits.

Prepared by: Mr. Tariq Husain

Cleared in substance with South Asia Program Division Chiefs

Cleared with: Messrs. Sandstrom and Rowe

November 5, 1981

PROJECT LENDING IN SOUTH ASIA

Focus of Bank Lending in South Asia

1. South Asia is not homogeneous in either its resource base or its resource needs. Table 1 illustrates the nature and extent of the Region's diversity in terms of eight comparative indices using India as a base. As an example, the range for "Gross Domestic Saving Rate" is 1 to 10 with India and Sri Lanka at 20+ percent of GNP and Bangladesh at 2% of GNP; for "Population per sq km" the range is from 1 to 12 with Burma being the most sparsely populated and Bangladesh with a 12 times larger population density. Similar diversity is observable in the other indices of Table 1. The evolution of Bank lending has been responsive to this diversity. In each case, the emphasis has been on innovation and flexibility in responding to the special needs of the country. Major responses in South Asia during the 1970s have included:

- An integrated approach to development: diversification of activities, comprehensive view transcending individual sectors, wider distribution of benefits, special focus on the poorer sections of society.
- Development of a strong agriculture for security of food supplies: irrigation, credit, agricultural extension, research, fertilizer production, price incentives for producers.
- Inclusion of Government DFCs.
- Expansion of small scale enterprise lending.
- Urbanization - Since 1972, Bank has sought to develop an integrated approach to problems arising from the explosive growth of urban centers in developing countries.

2. The country-specific cumulative Bank/IDA lending during FY74-81 inclusive is presented in Table 2. Agriculture and Rural Development projects claimed relatively the most resources - about 38.4% of the total for the Region, ranging from 22% for Bangladesh to 79% for Burma. On a country basis, India claimed about 69% of the total lending during the FY74-81 period; the share of India's population in the Region's total is 74%. Bangladesh was the second highest beneficiary of Bank/IDA lending - with about 40% of its borrowing in the form of non-project lending. Table 3 presents the time series of cumulative Bank/IDA lending for FY73 up to FY81 Bank/IDA lending during this period increased by about 240% with the fastest rate of growth being in the domestic water supply and sewerage sub-sector (1500+%) and the second most rapid increase (1100%) in the Small Scale Enterprise (SSE) sub-sector; the Irrigation (IRR) sub-sector increased at the third fastest rate, with

Table 1

SOUTH ASIADiversity of the Region

Expressed as a Percent with India Defined as 100

	<u>Bangladesh</u>	<u>Burma</u>	<u>India</u>	<u>Actual</u>	<u>Nepal</u>	<u>Pakistan</u>	<u>Sri Lanka</u>
			<u>Index</u>				
GNP Per Capita	47	84	100	\$190	68	137	121
Population Per Sq. Km.	309	25	100	200	50	50	110
Percent of Crop Area Irrigated	64	52	100	25%	56	300	72
Gross Domestic Investment Rate	58	83	100	24%	58	75	108
Gross Domestic Saving Rate	10	75	100	20%	45	30	70
Energy Consumption Per Capita	17	30	100	242 Kg of coal Equivalent	6	90	58
Urban Population as Percent of Total	50	123	100	22%	23	127	123
Adult Literacy Rate	72	186	100	-	52	67	236

Source: Derived from Statistical Tables of World Development Report, 1981.

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Table 2

SOUTH ASIA LENDINGSum of Commitments During FY74-81

	<u>Bangladesh</u>	<u>Burma</u>	<u>India</u>	<u>Nepal</u>	<u>Pakistan</u>	<u>Sri Lanka</u>	<u>Maldives Island</u>	<u>Total</u>	<u>Index</u>
Agric. & Rural Dev.	345.0	303.0	3301.6	146.2	413.2	288.5	3.2	4800.7	38.4
Dev. Finance Companies	82.0	-	345.0	4.0	120.0	28.5	-	579.5	4.6
Education	77.0	-	-	5.7	50.0	-	-	132.7	1.0
Energy (Incl. Power)	113.0	-	1612.0	40.8	125.0	19.5	-	1910.3	15.2
Industry	91.0	16.0	1155.0	-	90.0	-	-	1352.0	10.8
Non-Project	590.0	-	550.0	-	135.0	15.0	-	1290.0	10.3
Population, Health and Nutrition	47.0	-	78.0	-	-	-	-	125.0	1.0
Small Scale Enterprises	55.0	-	-	-	30.0	-	-	85.0	0.7
Technical Assistance	33.5	-	-	3.0	-	3.0	-	39.5	0.3
Telecommunications	20.0	56.0	514.0	14.5	36.0	30.0	-	670.5	5.3
Transportation	48.7	10.0	415.0	17.0	161.0	83.0	-	734.7	5.9
Urbanization	-	-	269.0	-	-	-	-	269.0	2.1
Water Supply & Sewerage	42.0	-	402.0	46.8	26.6	39.2	-	556.6	4.4
Total	1544.2	385.0	8641.6	278.0	1186.8	506.7	3.2	12545.5	100.0
Index	12.3	3.1	68.9	2.2	9.5	4.0	-	100.0	-

Source: World Bank Annual Reports

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SOUTH ASIA CUMULATIVE LENDING COMMITMENTS

	Cumulative Bank and IDA Lending Upto June 30					Percent Increase ^{/1}
	1973	1974	1975	1980	1981	During
	-----US\$ Million-----					1973-1981
						-----%-----
Agric. & Rural Dev.	867.7	1017.7	1417.8	4753.1	5671.8	553.0
of which:						
Irrigation, Drainage & Flood	(281.0)	(333.0)	(547.0)	(1838.0)	(2327.5)	728.0
Agric. Credit	(249.2)	(281.2)	(465.2)	(1125.1)	(1290.1)	417.0
Research & Extension	-	-	-	(224.5)	(354.0)	-
Education	49.5	49.5	49.5	153.7	178.7	261.0
Industry	478.2	553.2	685.7	1170.2	1570.2	228.0
Dev. Finance Companies	566.2	601.2	735.7	1082.7	1132.7	100.0
Small Scale Enterprises	-	-	9.5	52.5	117.5	1136.0
Non-Project	1125.0	1360.0	1525.0	2181.6	2296.6	104.0
Population, Health & Nutrition	21.2	21.2	36.2	146.2	146.2	590.0
Energy (Incl. Power)	560.7	560.7	560.7	2694.7	3179.7	467.0
Technical Assistance	6.0	6.0	6.0	29.5	45.5	658.0
Telecommunications	326.2	346.2	403.2	682.7	996.7	205.0
Tourism	4.2	4.2	4.2	4.2	4.2	-
Transportation	1364.9	1465.0	1525.0	1969.3	2042.8	50.0
Urbanization	-	35.0	35.0	227.0	269.0	668.0
Water Supply & Sewerage	40.2	48.0	114.6	636.4	663.4	1550.0
Total	5410.0	6067.9	7108.5	15783.8	18315.0	238.0

^{/1} 1981 Minus 1973 Divided by 1973

Source: World Bank Annual Reports

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urbanization (URB) a close fourth. SSE and URB were new sectors; and even though the IRR sector was not strictly new in terms of its new emphasis and substantially large volume it was essentially a new initiative.

3. In a comparison of the sectoral distribution of Bank lending (Table 4) among the six regions, South Asia ranked first in terms of proportion of non-project lending in the total volume of lending (this was a response to the post-1973 oil price increase induced balance of payments difficulties of South Asian Countries - particularly Bangladesh), and second in terms of proportion of total lending committed to agriculture and rural development (including irrigation). These inter-regional and inter-sectoral variations represented Bank responses to the varying needs of the different regions. The innovations in projects and policies in the South Asia Region were introduced in the framework of the following development priorities:

A. Increase in Irrigation Water Supplies:

- Major developments works - dams, canals, barrages.
- Minor irrigation works - tubewells, low lift pumps, improvement of watercourses.
- Agricultural credit to finance minor irrigation works.
- Agricultural extension to improve returns on irrigation.

B. Improve urban living conditions of the poorest:

- provide land, infrastructure and other urban services at affordable costs;
- provide security of land tenure;
- make more effective use of existing facilities;
- improve productivity and financial viability of public sector organizations;
- support the establishment and expansion of small businesses in sites and services and slum improvement areas,
- provide affordable designs for land and infra-structural services for small businesses.

Sectoral and Regional Composition of Cumulative
Commitments upto June 30, 1981

	<u>All Other Sectors</u>	<u>Agric. & Rural Dev.</u>		<u>Energy</u>		<u>Education</u>	<u>Non- Project</u>
		<u>Total</u>	<u>Irrig. & Drainage Only</u>	<u>Total</u>	<u>Oil, Gas and Coal Only</u>		
				<u>-Percent of Total--</u>			
Eastern Africa	44.1	25.5	5.1	13.6	0.9	8.6	8.2
Western Africa	48.6	32.6	2.9	9.9	0.4	6.4	2.5
East Asia & Pacific	43.1	27.6	13.1	18.8	1.0	6.5	4.0
South Asia	38.0	31.0	12.7	17.5	4.4	1.0	12.5
EMENA	48.6	22.1	8.6	15.3	2.3	5.2	8.8
LAC	48.5	20.6	5.4	26.9	0.5	2.3	1.7
	—	—	—	—	—	—	—
BANK TOTAL	45.1	25.4	8.9	18.8	1.8	4.2	6.5
	—	—	—	—	—	—	—

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- C. Enhance incomes through Small Scale Enterprise (SSE) Operations
- Expansion of lending to SSE through inclusion of commercial banks to channel resources;
 - development of refinancing mechanism;
 - expanding resources available to the sector through promoting co-financing.
- D. Improve efficiency in pricing, resource generation, and investment planning
- re-appraisal of policies for price and fiscal incentives and the efficient mobilization of domestic resources;
 - reassessment of (1) the balance between public and private investment plans, and (2) expenditures for the maintenance and operation of existing public assets;
 - rationalization of public investment portfolios by including appropriate proportions for investment in short gestation projects;
 - promotion of price policies that enable countries to adjust to higher energy prices;
 - advocacy of efficient pricing policies for agriculture to improve production incentives, and to reduce input subsidies;
 - emphasizing marginal cost pricing to promote efficient use of project outputs.

4. The criterion used to assess the success of the evolutionary effort was the increasing demand for the "concepts" in borrowing countries, since continuing demand implied that Bank's evolutionary responses were appropriate for the needs of the countries. In irrigation, agricultural credit, agricultural extension, urbanization, small scale industry the degree of innovation was truly remarkable. An index of the success of Bank project initiatives in (a) irrigation lending in India is that in the brief period of six years Bank projects account for roughly half of India's total investment program in Canal

Irrigation; (b) agricultural extension is that over five years, 12 Indian states have adopted the Training and Visit system through projects which at full development will cover about 69% of India's net cropped area and serve about 64% of India's farm families; (c) agricultural credit is that ten states have borrowed with substantive institutional development of the Agricultural Refinance Development Corporation (ARDC) of India, and States' Land Development Banks; in seven years, such major institutional and policy strides had been taken that Bank is now working on the fourth ARDC credit project and ARDC has begun to perform the appraisal function which under the earlier State Credit Projects was being performed by IDA; (d) urbanization is that major institutional and policy changes have been introduced in such large metropolitan centers as Calcutta and Bombay and (e) Small Scale Industry is that strong institutional developments have been made feasible through incorporation of commercial banks into this new lending category.

OED Assessment of Performance

5. The Operations Evaluation Department assessed the Region's performance in India, Burma and Pakistan in five sectors: agricultural credit, Telecommunications, Railways, Inland Water Transport, and Industrial Development Banking. Except for three projects, OED's assessment (Table 5) was that the achievement of the objective of institutional development was "substantial".

SOUTH ASIA - INSTITUTION BUILDING

Table 5

Cases Where Bank Made Special Efforts
To Strengthen Borrower's Administrative
and Technical Capabilities

<u>Country</u>	<u>Project</u>	<u>Focus of Effort</u>	<u>Instrument</u>	<u>Achievement of Objectives</u>	<u>Comments</u>
India	Agric. Refinance and Dev. Corp. I (ARDC) (Cr.540)	(1) Strengthening of ARDC's control on development lending by Land Development Banks (LDB); (2) Strengthening of LDB.	(1) Substituting all India line of credit for former state credit projects; (2) Intensive training program.	Substantial	Further ARDC and LDB strengthening is still required.
	India Andhra Pradesh Agric. Credit (Cr. 226)	Groundwater Dept.	Set up groundwater dept.	Substantial	Satisfactory performance and achievement.
	India Tamil Nadu Agric. Credit (Cr. 250)	Strengthening groundwater directorates.	Through consultancy support.	Substantial	State Groundwater Dept. developed into a large and competent agency.
	India Maharashtra Agric. Credit (Cr. 293)	(1) Strengthening Groundwater Agency (SGA). (2) Rehabilitating state land dev. bank (SLDB).	(1) No Bank input. (2) Reforms in SLDB management and financial structure	(1) Substantial (2) Not Achieved	Regulation of groundwater dev. by statutory means
	India Madhya Pradesh Agric. Credit (Cr. 391)	Agric. Credit and Groundwater dev. institutions	Improve lending operations; staffing groundwater directorates	Substantial	Satisfactory results.
	India Punjab Agric. Credit (Cr. 203)	Agric. Credit Institution.	Through financial discipline.	Substantial	Satisfactory results.
	India Haryana Agric. Credit (Cr. 203)	Agric. Credit Institution and groundwater cell	Financial discipline and irrig. system regulation.	Substantial	Satisfactory results.
	India Fifth Telecommunications (Cr. 403)	Materials management and improved accounting procedures.	Own efforts and consultants	Partial	Steady progress in evolving from civil service outlook to more commercial orientation
Burma	Burma Third Railway (BRC) (Cr. 414)	Strengthen and improve managerial and technical capabilities.	A comprehensive study of BRC's overall operations and procedures.	Partial	Not all recommendations were implemented.
	Burma Inland Water Transport (IWT) (Cr. 413)	Improvement of IWT's welding techniques and accounting system.	Specialist services to assess needs and provide staff training.	Substantial	Staffing problems.
Pakistan	Industrial Dev. Bank of Pakistan (Cr. 177)	Organization and procedures.	-	Partial	Uneven management.

Source: Sixth Annual Review of Project Performance Audit Results, 1980.

The World Bank

10/22

Mr. Weiner,

I have just finished reviewing the earlier version, come to the same conclusion that it was perhaps over-long and too detailed, and marked up some suggestions. All that is out now! On the present, much more latest version I have two small amendments, which are marked, and one nagging doubt. I have in the past stayed away from numbers of failed projects in drawing the bottom line: the numbers tend to be a larger proportion, yet they are usually smaller projects, in the nature of pilot efforts in marginal environments. They represent the equivalent of venture capital. To my

mind it does not seem correct to treat them on the same footing as the others. Of the 61 failures in Seven Annual Reviews, thus, 26 were located in Africa, and 15 of those were in agriculture. In the circumstances, it does the Bank credit for having kept them small.

Counting the failed projects is particularly unfortunate in this Review. The total number was 87; two of them were later cancelled and 10 of the remaining 85 failed. The Bank thus "lost" 12 out of 87; almost 14%! That is not a very bright record on the face of it. That is why in the Highlights I opened the door to this line of computation only part of the way. When one is dealing with

"the bottom line" — the ultimate simplification in this kind of highly complex exercises — I would rather err on the conservative side and stick with the proportion of success or failure in terms of the investment represented.

Am I suggesting the deletion or modification of your Para 3? Not really. Only, I do want to alert you about the shift in the picture this represents, and the different light it could be made to cast on the Bank's entire level of achievement.

For the rest, let's play it together!

Ans. J

Board Presentation for November 10, 1981

This annual agenda item has two purposes. The first is to review the adequacy of the arrangements for evaluating the results of Bank operations. The second is to consider, on the basis of the most recent annual review of project performance audit results, the effectiveness of the Bank's development assistance and the Bank's responsiveness to its diverse operational experience.

As to the status of the evaluation function, the Annual Report of the Joint Audit Committee and the Annual Report on Operations Evaluation say that the Bank's evaluation system continues to be sound and to evolve in desired directions. To the best of my knowledge, the Bank is still the only development assistance agency, multilateral or bilateral, that generates for its authorities and management a comprehensive annual overview of operational performance. By the conventional standards of annual financial statements, this statement of performance -- the Annual Review of Project Performance Audit Results -- is both late and long; but I fear this must inevitably be so. The Review, like all OED reports, endeavors to bridge the lag resulting from the long implementation period of Bank projects by relating evaluation findings wherever possible to current operational concerns.

The Seventh Annual Review reports, once again, that most of the completed Bank-supported investments that were examined turned out to be worthwhile investments for the borrowers. This bottom line assessment continues to be reassuring, especially after noting the varied problems and delays that many of the projects encountered.

But this finding offers no cause for complacency. Ten of the ⁸⁵ [87] ^{nine} complete projects reviewed last year -- one in [11] -- turned out not to have achieved their major purposes. A number of these 10 projects were quite small, which is why the performance of Bank-supported investments overall was better.

But even small projects absorbed scarce talent and budget funds, and addressed important development problems; their significance was thus not necessarily proportional to their cost. This incidence of disappointments was not limited to the Seventh Annual Review. Of the 601 completed projects examined in the past seven annual reviews, 61 projects, or one in 10, fell into the same category. Some of these disappointments could not have been avoided without undue aversion to risk, which would have been wrong for a development agency like this Bank. But others, which resulted from inadequate project design and preparation and unsupportive borrower policies, may have been avoidable, and therefore merit close attention by both borrowers and the Bank.

Turning to the Annual Report on Operations Evaluation, this is the first year in which this Report informs you of the status of the Bank's operational dialogue with particular member governments on the subject of enlarging their involvement in our operations evaluation process. Although this process of involving borrowers is really just beginning, much has been done since you agreed just a few years ago that borrowers should be encouraged in their own interest to become more active participants in the evaluation of their completed Bank-financed projects.

In this regard, you may know that the Asian Development Bank and the Inter-American Development Bank also seek to enlarge borrower participation in the post-evaluation of projects which they finance. Since their borrowers are ^{also the} [the same] member governments of this Bank, we recently agreed with our colleagues in these regional banks that we should try to develop common guidelines for borrower completion reporting which we might all use. OED will be taking the lead in this particular inter-agency coordination effort.

Cofinancing with these regional banks, and with bilateral development agencies, offers the potential for coevaluation of completed projects with

[Membership is not the same; their membership is contained in ours.]

donors as well as borrowers. Such coevaluation may turn out to materialize first with a bilateral cofinancier. One of the results of an extended secondment of a staff member of France's Caisse Centrale to OED earlier this year is that a tentative program for collaborating with Caisse Centrale staff in the post-evaluation of selected cofinanced projects is being explored right now. Such collaboration should yield simple efficiency benefits to the collaborating agencies. It should also improve the quality of the evaluations. Most important, it offers the prospect of reducing burdens for borrowers and, if properly planned, for reinforcing our support for institutionalizing investment performance assessment in member governments. We are looking forward to a similar extended visit from an officer of the German Government next spring.

Since this occasion comes but once each year, Mr. Chairman, I cannot conclude without saying how fundamental the continued support of this Board, its Chairman, and the Joint Audit Committee have been to the evolution of operations evaluation in this Bank. I must also take this occasion to pay tribute once again to the professional integrity of those operational and evaluation staff who actually do this often delicate work. The reporting which you receive amply confirms that most Bank staff are as ready to confront and learn from the past as to contemplate the future. To help Board, management and staff enhance the effectiveness of future Bank operations is what operations evaluation is primarily all about. If there are ways in which you think it can be improved and its benefits to the Bank and to member governments enhanced, I hope you will let me know.

THE WORLD BANK

ROUTING SLIP

DATE:

October 20, 1981

NAME

ROOM NO.

~~Mr. Kapur~~

M.805

~~RH~~

In view of the

Subsequent draft, this should be filed.

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

CLEARANCE

PER OUR CONVERSATION

COMMENT

PER YOUR REQUEST

FOR ACTION

PREPARE REPLY

INFORMATION

RECOMMENDATION

INITIAL

SIGNATURE

NOTE AND FILE 10/22

URGENT

REMARKS:

Please mark this up in whatever way you think appropriate. We have lots of time still before the Board meeting is upon us.

FROM:

Mervyn L. Weiner

ROOM NO.:

E.1204

EXTENSION:

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Board Presentation for November 10, 1981

This annual agenda item has two purposes. The first is to review the adequacy of the arrangements for evaluating the results of Bank operations. The second is to consider, on the basis of the most recent annual review of project performance audit results, the effectiveness of the Bank's development assistance and the Bank's responsiveness to its diverse operational experience.

As to the status of the evaluation function, the Annual Report of the Joint Audit Committee and the Annual Report on Operations Evaluation report that the Bank's evaluation system continues to be sound and to evolve in desired directions. To the best of my knowledge, the Bank is still the only development assistance agency, multilateral or bilateral, that generates for its authorities and management a comprehensive annual overview of operational performance. By the conventional standards of annual financial statements, this statement of performance -- the Annual Review of Project Performance Audit Results -- is both late and long; but I fear this must inevitably be so. The Review, like all OED reports, endeavors to bridge the lag resulting from the long implementation period of Bank projects by relating evaluation findings wherever possible to current operational concerns.

The Seventh Annual Review reports, once again, that most of the completed Bank-supported investments that were examined turned out to be worthwhile investments for the borrowers. This bottom line assessment continues to be reassuring, especially after noting the varied problems and delays that many of the projects encountered. However, the finding offers no cause for complacency.

If I may focus for just a moment on the shadier side of the picture, 10 of the ^{85 completed} (87) projects reviewed last year -- one in ^{eight} ~~11~~ -- turned out not to have achieved their major purposes. The performance record on Bank-supported

investments overall is better because a number of these 10 projects were quite small. However, as even small projects absorb scarce talent and budget funds, and address important development problems, their significance is not necessarily proportional to their cost. This incidence of disappointments was not limited to the Seventh Annual Review; it was observed in all of them. Of the 601 completed projects examined in the past seven annual reviews, 61 projects, or one in 10, fell into the same category.

Almost half of these 61 projects were for agriculture, livestock and rural development, reflecting the inherent difficulties of investments whose outcomes depend, among other things, on ^{unpredictable market forces and on} the behavior of large numbers of actors beyond the control of the project managers. But the other sectors are also represented on this list. As for the geographical incidence of these projects, the list included several countries which had a substantial proportion of their completed projects turn out poorly, but many others, too.

Some disappointments are inevitable in the development assistance business, and should therefore not normally merit comment. Indeed, too few would probably invite criticism of undue risk-aversion. But they cannot all be dismissed on these grounds, for inadequacies in project design and preparation turned out to be a major reason for failure in ^{33%} 40% of these disappointing projects. OED's review of delays in project implementation found that deficiencies in project design and preparation were also a major cause of observed delays in the much larger universe of projects with substantial delays, most of which eventually turned out to be worthwhile.

The Bank is conscious of this finding. For some years now projects have been brought to a more advanced state of preparation before being presented to this Board than had been customary earlier in some sectors. With the Project Preparation Facility, borrowers are now being more effectively assisted in this preparation process. The need for early supervision to complement these efforts is, I believe, more generally accepted than may have been the

[I also suggest that items 7-10 of the Third Review not be included in this category]

case when the completed projects under review were being initiated. Project performance audit reporting should by now have convinced borrowers and Bank staff alike that overambitious projects, which are not tailored to local capacities and which subsequently flounder, offer evidence ^{less} ~~not~~ of weak management, ^{and more} ~~but~~ of inappropriate design. This point is stressed in the recent sub-Saharan African report, ^{as well as in the Annual Review.} However, the disappointments and delays deserve noting as matters of fact, and the reasons for them merit close and continuing attention from all concerned.

As for the Annual Report on Operations Evaluation, I would make only the briefest of remarks. This is the first year in which this Report informs you of the status of the Bank's operational dialogue with particular member governments on the subject of enlarging their involvement in our operations evaluation process. Regional staff are to be commended for the initiatives they have taken and are planning in this regard; and borrowers, for the interest they have shown. Although this process of involving borrowers is really just beginning, we have come a long way since you agreed just a few years ago that, for their own benefit, borrowers should be encouraged to become more active participants in the evaluation of their completed Bank-financed projects.

In this regard, you may know that the Asian Development Bank and the Inter-American Development Bank also seek to enlarge borrower participation in the post-evaluation of projects which they finance. Since their borrowers are ^{also the} ~~the same~~ member governments of this Bank, we recently agreed with our colleagues in these regional banks that we should try to develop common guidelines for borrower completion reporting which we might all use. OED will be taking the lead in this particular inter-agency coordination effort.

Cofinancing with these regional banks also offers the potential for coevaluation of completed projects. But coevaluation may turn out to materialize first with a bilateral cofinancier. One of the results of an extended secondment

[A precise bit of project design and local capability is inherently difficult and not entirely desirable. Every project must attempt some borrower movement.]

[Membership is not the same; their membership is contained in ours.]

to OED of a staff member of France's Caisse Centrale is that a tentative program for collaborating with Caisse Centrale staff in the post-evaluation of selected cofinanced projects is being explored right now. Such collaboration should yield simple efficiency benefits to the collaborating agencies. It should also improve the quality of the evaluations. Most important, it offers the prospect of reducing burdens for borrowers and, if properly planned, for reinforcing our support for institutionalizing investment performance assessment in member governments.

Since this occasion comes but once each year, Mr. Chairman, I cannot conclude without saying how fundamental the continued support of this Board, its Chairman, and the Joint Audit Committee have been to the evolution of operations evaluation in this Bank. I must also take this occasion to pay tribute once again to the professional integrity of those operational and evaluation staff who actually do this often delicate work. The reporting which you receive amply confirms that most Bank staff are as ready to confront the past forthrightly as to contemplate the future; and not for the purpose of taking credit or assigning blame, but to help themselves and their colleagues enhance the effectiveness of future operations. That is what this activity is primarily all about. If there are ways in which you think its benefits to the Bank and to members can be further enhanced, I hope you will let me know.

File: Seventh Annual Review

10/23

NUMBER OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

(Arranged by Sector)

SECTOR	ANNUAL REVIEWS							TOTAL
	I	II	III	IV	V	VI	VII	
AGRICULTURE	1	3	7	4	6	4	5	30
TRANSPORTATION	3	--	2	2	2	--	1	10
DFC & INDUSTRY	--	2	1	1	1	1	1	7
PUBLIC UTILITIES	1	1	--	2	--	--	2	6
EDUCATION	2	--	--	--	--	3	1	6
POPULATION	--	--	--	--	--	1	--	1
TOURISM	--	--	--	--	--	1	--	1
<u>TOTAL</u>	<u>7</u>	<u>6</u>	<u>10</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>61</u> /a

/a Represents 10% as of the total number of projects (601) audited through December 31, 1980.

PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

AN ANALYSIS OF REASONS FOR FAILURES

Sector	(a) Poor Project Preparation & Design	(b) Impact of Local Conditions /a	(c) Institutional	(d) Changes in Market Prices for the Product/Reduced Demand	(e) Change of Government/ Political	(f) Lack of Commitment on Part of Government	Total
AGRICULTURE	16	5	3	5	1	--	30
TRANSPORTATION	3	3	2	--	--	2	10
DFC & INDUSTRY	1	3	1	--	2	--	7
PUBLIC UTILITIES	1	--	2	3	--	--	6
EDUCATION	3	--	--	--	3	--	6
POPULATION	1	--	--	--	--	--	1
TOURISM	1	--	--	--	--	--	1
<u>TOTAL</u>	<u>26</u>	<u>11</u>	<u>8</u>	<u>8</u>	<u>6</u>	<u>2</u>	<u>61</u>

/a e.g., weather, inflation, technological/social innovations and
economic environment

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

FIRST ANNUAL REVIEW

Project	Loan/Credit Amount US\$m	S e c t o r				Reason/s for Failure
		Transp.	Agric.	Educ.	Public Util.	
1. Botswana First Highway (Credit 63)	3.6	X				- inadequate preparation of project design
2. Sudan Second Railway (Loan 440)	31.0	X				- inadequate preparation of project design
3. Sudan Roseires Irrig. (Loan 284/Credit 2)	19.5 13.0		X			- inadequate preparation of project design
4. Yugoslavia Second Railway (Loan 395)	70.0	X				- institutional & managerial problems, technical
5. Bangladesh First Education (Credit 49)	4.5			X		- inadequate preparation of project design
6. Pakistan Lahore W.S., Sewerage & Drainage (Credit 106)	1.8				X	- inadequate preparation of project design
7. Jamaica First Education (Loan 468)	9.5			X		- inadequate preparation of project design

Loans/Credits 130.0+22.9

Total - 152.9 (Represents 5% of the total project cost of \$3,216.3 m.)

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

SECOND ANNUAL REVIEW

Project	Loan/Credit Amount US\$ m	S e c t o r			Reason/s for Failure
		Agric.	DFC	Public Util.	
1. Malawi Lilongwe Land Dev. (Credit 113)	6.0	X			- inadequate preparation of project design
2. Sudan First Mechanized Farming (Loan 556)	5.0	X			- erratic pattern of crop prices and yield
3. Costa Rica Agric. Credit (Loan 538)	3.0	X			- weak management
4. Morocco Fourth DFC (Loan 660)	15.0		X		- acceleration of inflation
5. Turkey Eighth DFC (Loan 589)	25.0		X		- institutional & Government policy
6. Mexico Power Sector Program III (Loan 659)	125.0			X	- institutional problems

Loans/Credits - 173.0 + 6.0

Total - 179.0 (Represents 5% of the total project cost of \$3,597.5 m.)

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

THIRD ANNUAL REVIEW

	Loan/Credit Amount US\$m	S e c t o r			Reason/s for Failure
		Transp.	DFC	Agric.	
1. Peru Second Highway (Loan 425)	33.0	X			- extraordinarily difficult topography and climate of the region
2. India Shipping I (Credit 328)	83.0	X			- unforeseen depressed state of the ship charter market
3. Cyprus I CDB (Loan 830)	3.0		X		- unexpected political division of the country
4. Uruguay Livestock III (Loan 698)	6.3			X	- adverse changes in world market prices
5. Uruguay Livestock III (Loan 773)	4.0			X	- adverse changes in world market prices
6. Uruguay Livestock IV (Loan 816)	11.2			X	- adverse changes in world market prices
7. Tunisia Coop. Farms (Loan 484/Credit 99)	12.0 6.0			X	- inadequate recognition at appraisal of the risk that these complex projects might not develop as planned
8. Senegal Agric. Credit (Loan 584/Credit 140)	3.5 6.0			X	- inadequate recognition at appraisal of the risk that these complex projects might not develop as planned
9. Kenya Livestock I (Credit 129)	3.6			X	- inadequate recognition at appraisal of the risk that these complex projects might not develop as planned
10. Tanzania Beef Ranching Dev. (Credit 132)	1.3			X	- inadequate recognition at appraisal of the risk that these complex projects might not develop as planned

Loans/Credits - 73.0 + 99.9

Total - 172.9 (Represents 8% of the total project cost of \$3,306.6 m.)

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

FOURTH ANNUAL REVIEW

Project	Loan/Credit Amount US\$ m	S e c t o r				Reason/s for Failure
		Transp.	Public Util.	Agric.	DFC & Ind.	
1. CAE Highway Maint. (Credit 199)	4.2	X				- lack of recurrent cost financing by Gov't. & the reassignment of equipment
2. Senegal Highways I (Credit 198)	2.1	X				- drought and the temporary failure of the main crop on which its justification rested
3. Liberia Power I (Loan 684)	7.4		X			- reduced demand from the mining industry
4. Liberia Power II (Loan 778 & Ln. 778A)	7.6		X			- reduced demand from the mining industry
5. Brazil DFC (Loan 656)	25.0				X	- adverse economic conditions induced by the oil price rise
6. Malawi Lilongwe Land Dev. II (Credit 244)						- higher prices for maize
7. Colombia Atlantico Irrig. (Loan 502)	9.0			X		- inadequate design
8. Madagascar Beef Cattle Dev. (Loan 585)	2.8			X		- inadequate design
9. Trinidad & Tobago Crown- lands Dev. (Loan 486)	5.0			X		- institutional and technical problems

Loans/Credits - 56.8 + 13.6

Total - 70.4 (Represents 3% of the total project cost of \$8,488.6 m.)

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

FIFTH ANNUAL REVIEW

Project	Loan/Credit Amount US\$ m	S e c t o r			Reason/s for Failure
		Agric.	Transp.	DFC	
1. Congo Highway Maint. (Credit 274)	4.0		X		- lack of recurrent cost financing by Gov't., minimal project output and deterioration of road network
2. Madagascar Tamatave Port (Credits 200 & 200A)	11.4		X		- institutional problems
3. Liberia LDBI I (Loan 839)	1.0			X	- lack of a proper economic environment in relation to industrial promotion and resource mobilization
4. Nigeri Agricultural Credit (Credit 207)	0.584	X			- drought, deficient or overambitious project design
5. Benin Zou Borgou Cotton (Credit 307)	6.1	X			- changes in government
6. Malaysia Jengka Forestry (Loan 673)	8.5	X			- institutional problem
7. Korea Dairy Beef Dev. (Credit 234)	7.0	X			- overambitious project design
8. Iran Ghazvin Irrig. (Loan 517)	22.0	X			- major changes in economic environment of the country
9. Benin Hinvi Agric. Dev. (Credit 144)	5.2	X			- annual crops suffered from poor rainfall, labor constraints

Loans/Credits - 31.5 + 32.3

Total - 65.8 (Represents 2.9% of the total project cost of \$3,737.1 m.)

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

SIXTH ANNUAL REVIEW

Project	Loan/Credit Amount US\$ m	S e c t o r					Reason/s for Failure
		Agric.	Educ.	Ind.	Tourism	Pop.	
1. Panama Fisheries (Loan 784)	3.4	X					- deficient project preparation and design
2. Lesotho Thaba Bosiu Rural Dev. (Credit 361)	5.6	X					- deficient project preparation and design
3. Trinidad & Tobago Caroni Sugar (Loan 888)	12.0	X					- deficient project preparation and design
4. Chad Education I (Credit 126)	2.2		X				- civil war, drought and the country's budgetary constraints
5. Chad Education II (Credit 251)	2.7		X				- civil war, drought and the country's budgetary constraints
6. Pakistan Industrial Dev. Bank of Pakistan (Credit 177)	20.0			X			- serious political disturbance in the country and there was frequent changes in its top management
7. Jamaica Population I (Loan 690)	7.0					X	- overdesigned and ran into serious sociological & institutional problems
8. Zambia Commercial Crops Farming Dev. (Loan 685)	1.3	X					- deficient project preparation and design
9. Chile Education III (Loan 668)	7.0		X				- civil unrest and the adverse economic situation
10. Yugoslavia Bernardin Tourism (Loan 752)	10.0				X		- reduced in scope and was affected by high operating costs and insufficient tariffs

Loans/Credits - 35.7 + 30.5

Total - 66.2 (Represents 1.6% of the total project cost of \$10.2 billion.)

LIST OF PROJECTS THAT HAVE BEEN IDENTIFIED AS FAILURES AT AUDIT

SEVENTH ANNUAL REVIEW

Project	Loan/Credit Amount US\$ m	S e c t o r					Reason/s for Failure
		Agric.	Transp.	Public Util.	DFC & Ind.	Educ.	
1. Guyana Livestock (Credit 221)	2.2	X					- misconceived by the Bank and Gov't in its approach & design
2. Mauritania Livestock (Credit 273)	4.2	X					- drought and severe institutional problems
3. Mali Integrated Rural (Credit 491)	8.0	X					- poor project design, weak management and etc.
4. Indonesia Fisheries I (Credit 211)	2.5	X					- poor technical and organizational design
5. Iran Dez Irrig. (Loan 594)	30.0	X					- unduly rapid technological and social innovations introduced by the Gov't.
6. Indonesia Highways III (Credit 388)	14.0		X				- rushed detailed engineering on road construction
7. Ivory Coast Education (Loan 667)	13.2					X	- overdesigned, with multiplicity of objectives
8. Bangladesh Small Scale Ind. (Credit 353)	3.0				X		- inadequate preparation of project design
9. Trinidad & Tobago Tele- com. (Loan 1015)	18.0			X			- institutional
10. Brazil Sao Paulo Pollu- tion Control (Loan 578)	15.0			X			- change in the state government

Loans/Credits - 76.2 + 34.9

Total - 111.1 (Represents 7% of the total project cost of \$4,877.8 m.)

OFFICE MEMORANDUM

TO: All OED Staff
FROM: Shiv S. Kapur
SUBJECT: Seventh Annual Review of Project Performance
Audit Results

DATE: October 15, 1981

A copy of the Seventh Annual Review of Project Performance Audit Results was received by you today. As you will notice, based on sector contributions, this Review is structured somewhat differently from its predecessors. This has implications for the way individual project performance audit reports are approached; some of these implications were discussed at the last Senior Staff Meeting and the CEOs/SEOs would already have discussed them with other staff in their sections. It is now proposed to discuss the matter more fully at the next staff meeting on Wednesday, October 21.

I shall welcome any ideas which would help direct the PPAR process to aid effectiveness as our central concern and which would ensure that necessary evidence relevant to assessment of effectiveness is readily available in the PPARs.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

TO: Department Directors in Central Projects Staff
FROM: Cynthia Scherr, CPSVP *cms*
SUBJECT: Items of Interest at the October 6
Meeting of CPS Directors

1. Report File
2. Annual Review, 1982
file; bin follow-up
DATE: Oct. 14, 1981
3. Henry Halone, Kondik
4. OED Staff

1. A recent OED report (Water Management in Bank-supported Irrigation Project Systems: An Analysis of Past Experience); comments by CPS/AGR on some questions raised by Mr. Stern in relation to this paper; and subsequent discussions by the OVPs have triggered a broader examination of the guidelines, procedures and quality control of the technical aspects of Bank-financed projects. Mr. Baum asked the CPS Directors for their views on the adequacy of (a) the review and coverage of the technical aspects of projects in Bank reports, and (b) the functional control of these aspects by the Regions as seen from their perspective in CPS. He emphasized that it was not a question of the quality or capability of technical staff in the Bank, but rather a question of the quality of the review process and the outputs of that process. 10/20

2. There was general agreement that the review process and functional control mechanisms with regard to technical aspects could be improved across sectors and Regions. Several speakers noted that there was insufficient coverage of the technical issues and the critical judgements involved in appraisal reports. More narrow technical questions were usually addressed, but broader questions of design alternatives and their justification in a sectoral context were often given insufficient attention.

3. Several possible reasons for inadequate attention to these issues were mentioned. One speaker suggested that the Bank seemed to emphasize the recruitment of design/appraisal engineers rather than planning engineers. It was thought that the planning engineer could provide the broader focus necessary to review the "whole package", rather than the detailed design features or cost estimates, especially with the increasing number of integrated projects. Within each sector, the range of issues can be so wide, and the expertise so dispersed, that adequate technical review by one person is difficult. Another speaker noted that, across sectors, the cross-fertilization process, while improving, could be enhanced. The organization of the Bank makes it difficult to ensure expert review when a project involves more than one sector. It was agreed that the highest level of quality control of technical aspects resides in most Regions at the divisional level, and sometimes below. Several speakers questioned whether higher-level management attention should not be given to this area of work, thereby signaling the importance of technical issues.

005-01

0219

Kapur, Shiv S.
M 805

4. Several possible means of enhancing the quality and results of the review process were discussed. Several speakers supported the suggestion to appoint senior technical advisors in the Regional Projects Departments' Front Offices, although some felt that such an advisor belonged more logically in CPS. Other speakers doubted whether one person with technical skills across sectors could be found. One speaker noted, however, that this type of person could serve as a reference point for the technical staff, by raising questions that needed to be addressed and calling on other knowledgeable staff elsewhere in the Bank. It was suggested that this person could be aided by a register of sector staff indicating their expertise, as exists in agriculture. When a question arose on a particular issue, staff could be directed to the staff member having the most background in the area. One speaker noted that this could place additional demands on staff already with heavy workloads.

5. Another speaker suggested the establishment of an informal committee of engineers to advise the Loan Committee on engineering matters. One COPD reported that it has an advisory committee to review all projects processed in the department and this arrangement was working quite well. However, another speaker questioned whether similar committees could be formed at the Regional divisional level since a division lacked the critical mass of technical staff. For the same reasons, the arrangement in some Regions, whereby one divisional engineer is asked to review the work of another, was not thought to be adequate in practice.

6. Mr. Baum, noting the diversity of views and absence of agreement except on the need to improve the technical review, asked the Directors to give further thought to this matter in anticipation of another discussion at a CPS Directors' meeting.

DISTRIBUTION: Messrs. Aklilu, Churchill, Evans, Fuchs, Lejeune, Rajagopalan, Rovani, Sadove, Tolbert, van der Tak, Willoughby, Yudelman, Richardson, Dickerson, Garg, Hardy, Israel, Lee, Lethem, Mould, Raizen, Raphaeli, Strombom, Weiss, Mrs. Scott

cc: Messrs. Stern, Baum, Barletta, Benjenk, Chauffournier, Gabriel, Hattori, Hopper, Husain, Knox, Paijmans, Qureshi, Wapenhans, Weiner, Lafourcade

OFFICE MEMORANDUM

TO: Files

DATE: October 13, 1981
10/15

FROM: Office of the Senior Vice President, Operations

SUBJECT: Minutes of Operational Vice Presidents' Meeting of October 7, 1981

Present: Messrs. Stern (Chairman), Baum, Chaufournier, Husain, van der Meer, Wapenhans, Wiehen, Haq, Yudelman, Donaldson, Sfeir-Younis, Ms. Pratt.

Fisheries Sector Policy Paper

1. Mr. Yudelman introduced the previously circulated Fisheries Sector Paper, noting that it had been widely disseminated and discussed within the Bank and at several international conferences. The paper draws attention to major problems in the sector, discusses strategy and the potential role of the Bank, and suggests a modest expansion in the sector lending program and appropriate increases in staff.

2. In the discussion which ensued, various participants observed that projects in this sector had been unusually difficult to prepare and to implement; in particular, where government agencies had been responsible for implementation of deep sea and coastal fisheries projects, these had not worked well due to poor management. Others observed that poor experience in the sector was largely related to the Bank's lack of sufficient staff and expertise to cover the various technical components such as marketing, credit, and extension which are required if projects are to function well. In this context it was noted that the Bank had underutilized the resources of the FAO Fisheries Division and of various bilateral donors with special interests and expertise in the sector. Again it was pointed out that this was related to the Bank's own lack of expertise, and therefore inability to review and coordinate with outside agencies.

3. In certain areas, however, fisheries projects appeared to be working satisfactorily, notably in inland aquaculture, and projects to provide improved technology to artisanal coastal fishermen, particularly in countries with an established tradition in this type of fishing. In many cases, development of these kinds of fisheries also fit well with national strategies for rural and regional development.

4. The meeting concluded that, while exceptions could be considered on a case-by-case basis, the Bank should not attempt large-scale, deep sea fishery projects. Rather these should be left to private sector and IFC joint ventures, or for finance through DFC investments. As a corollary, the Bank should not build up staff resources in this particular area, but use should be made of FAO and bilateral agencies where appropriate. Regions which wish to undertake such projects must be prepared to make necessary arrangements for technical support on a consultant basis.

5. It was agreed that the revised sector paper should provide guidance on recommended priorities, on suggested limits of the Bank's involvement, and, after ascertaining the extent of its interest, on the potential for involvement of the IFC, and with bilateral donors who could provide appropriate technical assistance in conjunction with Bank financing. The final draft should indicate the direction and selectivity of our approach to the sector, recognizing the need for different strategies in the various Regions, and the need for longer-term involvement in dealing with the major problems in the sector. Given the private sector nature of fishery activities, the relative lack of the Bank's expertise, and the weak public institutions in the sector, the DFC's should be used to the extent possible, relying on the DFC's to screen investments in the sector according to their own criteria. While the Bank should continue to be responsive to requests for assistance in the sector, we should not play an advocacy role. Mr. Stern asked those present to forward the comments of their operational units to Mr. Yudelman for his use in preparing the final draft. After revision, the paper would be reviewed by the Managing Committee prior to Board circulation and publication.

Lending Program

6. Mr. Stern asked the operational Vice Presidents to comment on the reasons for the significant shortfalls in the number of operations in the first and second quarters, and whether these shortfalls were likely to be recovered later in the fiscal year. All of the regions responded that difficulties were likely to persist, due to an accumulation of country problems, related for the most part to political disturbances, acute local currency shortages, and the difficulties imposed by the continuing need to focus on massive structural economic adjustments in the wake of oil price increases, which resulted in many cases in deferral of project preparation activities. In addition, the Bank's emphasis on greater specificity of its conditionality to ensure that structural adjustment does occur, was making it more difficult and time-consuming to reach agreement with Borrowers. Mr. Stern emphasized the importance of being realistic in providing estimates of what could be achieved, and, in the circumstances, asked all Regional managers to review their lending programs and provide him as soon as possible with realistic revised estimates. He intended to reallocate resources by the end of the year to those areas where they could be utilized.

IDA

7. Mr. Stern reported that during the week of the Annual Meetings, the IDA Deputies had reached an agreement which would permit signing of approximately SDR 700 million of credits approved in FY81 but not yet signed. Authorization for signing would be sent by Mr. Stern to those concerned in the near future. The amount of available funds for FY82 would not be known until the US Congress completed its appropriation process for FY82, since the agreement reiterates that the contributions

of other donors will be proportional to that of the US. After the total amount of the FY82 commitment authority was known (which would amount to roughly four times the amount of the US contribution), the operational managers would meet to review allocation of available resources. If the presently proposed figure of US\$820 million holds up in the US Congress FY 1982 commitment authority would be about US\$3.1 billion, well below the planned level.

8. During the Annual Meetings, Mr. Clausen had made proposals for a multi-national insurance scheme and an international investment code of ethics, both designed to encourage private capital flows to developing countries. In addition, there had been widespread indications of support for energy lending by delegates to the Annual Meetings. Mr. Stern reported that more detailed proposals were being prepared on these subjects for consideration by the Managing Committee in the near future.

Cleared with Messrs. Stern

JPratt:ct/hmo

THE WORLD BANK
PRINTING REQUEST

NOTE: Requests for reruns of reports must be cleared by the Reports Desk.

Please type or print with ball point pen. If typing, begin vertical spacing on dotted line at left below.

REPORT NO.: 3442	REPORT DATE: 10/09/81	CATEGORY: New <input checked="" type="checkbox"/> Rerun <input type="checkbox"/>	NO. OF PAGES: XXXX 136	QUANTITY: 1200
TITLE OR DESCRIPTION OF REPORT OR DOCUMENT: SEVENTH ANNUAL REVIEW OF PROJECT PERFORMANCE AUDIT RESULTS				
DATE REQUIRED: October 13, 1981		TIME REQUIRED: a.m.		CLASSIFICATION:
REQUESTED BY: Shiv S. Kapur	DEPARTMENT: OED	DEPT. NO.: 570	DIVISION: ---	DIV. NO.: 99 ROOM NO.: M-305 EXT.: 4159
SPECIFICATIONS				
SIZE: 8 1/2 x 11 <input checked="" type="checkbox"/> 8 1/2 x 14 <input type="checkbox"/> 11 x 17 <input checked="" type="checkbox"/> Annex II, Table 7 Other: <input type="checkbox"/> Fold <input checked="" type="checkbox"/> Annex II, Table 7 Reduction <input type="checkbox"/> See below				
CONSTRUCTION: Assemble <input type="checkbox"/> Staple <input type="checkbox"/> No. of Holes to be Punched: <input type="checkbox"/> Top <input type="checkbox"/> Side <input type="checkbox"/> Print 1 Side <input type="checkbox"/> Print 2 Sides <input type="checkbox"/> Color of Paper: <input type="checkbox"/>				
COVER STOCK: White <input type="checkbox"/> Yellow <input type="checkbox"/> Green <input type="checkbox"/> Gray <input checked="" type="checkbox"/> PERFECT BINDING Buff <input type="checkbox"/> Blue <input type="checkbox"/> Brown <input type="checkbox"/> Other: <input type="checkbox"/>				
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ORDER OF ASSEMBLY: 1. Cover (delivered to Mr. Johnson 10/09/81 a.m.) 2. Memo to Executive Directors & President, in DGO's letterhead, w/cavent & Mr. Weiner's Facsimile 3. Table of Contents (4 pages), first page w/cavent 4. Highlights (2 pages) NO BACKUP PLEASE 5. Text (94 pages) 6. Annex I (6 pages), pages 2-6 of this annex to be reduced to 8-1/2 x 11" 7. Annex II (25 pages). Tables 1-6 to be reduced to 8-1/2 x 11" (21 pages), Table 7 to be reduced to 11 x 17" and folded 8. Annex III (3 pages)				
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SIGNATURE: (Type or print name beside signature.) Shiv S. Kapur, Director, OED				DATE: October 5, 1981
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Mr. Joseph Fitzpatrick, Chief, ADM

October 9, 1981

Shiv S. Kapur, Director, OED

Request for Overtime

This is to request that Printshop staff work overtime this coming weekend in the printing of the VII Annual Review of Project Performance Audit Results in order that the report be ready for distribution early Tuesday morning, October 13. Overtime should be charged to Department 570, Division 99.

rmc

October 8, 1981

Mr. Stern
Mr. Baum

Re: Seventh Annual Review
of PPARs

The final draft of the above Review was sent to you under my note of September 28 for any comments you may have. I am now attaching Annex III to that Review based on the Summary Findings of the Sixth and Seventh Reviews as points which it is proposed to follow up in our future work. This responds to pressing requests from the JAC. If you have no comments, I would like to send the complete Review for printing by close of business tomorrow.

Shiv S. Kapur

Attachment

cc: Mr. Weiner

SSKapur:rmd

OFFICIAL FILE COPY

October 8, 1981

Mr. Stern ✓
Mr. Baum


Re: Seventh Annual Review
of PPARs

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Shiv S. Kapur

Attachment

cc: Mr. Weiner



FOLLOW-UP

This section sets down certain points which have emerged as of recurring concern in these Reviews. The purpose is to provide a ready reference by which progress made in the more important deficiencies noted can be tracked in subsequent project performance audit reports and Annual Reviews.

The Reviews themselves provide the major device for follow-up; the summary findings appearing at the end of each sector review (Chapter III) not only identify areas of continuing concern in the experience examined in that sector but also indicate subsequent remedial actions already taken or planned by the Bank. Connections are also made between past deficiencies and present practice in other parts of the Review. What follows is, therefore, an abbreviated listing of the more important points from the last two Reviews to which it is proposed to give special attention in the future.

A. General

- (i) appropriate attention to the preparation and design of projects, with special reference to (a) policy environment bearing on project success, (b) relative simplicity of design in general, and (c) sociological factors involved;
- (ii) realism of implementation schedules;
- (iii) adequacy of sensitivity analysis of delay of projects;
- (iv) arrangements for the design, implementation and effectiveness of technical assistance for institutional support: in this connection, adequacy of (a) mutual agreement between the Bank and borrowers on detailed terms of reference of technical experts, (b) the use of short-term specialists and local experts where possible, and (c) fellowships for local personnel;
- (v) realism of project design in terms of its complexity and institutional capability available for its implementation;
- (vi) compliance with loan covenants by borrowers and reasons for non-compliance where this occurs;
- (vii) appropriate use of pilot projects in high-risk situations;

B. Agriculture

- (viii) importance given, in project preparation and design and in policy understandings reached with the borrower, to appropriate producer prices;
- (ix) the cost effectiveness, economic viability and social equity of small farmer projects in supporting agricultural development;
- (x) attention given to developing decentralized groundwater projects for irrigation in conjunction with surface water development;
- (xi) as between different agricultural subsectors, the credit projects appear to have been the most economically worthwhile as well as the most cost effective in reaching their beneficiaries. There is, however, need to ensure that credit projects are handled by well organized and strong agencies, and are planned as a series. They should be accompanied by appropriate technical assistance, particularly in farm planning and supervision of investments. Project design should be kept under review in respect of these points, and to ensure that the on-lending of funds would have a positive effect on the financial position of the intermediary;
- (xii) Bank actions to strengthen expertise in agroindustries and fisheries development;
- (xiii) guidelines for economic analysis of storage projects;

C. Public Utilities

- (xiv) in power and water supply, adequacy of utility demand forecasting guidelines and the procedure to adjust implementation schedules to minimize economic effects of divergence wherever feasible;
- (xv) guidelines on the determination and reduction of unaccounted-for water;
- (xvi) timely submission to the Bank by public utilities of audited financial statements;
- (xvii) implementation of the results of the research program to develop quantitative measures of management and operational performance of public utilities;

(xviii) timeliness of dialogue between the Bank, the government and the project entity on pricing policies in the early stages of project preparation to establish a program of action on tariffs and other related matters;

D. Transport

(xix) the realism of traffic projections in relation to the effective design of transport facilities provided. In this connection, review progress in implementing the recommendations of a forthcoming Bank paper on rail traffic forecasts differentiated by major commodities;

(xx) progress made in promoting systematic approach to road maintenance, requiring a plan, appropriate funds, equipment and staff;

(xxi) compliance with audit covenants for revenue earning entities and actions taken to overcome shortcomings within the organizations which inhibit regular audits;

E. Education

(xxii) progress made in establishing the correct correlations between the time given to project preparation, borrower understanding of and commitment to the broader objectives envisaged, and the need for a country-and-sector strategy for educational development as a framework for individual Bank-supported projects;

(xxiii) follow-up on the CPS study of the performance of project-financed educational institutions and research into various aspects of the problem of introducing practical subjects into secondary schools. Also, follow-up on the use of project institutions which have been reported to be under-utilized at audit; and

F. DFCs

(xxiv) arrangements for the monitoring and evaluation of sub-projects financed.

October 6, 1981

Mr. Weiner:

Re: Seventh Annual Review
of PPARS

I am attaching an Annex on
"Follow-Up" as suggested by you. This
is based on the main points emerging
from the Sixth and the Seventh Reviews
on which action is either under way
or is pending.

Shiv S. Kapur

Attachment

OFFICIAL FILE COPY

OFFICE MEMORANDUM

TO: Mr. Mervyn L. Weiner

DATE: September 28, 1981

FROM: Shiv S. Kapur

SUBJECT: Seventh Annual Review of Project Performance
Audit Results

The final draft of the above Review is attached for your approval. All the sector sections have been to the CPS Directors twice and the comments received are reflected in the present draft. As you know, because of the need to finalize three major studies and the Annual Report on Operations Evaluation within the last three months this Review has been delayed. I shall now greatly appreciate receiving your approval by October 7 to permit its distribution in time for the scheduled Board discussion.

Attachment

cc: Messrs. Stern
Baum

OFFICE MEMORANDUM

TO: Mr. Shiv Kapur, OED

DATE: September 23, 1981

FROM: Aklilu Habte, EDC

SUBJECT: Annual Review of PPARs

1. Three points may be worth mentioning. In para. 3.08, 3.17 and 3.40 it is clear that the audit reports have incorporated the lessons of the PCRs, but not lessons from other points in the project cycle. The impact of education investments is a normal subject for economic and sector work, and through these mechanisms it is possible to derive lessons about completed World Bank projects. A case in point is Malawi I, where a heavy investment in secondary education yielded a social rate of return of 21%. This result did not appear in the audit report; but it did appear (12 months ago) in conjunction with a Basic Economic Report.

2. Much discussion (again) concerns the introduction of "practical subjects" into secondary schools and the problems which have emerged as a result (paras. 3.04-3.10). One explanation of these problems was not mentioned however, and that is the possibility that the economic rewards for specializing in one or more of the "practical" subjects do not match the cost of the investment. In June of this year the Research Committee approved a US\$420,000 proposal to study this question in detail.

3. This review suggests (in para. 3.40) that impact evaluation is not feasible during the course of the project cycle. There are, however, three situations in which, if called for, an impact evaluation is feasible: (i) in projects which contain short-term training of adults; (ii) in projects which simply expand an existing curriculum program to new users (in this case non-project facilities can be the subject of study); and (iii) any impact evaluation which utilizes less than a full-cycle of students as subjects--graduates found in their last year of a training program rather than in the beginning, etc. This is not to suggest that these techniques are easily accomplished or of equal scientific validity; but all are feasible to conduct during a normal project cycle. The only category of project in which a study of external impact is not feasible is that which constructs an institution or curriculum with (a) a lead time nearly equivalent to the length of the project cycle and which (b) has no precedent within the country.

SHeyneman:th

Mr. S. Kapur, Director, OED

September 21, 1981

F. Hotes, Acting Asst. Director, AGR

Final Draft, OED Seventh Annual Review, Agriculture Portions

1. This is in response to your note of September 15, 1981 on subject draft. It certainly appears that all of Don's earlier comments have been taken into account, with the possible exception of his para. 6 comment regarding Bank involvement in emergency projects. It may well be that his suggestion that perhaps the Bank should not be involved in the very first stages of emergency projects is something which requires further consideration by OED. In such case the suggestion could be further discussed at a later time.

2. Three others of the AGR staff have reviewed the new draft, and do have a few comments which you may wish to consider; if it is not too late.

3. The "low cost overruns" for Credit Projects (para. 3.08) would likely result from the fact that such projects do not, as a rule, include provision for price contingencies and have an automatic cut off when the money supply runs dry. Therefore such projects should not significantly overrun appraisal estimates in total, although one would assume unit costs for such elements as irrigation, livestock, production inputs etc., financed by credit might inflate in line with such costs in the individual subsectors as a whole. If this is the case the comparison made in the report should be qualified by a footnote.

4. On p. 16, our economics staff raises the point that "B" and "C" effects are often directly related---if the prices are right, farmers tend to produce more (i.e. yields tend to increase also).

5. Para. 3.10, p. 3, sets forth some per ha irrigation costs that could be misinterpreted by ED's and laymen. For new irrigation projects, costs per ha range from \$2,000 upwards, with \$5,000 to \$10,000 not being unusual in some country situations (e.g., West Africa). It is true that later in the paragraph the inclusion of rehabilitation projects is mentioned as possibly one factor for the low per ha costs. My impression is that it is the principal factor. I would not like to have ED's referring to this OED report as the basis for questioning future projects that will be coming in at very much higher unit costs. Groundwater development involving individual tubewells does have lower unit costs, but often does not include on-farm distribution facilities, which may, or may not, already exist.

cc: Messrs. Yudelman, Pickering, o/r, Collins, (AGR)
Donaldson, (AGREP)

FLHotes:js

September 21, 1981

Mr. Willoughby:

Re: Seventh Annual Review of
PPARs

I am attaching the final draft of the section on Transportation. An earlier version was reviewed by your Department. I would welcome any additional comments that you may have, especially on the Summary Findings, by close of business on Thursday, September 24. I regret the short notice, but we are terribly behind time and the draft has already been reviewed before by your Department.

Shiv S. Kapur

Attachment

cc: Messrs. Neuner
Schulz

OFFICIAL FILE COPY

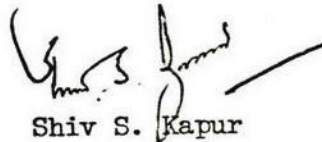
WORLD BANK / INTERNATIONAL FINANCE CORPORATION

September 21, 1981

Messrs. Rovani
Willoughby

Re: Annual Review; Public
Utilities Sector

The final draft of the above section of the Annual Review of PPARs is attached. Comments received from your Departments on earlier versions have been taken into account. Insofar as you are concerned, I shall appreciate receiving any further comments you may have, especially on the Summary Findings, by close of business on September 24.



Shiv S. Kapur

Attachment

cc: Mr. Bates

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

September 21, 1981

Mr. Aklilu Habte

Re: Annual Review; Education
Sector

The final draft of the above section of the Annual Review of PPARs is attached. Comments received from your Department on the earlier version and as a result of the review of PCR/PPARs, have been reflected in this version. I shall appreciate any further comments that you may have, especially on the Summary Findings, by close of business on Thursday, September 24.


Shiv S. Kapur

Attachment

cc: Mr. Romain

OFFICE MEMORANDUM

Annual Review Followup

file.

DATE: September 18, 1981

TO: Mr. Donald C. Pickering, Asst. Director, AGR

FROM: Alexander Shakow, Special Advisor, PPR

SUBJECT: Lessons Learnt from Project Performance Audit
Reports

10/22

At Mervyn Weiner's suggestion I have just seen (thanks to Ms. Wilson's kind assistance) your series of "Lessons Learnt" memos based on OED reports. These brief notes are most valuable and may, from time to time, point towards areas which deserve further attention by PPR policy staff or DPS researchers. Thus, I would greatly appreciate being added to the distribution list for future issues. My mailing address is: Alexander Shakow, Special Advisor, PPR, Room 1-6-118.

Thanks very much.

cc: / Mr. Weiner (DGO)

AS:11

cc → SK ✓

File : B-4.1

OCT 22 1981

September 15, 1981

Mr. Hotes

Fred,

I am attaching the final draft of the section on agriculture for this year's Annual Review of Project Performance Audit Results. As you will notice, it is substantially different from the earlier version in its presentation and in where the emphasis has been placed. The essential orientation is in terms of aid effectiveness. Don's comments made on the earlier draft have also been fully taken into account. I shall welcome any further comments you may have within a week's time.

Shiv S. Kapur

Attachment

cc: Messrs. Malone
Kordik
Bouwhuis

SSKapur:rmd

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ACP and EEC experts meeting
on the evaluation of agricultural
development projects

RM
File; Annual Review
SK
7/2
Lomé, 27 February 1981

Rev - 1

BASIC PRINCIPLES

based on the ex-post evaluation of
AGRICULTURAL DEVELOPMENT PROJECTS
carried out with EDF aid

- I. Background to projects
 - II. Design of projects
 - III. Preparation and content of projects
 - IV. Financing
 - V. Implementation
 - A. Institutions
 - B. Training
 - C. Extension
 - D. Technical assistance
 - E. Research
 - F. Monitoring, evaluation and studies
-

The following sectoral basic principles must be interpreted and applied in the light of the provisions of the second Lomé Convention pertaining to financial and technical cooperation and to agricultural cooperation.

I. BACKGROUND TO PROJECTS

The evaluation of development projects involving small agricultural holdings has shown that the attainment of their aims and targets depends to a large extent on the general and sectoral policies and development strategies within the framework of which the projects are designed, implemented and used.

1. Projects cannot be fully effective unless they form part of general development policies which ensure that growth in the rural sector is in line with that of the rest of the economy. On the one hand, the rural sector has to be a growing source of food supplies in order to achieve satisfactory food security for the whole population. At the same time, the rural sector must provide capital for investment in economic diversification. On the other hand, the rural population must derive full benefit from the improvement in income levels and living conditions at national level.

These policies must therefore include, among others:

- 1 - coordination of the various sectoral policies.
 - 2 - a geographical planning policy for the whole of the territory;
 - 3 - the allocation to the rural sector of a substantial proportion of the internal and external resources available for development;
 - 4 - a price system that both provides sufficient remuneration for agricultural production efforts and enables the urban population to obtain its supplies at reasonable prices;
 - 5 - a range of complementary economic measures and incentives for food and agro-industrial crops : services and equipment, infrastructure, marketing and credit system, tax arrangements, land-tenure system, etc.
2. A properly structured, consistently applied sectoral rural development policy is essential. It must
 - ensure that all operations undertaken in order to increase agricultural production and promote rural development are mutually compatible and in particular allow coordination of programmes financed by different sources of funds (national and foreign);
 - increase the chances of the effects of those schemes being maintained after aid support comes to an end.

./.

4. In the context of ACP-EEC cooperation, the contributions from the Community should be adapted to the constraints and strategies of the beneficiary State and population. To that end :

- (a) when the country's indicative programming is carried out to set the aims and targets, care must be taken to avoid establishing programmes of operations and financing packages for projects that are not based on adequate preparatory studies;
- (b) consultations between aid bodies and with the State concerned - to avoid duplication of effort, to develop complementary features and to carry out joint operations - are necessary in order to permit a coherent, flexible and continuous implementation of national and regional rural development policies.

II. DESIGN OF PROJECTS

5. When objectives are selected, steps must be taken to ensure that any agricultural development at least helps to :

- (a) increase the traditional farmers' capabilities and labour productivity, so that rural communities are better able to satisfy their needs and aspirations;
- (b) encourage rural communities to assume responsibility in the design, execution and management of development operations;
- (c) mobilize individual or collective initiatives, by informing in particular producers of existing potential, by supporting their organizations and their leaders, by training and advising them so as to make their operations as efficient as possible;
- (d) eliminate the bottlenecks that hinder traditional farmers' initiatives, with particular respect to basic investment and economic and social services;
- (e) improve and progressively transform traditional small holdings (which span many types of production and consumption and various non-economic needs) so as to raise their level of overall productivity and intensify their degree of integration into the modern economic system;
- (f) make the rural population - and not middlemen - benefit from the larger part of increased incomes stemming from this higher productivity;
- (g) seek new areas of economic potential for the rural communities in question and the resources that are needed to use potential that is known to exist but has not yet been exploited;

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 - (g) seek new areas of economic potential for the rural communities in question and the resources that are needed to use potential that is known to exist but has not yet been exploited;

- (h) seek production, management and organizational instruments and techniques that are suited, as far as possible, to the cultural characteristics, the physical capabilities, existing know-how and ways of acquiring new know-how in traditional farming communities. The development of appropriate techniques, which can gradually be "taken over" by the farmers, is relevant not only to arable (or possibly livestock) farming but also to the various related occupations which may be found in rural communities.

Short- and medium- term targets must be established in the light of structural and long-term aims.

6. The basic design of projects and programmes must constitute the framework within which the technical and financial content of the operations can be progressively established in constant dialogue between the people involved from different disciplines and at different levels, namely the national and local authorities, those responsible for programme execution, the village communities concerned, social/professional organizations and external aid donors.
7. For ACP-EEC cooperation in the agricultural development field to be fully effective, it is essential that the operations and their financing arrangements should be designed primarily in the light of the capabilities, resources and structures that are likely to be available when the external support comes to an end (the "weaning" stage) so as to ensure that the sought-for development effects will last. Consequently:
 - (a) particular attention should be devoted to the "weaning" stage : from the outset, provision should be made for operational structures and practical measures so that there is a smooth progressive transition from external assistance to the point when the human and financial resources of the country concerned assume full responsibility for the project. In the design of projects, particular attention should be paid to the serious budget constraints prevailing in many ACP countries;

./.

- (b) each project should aim at social, technical, economic and financial viability for each participant or group of participants.

Financial viability must, however, be assessed while bearing in mind that the resources devoted to the development can at national level be profitable only in the long term;

- (c) the duration of each operation to assist traditional farmers must be determined in accordance with the objectives of stable and lasting results.

8. Experience shows that the following factors have a particular influence on the effectiveness of agricultural development projects; they should therefore be taken into account during project design:

- (a) factors resulting from the nature of rural communities:

- the traditional farmers overall, or "integrated", conception of the social and economic development of their environment;
- differences existing between traditional farmers in their adaptability, dynamism and investment capacity, often leading to the need to establish several sub-programmes;
- availability of labour in the rural society and the traditional allocation of that labour among various tasks;
- existing systems for the adoption of decisions and the distribution of income;
- the specific role of women in rural activities.

- (b) factors relating to the rural communities' reaction to the project :

- the socio-cultural strains that may arise in village communities as a result of changes brought about by the project;
- the financial risks to farmers resulting from the loans that will be made to them and from certain technical innovations that will be introduced;
- the traditional farmers' concern for food security, in cases where the development of cash crops may compete with food production;
- the environmental risks that the introduction of certain techniques or intensive crop production may entail;
- the degree of confidence that the traditional farmers have in those responsible for projects.

III. PREPARATION AND CONTENT OF PROJECTS

9. The evaluations which have been carried out have shown that when the project is being prepared each of the following aspects must be considered and laid out:

- the aims to be pursued and the main operational targets established for and by the various groups of beneficiaries - with particular consideration being given to the economically weakest groups;
- the constraints and risks to be tackled;
- the strategy selected for the attainment of those aims and to reduce the constraints;
- the operations to be implemented to achieve the specific targets and the resources required for those purposes; these targets must be devised as mere projections to guide the operations towards the attainment of the set aims.

10. Each project must be based on a knowledge of the rural environment in question. The population concerned must be involved in the preparatory studies by means of appropriate consultations or surveys.

These studies must in particular make it possible to define clearly :

- the initial situation in the project area;
- the relationship between the aims of the project and each of the related national policies, particularly those on prices (inputs and products), marketing, employment, and the social development of the rural sector;

- the various possible ways of attaining the targets and the reasons why one particular way may seem preferable to others.

The preparatory studies should also provide a sufficient basis for forecasting the effects and results of the project and for evaluating them during and after its execution.

11. To facilitate sound project management, project design should be relatively simple at the outset; the design can be gradually "filled out" as the project progresses, in line with the requirements and capabilities of the population concerned. The operations envisaged should not therefore aim from the outset to cover all the constraints and all the potential of the rural community in question. The "integrated" nature of projects should rather consist in making available to that community equipment and services and training instruments to be used in the best possible way.

To ensure the desirable flexibility and adaptability, it is also important that in the case of new or particularly risky operations provision should be made for pilot phase. On-site training may be provided in the pilot project for the personnel of other countries where the results may be directly applicable.

12. The content of operations and the corresponding plan of expenditure should not be rigidly fixed before the start of operations : it should be possible to correct, supplement and make this content more specific in the course of implementation in the light of :
 - (a) the stated aims and targets;
 - (b) the needs, experience and aspirations of the traditional farmers;
 - (c) new facts emerging from studies and research into the rural community and its economic environment (see para 33), and
 - (d) the results already achieved.
13. In each project, provision should be made for the financial resources and staff - trained in the teaching of agricultural development - that are necessary to provide the continuous training required at all levels (see paragraphs 24 to 27).

14. Experience has shown that the shortage of improved seeds is one of the bottlenecks in agricultural projects; provision for seed farms should therefore be made.

IV. FINANCING OF PROJECTS

15. The methods and conditions of financing projects should be closely geared to the aims of the project and the capacities of the different target groups. If a project is expected to have a considerable social impact on the target population, its financial rate of return should not be a decisive factor.

The financial scheme for each project should provide for contingency funds.

16. Each project should include a stock of working capital so that it is possible :

- to meet promptly, within reasonable financial limits, unexpected expenditure essential for the attainment of the set objectives; (1)
- to replenish stocks of production inputs (fertilisers, etc.) in good time, as the need arises;

17. The use of counterpart funds from Community food aid could appropriately be used to finance the project or its working capital.

18. Improvements in agricultural production and productivity stemming from the project should aim at becoming self-financing at the latest by the end of the external assistance. This is why :

- each project should specify how the various agents concerned - the State, the development body, the producers - will be able in the long term to balance their income and expenditure following the implementation of the project in question;
- each project should indicate the amount and origin of the financial resources (national budget, resources from the project itself or producers' income) that will be needed to ensure project implementation and the assumption of full responsibility for it after the end of external support.

19. The agricultural development policy may comprise direct or indirect subsidies to producers, in order to introduce new lines of production or new techniques, or to redress regional imbalances. This policy is left to the discretion of each Government. Their financial and economic consequences should regularly be reviewed both at the farmers' level and at the national level.

(1) Expenditure unexpected with regard to its timetable or size.

20. As regards any credit that might be provided to ensure the implementation of the project :

- the conditions of the loans to producers should be such that the debt burden resulting from innovations is compatible with the annual cash income that may reasonably be expected. Accordingly, the development body should either be able to assume responsibility for a proportion of the risk linked to natural and other factors, or a selective crop insurance scheme should be created which would provide regular cash income for the producers;
- the credit system and conditions should vary according to the requirements and resources of the various population groups concerned;
- the provision of credit should be closely linked to other measures such as extension, marketing, etc.
- existing credit institutions like cooperatives, credit unions etc. should be used for channelling the funds.

21. If the project relates to a society whose reactions are not yet sufficiently well-known it is better at the outset to inject only a modest volume of funds and subsequently supply additional financing in line with the pace of the efforts of the organizations and communities involved.

V. IMPLEMENTATION OF PROJECTS

Project evaluation has led to conclusions regarding in particular six essential elements of implementation : institutions, training, extension, technical assistance, research and follow-up to operations.

A. Institutions

22. Each project should generally have, as an institutional framework, a structure capable of supporting progress in the rural sector in all fields covered by the project, rather than a whole range of separate specialist bodies. In the choice and design of that structure, the following aspects should be taken into consideration :

- (a) it is generally preferable to rely, for project implementation purposes, on a permanent national or regional structure whose resources are strengthened by the project. Notwithstanding this preference, it may be desirable to set up new structures geared to the aspirations of the target group and the need for greater effectiveness.
 - (b) This structure should:- have close links with technical or specialist bodies whose support may be required for implementation of the project, particularly as regards marketing, engineering, applied research and training;
 - organise a dialogue between the various parties involved in the project - including the various population groups concerned - in particular through the extension system;
 - give a boost to traditional organizations in the society and help promote efficient social/professional organizations in accordance with the aspirations and interests of the farmers concerned;
 - be especially geared to improving the welfare of the population concerned, as well as being adequately integrated into the administrative, economic and social organization.
 - (c) Where a project includes promotion of a cash crop not normally traded in by the villagers, it is best to organize responsibility for production, marketing and even industrial processing in a vertically integrated structure.
23. The structure responsible for carrying out and managing an agricultural development scheme should be :
- decentralised, in order to establish close links with the population concerned;
 - clearly organized, with well defined responsibilities and duties of all senior personnel;
 - dynamic and flexible, so that it can adapt, within the framework of the set aims, to specific development opportunities as they arise, and also to the evolution of the needs and initiatives of the population;

- simple enough for its operation to be understood by the population concerned and taken over by local staff after "weaning", and for its operating cost to be sufficiently low to be covered by the revenue derived from its operation;
- sufficiently stable, by ensuring that its management staff is relatively permanent.

B. Training

24. Training is of great importance for the success of each project. It must reach all the people involved in the execution of the project, including

- women and youngsters;
- village leaders and extension workers;
- senior management

25. Training should be an ongoing process and take place at all stages of the project. It must be undertaken :

- before project implementation, selectively, in connection with the project requirements;
- during project execution, internally (on the job) or externally.

It may include training of nationals to replace those recruited for the project implementation, in cases where such transfers pose serious constraints to other national programmes.

26. Parallel to training, it is advisable to organize a proper information of social groups which are close to the project target groups, and to promote social/cultural activities in the communities affected by the project.

C. Extension

27. An efficient extension service is an essential component of agricultural development projects, for the training of extension workers, farmers and rural population. Provision for the necessary staff and facilities should therefore be made.

The majority of the extension personnel working closer to the farmers should preferably be recruited from the target groups of population.

D. Technical assistance

28. It is important that officials of the country concerned should be responsible for the implementation of projects and that they should already be given responsibility at the design stage. If foreign assistance is necessary to supplement or strengthen the national capacities, on a temporary basis :
- the technical assistants must acquire a sufficiently thoroughly understanding of the society concerned and how it functions;
 - their role should be to improve the training of the national staff with whom they are working.
29. Some of the technical assistance could take the form of periodical support missions for the purpose inter alia of :
- taking stock of the results achieved (support for ongoing evaluation);
 - suggesting guidelines for future work;
 - helping the implementing structure with the training of national staff.

Such missions should also take place in the years immediately following the withdrawal of ongoing external assistance.

E. Research

30. Agronomic and socio-economic research on the rural society should be closely involved in the preparation of the development policy affecting this sector and in project implementation.

The subjects for research must stem from the project itself and be formulated by the project in the light of the experience and aspirations of the target group. It is particularly necessary to strengthen the research into all aspects of agricultural smallholdings, in particular into the technical coefficients of production in the food sector.

The results of the research must be tested in the field before they are generally applied by the extension system.

F. Follow-up, evaluation and back-up studies

31. The implementation and utilization of projects must be based on constant monitoring and an ongoing objective evaluation of the operational targets and operations undertaken.

This should make it possible to correct in time errors in the design or oversights in the execution of the project.

This should also enable the project to adapt to new situations resulting from the aspirations of the population, to improved knowledge of the target group and to unforeseen changes in the economic environment.

32. Owing to the importance of its role, the evaluation unit should have a sufficient degree of autonomy. It is important that provision should be made in the project for the multidisciplinary staff and material resources necessary for this task.

33. An ongoing study of the operational environment must also accompany the operation so that it can always be guided by a sound awareness of the traditional farmers' reactions and expectations. Special attention should be given to the poorest section of the population.

The execution should preferably be entrusted to the body which carried out the preparatory studies.

As far as possible, national or regional universities and research institutes in the countries concerned should be involved in the studies to give them an opportunity to improve their training schemes through knowledge of local conditions and make sure that the countries concerned get the greatest benefit from knowledge gained as a result of the studies.

CONCLUSION

The ACP and EEC experts would like the evaluation of agricultural development projects to be continued. They suggest that future evaluations - concerning projects financed under the first Lomé Convention - should examine in particular certain aspects of these projects, namely agricultural credit, storage of products, extension systems, the structuring of grassroots rural society, the distribution of incomes, stemming from agricultural activities, between the producers and other sectors of the economy.

The results of these evaluations should be discussed at a further meeting of the ACP and EEC experts.

RM

Annual Review

6
7/4

BASIC PRINCIPLES RESULTING FROM EX-POST EVALUATION
OF CAPITAL PROJECTS FINANCED BY EDF IN THE
HEALTH SECTOR (1)

A. INTEGRATION OF AID TO THE HEALTH SECTOR IN ECONOMIC AND SOCIAL DEVELOPMENT

Direct improvement in the well-being of the population of developing countries can be achieved in particular by (a) promoting living conditions that are conducive to healthy life both physical and mental, and (b) enabling the whole of the population to have access to the health services, without discontinuity or geographical obstacles, and at an acceptable cost. Improving health conditions thus directly contributes to the whole process of national development. Consequently, any policy for the development of health facilities, any investment in health infrastructure and any other action in the field of health, together with any external aid, should be woven harmoniously into the socio-economic fabric of the country and into its general development plan. All activity in the health field - curative and preventive medicine and health education - should be integrated into a coherent system and programme, comprising all the health services in the country, both public and private. Health education schemes, measures to combat malnutrition, programmes for the protection of mother and infant and vaccination campaigns, are aspects of this system which are as essential as investment in health infrastructure and constitute one of the prerequisites for its effectiveness.

The effectiveness of health projects in general depends largely on other development operations in the fields of food production, water supply, drainage, communications and housing, as well as in education, in training and in applied research preparing concrete operations. Programmes for laying in water supplies and disposing of refuse and waste water are particularly important since they help to improve the biological environment, the quality of which is a prevalent cause of disease in the developing world.

Such activities are made more effective if the beneficiary communities are involved in organizing and carrying them out at local level, and if the health manpower to be trained is drawn from the communities themselves.

- (1) In 1974 the Commission evaluated the state, utilization and effectiveness of twenty-four public health infrastructure projects and projects involving temporary operating aid. These projects were located in six African States and Madagascar and were financed from the resources of the European Development Fund.

B. A PRIORITY AIM - MEETING THE REQUIREMENTS OF THE UNDERPRIVILEGED GROUPS AND AREAS

An examination of the utilization of the projects evaluated reveals, in many countries, imbalances in the distribution of funds, equipment and staff in favour of the large towns and curative medicine to the detriment of both rural areas and preventive medicine; one of the results of these imbalances is that the health infrastructure in rural areas is frequently under-utilized. Aid in the health sector should therefore first be directed to the people who have little or no access to health services, especially in rural areas and in rapidly expanding centres of population on the outskirts of big towns. The priority needs can be met

- (a) by improving the network of basic structure (including support facilities such as transport and staff housing) from which it would be possible to operate integrated health schemes down to primary health care services : curative and preventive medicine, social medicine, health surveys and education, mother and child care, general and mental hygiene campaigns, and so on;
- (b) by giving direct support to mass health protection schemes : campaigns against endemic diseases, disease prevention and detection campaigns, and so on.

Aid directed along these lines would strengthen the overall effectiveness of all the national health systems, through a more balanced and more rational use of the existing structures, the financial resources available and the medical and ancillary medical staff on the spot. It would thereby increase the rural population's access to, and acceptance of, health facilities.

C. CHOICE AND DESIGN OF PUBLIC HEALTH PROJECTS

Experience gained in the implementation and utilization of health projects financed from EDF resources has led to the following guidelines being evolved which determine the effectiveness and viability of capital projects of this nature.

1. In order to guarantee the best choice and basic design of project, it is essential to :
 - (a) take into account the needs and aspirations of the population and determine the various possible ways of meeting them;
 - (b) ascertain whether the project selected respects the criterion of rationality within the country's health policy;
 - (c) check whether the declared health policy is backed up in reality by the funds and staff required to run the health services;

- (d) utilize to the full regional resources in materials and skilled manpower;
 - (e) obtain assurance that any necessary inputs complementary to those to be provided by EDF are planned and will be secured when required, from national sources (in any appropriate form) or from external sources.
2. If a health investment project is to be as useful as it ought to be and operate rationally and economically, it has to be integrated into a coherent, well-balanced health service infrastructure. To avoid distortions or imbalances at national level, the health services should be built up in accordance with two basic principles :
- (a) appropriate regionalization and devolution; the organization of facilities and the devolution of responsibilities on a regional basis should reconcile the population's health needs with the availability of staff and operational financing;
 - (b) the hierarchical organization of the various levels of health facility from the angles of specialization and capacity; the kind of equipment installed at each level should follow the same pattern.
- In order to guarantee appropriate use of all units in the health system, rules should be laid down to ensure that the appropriate channels are in fact followed when patients are referred from one place or level to another.
3. The characteristics of the health infrastructure, its installations and equipment, should be carefully adapted to the country's capacity as regards funds and staff; a long-term programme should be drawn up to increase this capacity coherently, and the funds and staff thus built up should be deployed in such a way as to fit in with the regionalized and hierarchical organization of the health services as a whole.
4. Before deciding a new capital investment provision should be made for an annual budget sufficient to maintain the investment and replace equipment after a normal period of utilization.

D. TRAINING

1. Staff training schemes should be arranged to suit the requirements of infrastructure and the various health projects so as to ensure that, when needed, there is an adequate number of :

- (a) medical and ancillary medical staff and instructors for these staff,
 - (b) maintenance, management and administrative staff, at all levels. These schemes must be complemented by appropriate organization of management and maintenance work.
2. In order to ensure that medical and ancillary medical staff are suitably qualified, training should be carried out preferably in universities and training establishments in the ACP States according to a syllabus which is adapted to local health requirements with particular emphasis on the special needs of social medicine and health schemes in rural areas.
- Personnel in charge of health services or units should also have been trained in management and supervision, and should also be able to train subordinates.
3. Staff must be prepared for the specific conditions in which they will work and live. To this end, the best staff could, depending on actual needs, go on to specialize only after a few years of practice in favour of the least privileged groups.
4. Provision must also be made for refresher and in-service training, in the home-country whenever appropriate.
5. Maximum support should be given to regional training units, where units at the national level are found to be uneconomical. Exchange of training staff between countries should also be encouraged.

E. GENERAL AND TECHNICAL DESIGN OF CAPITAL PROJECTS IN THE HEALTH SECTOR

1. As regards the general design of a capital project in the health sector, experience suggests the following principles for project selection :
- (a) priority should be given to projects which are likely to increase the efficiency of the health services while keeping the increase in recurrent costs to a minimum;
 - (b) the renovation (adaptation, modernization, extension) of existing establishments should have priority over the construction of new facilities.

2. In view of the constant changes in the socio-economic conditions of the countries concerned and in treatment techniques, the essential requirement for a health project is flexibility of technical design; this means :
 - (a) the possibility of extension, for example by choosing a system based on hospital pavillions;
 - (b) interchangeability, through the use of suitable multipurpose structural units;
 - (c) transformability, so that changes which prove necessary can be made.
3. In order to provide effective and continuous medical services using limited resources, the technical design of a health project should be adapted not only to the environment and climate but also to the standard of living and customs of the population concerned, the ability of local staff to run and maintain the project and the experience of the users. The various technical solutions that are possible should be examined in the light of these imperatives.
4. As a rule the technical design should aim at simplicity and standardization, while still taking advantage of technical progress. This applies to the architectural design, the structure of the buildings, the choice of building materials and, especially, the fixtures and equipment (refrigeration, electrical, heating and telephone installations; lifts, electric pumps, air-conditioning systems, etc.) and medical apparatus (X-ray equipment, sterilizers, etc.). There should be more support for research into equipment appropriate to health units in developing countries.
5. To avoid prolonged breakdowns - which occur very frequently - when the project gets under way, account should be taken of the need for easy maintenance in the choice of fixtures and medical apparatus. Suppliers should be obliged to guarantee a regular supply of spare parts; those which also provide a breakdown service for complex installations and equipment should be favoured when contracts are awarded.
6. For health infrastructure projects to run smoothly and be used effectively it is important that there be an adequate supply of water and, in the case of hospitals, electricity. A great number of precautions should therefore be taken before considering siting such projects in centres without regular water and electricity supplies.

F. EXTENDED AID FOR HEALTH PROJECTS

As far as the Community is concerned, an operation to provide technical assistance or to cover a share of the running costs of any part of the health infrastructure, such as a hospital, can be considered only as an exceptional and temporary starting-up operation, it being understood that the beneficiary country undertakes gradually to cover the running costs itself.

Experience has shown that such aid can help develop the country's health facilities in as much as it contributes :

- (a) to the starting-up of the new health activity under the best technical conditions;
- (b) to on-the-job training of national doctors and ancillary medical staff, which can reduce brain drain;
- (c) to the preparation under the best possible conditions and in as short a time as possible for the replacement of expatriate by national staff.

It would, however, be of questionable value if external aid relieved the beneficiary country of its responsibility for bearing the burden of managing the capital project; in this case there would be a danger that aid would merely defer and aggravate the problem of running the project or lead to wastage and distortion of the capital resources available for development.

G. CONCLUSIONS AND RECOMMENDATIONS

1. The main objective of ACP-EEC co-operation in the health sector should be the widest possible spreading of health care to the least privileged sections of the populations.
2. Since it is widely recognized that development problems should be tackled in an integrated way, special attention should be given to the desirability of including, into every integrated action, a socio-sanitary component comprising the full range of appropriate health actions.

3. Actions funded by the EDF for health improvement can include where appropriate any combination of the means provided by the Lome Convention, including aid to establish health programmes, and are not restricted to infrastructure and equipment.
4. In order to ensure full use of the range of means provided under the Convention, all appropriate ACP authorities, including those responsible for the sector, should be kept informed as appropriate.

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The experts at the ACP-EEC meeting express the wish that similar sector consultations should be held regularly, and that the conclusions and recommendations of this meeting should be submitted to the joint ACP-EEC bodies.

OFFICE MEMORANDUM

TO: Division Chiefs, Agriculture and Rural Development DATE: June 23, 1981

FROM: D.C. Pickering (Assistant Director, AGR)

SUBJECT: Lessons Learnt from Recent PPARs No. 9

1. Several recent PPARs have noted comparatively elementary technical deficiencies in project preparation/appraisal which have prevented the achievement of project objectives. Thus a controlled flooding irrigation project was designed with canals and drains of inadequate capacity to achieve projected production targets. Further, analysis of the rainfall regime in the project area took insufficient account of probabilities regarding amounts of precipitation. Predictably production was adversely affected by both sets of considerations. A sugar rehabilitation project suffered similarly from unanticipated drought conditions, and one cane growing area was found during implementation to have soil conditions which were marginal for cane production.
2. While recognising the variable nature of climate and the frequent lack of reliable data series over an adequate time span, it would seem that, under such conditions, a rational approach would have been to take into account the possibility of adverse climatic effects when designing the projects. Further, the design of irrigation and drainage channels and structures is a well-established branch of engineering, and the calculation of dimensions to meet specific flow requirements under particular conditions should not normally result in substantial error. Recognition of marginal soil conditions should be even less subject to uncertainty. Field and laboratory techniques are available to identify possible soils limitations, and the large amount of knowledge available on sugar cane agronomy should be adequate to establish at what level such soils limitations are likely to result in marginal conditions for cane growth.
3. Insofar as these and similar purely technical deficiencies arise through inadequate preparation or errors in design, they should be identified during appraisal and, hence, remedied before project proposals are finalized.

JCCollins/DCPickering:rm

Distribution: Messrs. Walton, Eccles, Miss Marshall (EAP); Grimshaw, Berg, Tillier, Peberdy (WAP); Krishna, Smith, Price, Hussain, Wadsworth (AEP); French-Mullen, Merghoub, Ritchie, Naylor (EMP); Ramasubbu, Haasjes, Senner, Otten (LCP); Yoon, Parsons, Tibor, Lee, Nottidge (ASP); Martinusen, Ahmad (AGR).

cc: Messrs. Baum (CPSVP); Rajagopalan (PAS); Weiner (OED); Yudelman (AGR); Hendry (EAP); Haynes (EMP); van Gijch (WAP); Golan (AEP); Goffin (LCP); Rowe (ASP); Christoffersen, Argyle, Collins, Coulter, Darnell, Green, Hotes, Niaz, Russell, Spears, Sutherland, Turnham, Walters, Veraart, Donaldson (AGR); Resident Missions: India; Ivory Coast; Indonesia; Kenya.

JUN 30 1981

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Re: Annual Review

→ SK

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Hy Annual

Review, 1981, file

Some further thoughts:

- I agree that effectiveness should be highlighted; the implementation experience is significant only in explaining results & efficiency in realizing them;

- to the extent feasible, the sectoral findings should be placed in the context of GAO's whole inventory of sectoral PPRs; one year's slice is only interesting in this larger context. Earlier annual review findings should thus also be referred to, although not for year to year changes, which are accidental, but for persistent themes.

- in this context, the formulation of recommendations, or lessons, as appropriate, will have to be given careful thought in light of GAO's commentary on this matter; it has force for overview reports like the annual review, if not for PPRs.

W 6/13

OFFICE MEMORANDUM

RH o/w SK
1. Annual Review 1981
File
2. OED Agricultural
Slab
6/15

TO: Division Chiefs, Agriculture & Rural Development
FROM: Donald C. Pickering, Asst. Director, AGR
SUBJECT: Lessons Learnt from Project Performance Audit Reports No.7

DATE: June 11, 1981

Further to my memorandum of June 5, 1981, noted above, Mr. Schaefer-Kehnert has rightly pointed to the omission of success with group lending in Malawi. I attach a copy of EDI Course Note 74 on the topic which addresses the subject.

Distribution

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cc:

Messrs Baum (CPSVP), Rajagopalan (PAS), Weiner (OED), Yudelman (AGR).

Messrs Hendry, (EAP), Haynes, (EMENA), van Gigh, (WAP), Golan (AEP), Goffin, (LCP), Rowe, (ASP), Christoffersen.

Messrs Argyle, Collins, Coulter, Darnell, Green, Hotes, Niaz, Russell, Spears, Sutherland, Turnham, Walters, Veraart, Donaldson.

Resident Missions: India, Ivory Coast, Indonesia, Kenya

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Mrs. Villanasco

DCPickering:emw

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SUCCESS WITH GROUP LENDING IN MALAWI

This course note describes a group lending scheme which successfully channels credit to large numbers of small farmers in Malawi. The note analyses the pre-cooperative character of the scheme and gives some indications how it may be further developed so that eventually it may become a genuine cooperative credit system.

The note will be published in the Quarterly Journal of International Agriculture (Zeitschrift für Ausländische Landwirtschaft) Vol. 19, No. 4 (Oct.-Dec. 1980)

Prepared by : W. Schaefer-Kehnert

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SUCCESS WITH GROUP LENDING IN MALAWI

W. Schaefer-Kehnert

Background

The high cost of lending to individual small farmers is a major concern in rural development programs. Before industrialization, countries with agrarian structures made up predominantly of small farms (e.g., most West European countries and Japan) solved this problem through the formation of cooperatives, which in addition to credit also provided farm input supplies and produce marketing services at lower costs than those charged by private trade. Efforts to introduce such cooperatives in developing countries have largely failed (with outstanding exceptions in South Korea and Taiwan), but attempts are still being made to find simpler and more manageable pre-cooperative structures that provide at least part of the services of the classical farmers' cooperative. One type of pre-cooperative organization is group credit, which has been introduced in a number of countries in recent years without much benefit (1,2). The case of Malawi provides one of the few successful examples.

Shortly after independence Malawi failed in its initial attempt to promote rural cooperatives. Because of this experience, integrated rural development projects made no use of farmers' cooperatives in their early operations, and it was not until 1973 that group credit was introduced, in the pioneer Lilongwe Land Development Program (LLDP), with the objective of reducing the costs of lending.*/

Farmers' cooperatives usually have several hundred members, whose dues pay for a full-time secretary. On the other hand, credit groups in Malawi have only 10 to 30 members each and rely on honorary management, which keeps lending costs low. The administrative staff usually consists of a chairman who provides the leadership, a treasurer who ensures trustworthiness, and a secretary who maintains the records of the group. There are more than enough volunteers to fill the administrative positions, because the farmers are not fully employed on their small holdings. In addition, the posts provide social prestige.

In group lending operations the security for credit repayment is usually provided by the "joint and several liability" of group members. If a default occurs on obligations to the lender, credit to the whole group is stopped until the default is corrected. Legal action against an individual member may also be taken. This may cause the entire group to be deprived of farm inputs such as improved seeds and fertilizers for the next growing season, the lack of which would result in a drop in production. To avoid such losses the Malawi group credit scheme introduced a "security fund." Instead of making

*/ In 1973 the author participated in the World Bank sector survey mission that proposed the group lending scheme. In 1979 he reviewed its progress.

- 2 -

a down payment (which is usually requested in credit schemes) farmers pay 10% of the credit amount as a deposit into a common fund that is kept in trust by the credit institution for the group. If there is a default, the shortfall is made up by drawing on the security fund. Farmers are then free to apply for new credit as soon as the fund is replenished. The group can also evict the defaulting members.

Originally 20% of a group's credit was to be deposited into a security fund, but Malawi experience has shown that a 10% deposit is sufficient to cover the risk. A gradual yearly accumulation of deposits originally was planned so that an insurance fund against crop failure could be initiated. The LLDP administration did not pursue this idea, because most farmers preferred to disband their groups after each season and reestablish them before the next season, so that the membership could be kept flexible. This flexibility was advantageous because with the quickly expanding number of credit groups, the membership of the individual groups became increasingly concentrated on smaller locations. Village groups and eventually extended families formed into credit groups. This structure guarantees a higher degree of loyalty from the members of the group because it avoids the anonymity from which cooperative societies with a wider membership usually suffer.

Prior to the formation of the credit groups, another pre-cooperative structure was promoted by Malawi's marketing agency, ADMARC. This organization encouraged the formation of input supply groups through which farmers could order their fertilizer by the truckload. Members of the groups received a discount on the price of fertilizer and could have it delivered to the location of their choice. This scheme was highly successful and encouraged LLDP to embark on the group credit scheme.

In areas outside the main projects, the government extension service initiated a drive to form farmers' clubs for the purpose of group extension. These clubs established demonstration plots, and club members helped each other introduce modern technologies. In some cases members also undertook communal projects, for example, a village firewood plantation. Gradually the services of these clubs expanded to include group input supplies and group credit, so that now they are almost equivalent to multipurpose cooperatives. There exist approximately 200 farmers' clubs, each with a membership of close to hundred. Although the membership is larger than that of a credit group, only 20 or so members of a farmers' club actually take up credit.

Group Credit Development and Performance

Group credit was first tried in the Lilongwe project, and then spread into farmers' clubs outside the project areas. Other integrated rural development projects in Malawi also experimented with group credit, but statistics on these operations are not available.

Table 1 shows the number of individual and group borrowers in the LLDP area from 1972/73 through 1978/79. Also shown are the number of credit

groups and the average number of borrowers per group over this period. The LLDP administration expected the number of credit groups to reach 2,000 in 1978/79, but the number actually fell short of the 1977/78 figure because the fertilizer being financed did not arrive on time in sufficient quantities. Nevertheless, there are now more group borrowers than individual borrowers, and it is expected that group borrowing will rapidly increase in the years to come. The Government is even considering allowing only group credit in new development areas.

Table 1: LLDP Individual and Group Borrowers

Year	Borrowers in Thousands			Number of Groups	Borrowers per Group
	Total	Individual	Group		
1972/73	21.1	21.1	-	-	-
1973/74	25.7	23.9	1.8	94	19
1974/75	25.1	20.5	4.6	242	19
1975/76	32.2	24.6	7.6	410	19
1976/77	36.8	23.5	13.3	670	20
1977/78	42.5	14.6	27.9	1267	22
1978/79	51.5	23.1	28.4	1217	23

Table 2 shows the loan amounts borrowed under the LLDP by individual and group farmers. Also shown are the average loan per borrower under these two categories and repayment records. The total amount loaned has almost quadrupled over six years, and group credit climbed from zero to more than 50% of the loan portfolio. The average amount borrowed per farmer is around MK30 (Malawi Kwacha MK30 = US\$40) and does not vary significantly between individual and group farmers.

Table 2: LLDP Individual and Group Loans

Year	Amount of Loans			Loan Per Borrower		Repayment	
	Total	Indi- vidual	Group	Indi- vidual	Group	Indi- vidual	Group
		MK'000		MK		%	
1972/73	382	382	-	18	-	97	-
1973/74	481	460	21	19	12	98	100
1974/75	737	601	136	29	30	98	100
1975/76	859	624	235	25	31	96	99
1976/77	1012	627	385	27	29	100	100
1977/78	1292	453	839	31	30	100	100
1978/79	1461	656	805	28	28	n.a.	n.a.

The repayment records which show group credit achieving 100% repayment in four out of five years are most impressive. Repayment by individual creditors used to be at 96%-98%, but this figure has also risen to 100% in the past two years.

Outstanding Issues

The LLDP administration differentiated between individual and group credit by charging individuals 15% and groups 10% interest. There is no information available however, on what the actual cost difference is in administering the two types of credit. The project administration gives credit groups specialized training in self-accounting, so that eventually considerable costs are saved. If farmers have a free choice either to take individual credit or to join a credit group, the cost difference should be reflected in the credit terms (assuming that there is no special reason to subsidize one form over the other). Therefore, plans are underway to investigate the cost difference between individual and group credit.

There appears to be no significant difference in the repayment records of individuals versus credit groups (Table 2). However, there are indications that the almost equal repayment record is achieved with much greater effort in collecting payments from individual farmers than credit groups. This factor should be included in the cost investigation.

The security fund mechanism used in the Lilongwe group credit scheme, is not utilized by the farmers' clubs because the clubs have funds derived from members' dues and communal operations. These funds however, are rather small and unlikely to give the same protection as the 10% security fund. From the point of view of simplifying the credit administration, it would be desirable to apply the same credit mechanism in both the farmers' clubs and the credit groups.

There is no doubt that the farmers' clubs, with their greater continuity and combination of group extension with group credit, are a higher form of pre-cooperative organization. A distinguishing feature of farmers' clubs, for example, is that members not taking up credit still continue to participate in group extension. On the other hand, farmers' clubs are more difficult to organize than the single purpose credit groups. Therefore, it might be practical to introduce a kind of graduation process under which credit groups may be promoted to farmers' clubs and eventually to regular cooperatives.

In meetings held with several hundred members of credit groups and farmers' clubs, almost all expressed the desire to broaden the range of items that would be eligible for credit financing. Among the short-term inputs the demand was strongest for credit in cash to pay casual labor during the growing season. Most farmers' clubs also wanted to receive medium-term credit for farming implements as for example plows, ox-carts, hammer mills and water pumps, or for animals, in particular bullocks and dairy cows. These items are presently financed only with individual credit and on a very limited scale because most farmers cannot offer acceptable collateral. The clubs feel prepared to guarantee the repayment of these loans. When asked, what

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they would do in case of default they said that they would simply reallocate the item to a member who could pay for it, because most items are jointly used by several members anyway. The owner makes these inputs available to others for a fee or reciprocal service, which is customary in peasant agriculture. Even lending for bullocks and dairy cows would not cause undue risk because livestock can be insured against death under a government supported insurance scheme.

These suggestions appear worth pursuing. They may also be incorporated in the above mentioned graduation process. For example, a credit group which has a flawless repayment record over three years may become eligible to receive credit in cash. When promoted to the status of a farmers' club with stable membership, the club may then qualify for medium-term credit.

One of the clubs has started making loans from its own funds on a limited scale. When asked whether the club would consider accepting savings deposits, to further build up its funds and provide an additional service, the club members appeared receptive to the idea, but were reluctant to make a firm commitment. They apparently were aware of the additional responsibilities that would be accepted and were not sure of the legal implications. Members showed a definite interest however in making savings deposits. This idea appeared especially attractive when discussing the possible interest rates available if interest on deposits were determined by the lending rate minus the very low administrative costs of the clubs. This indicated that farmers' clubs are prepared to develop into real savings and loan associations.

Conclusions

This experience with group lending in Malawi has proven that pre-cooperative institutions can be developed successfully in poor peasant societies, even in environments where efforts to develop conventional cooperatives have failed. Group lending in Malawi can be distinguished from conventional lending approaches by the following factors:

- The credit groups offer clearly defined economic incentives such as lower interest rates, price discounts on inputs, and relief from individual loan processing.
- The formation of groups is left to the initiative of the farmers; government assists but does not interfere.
- Formation and disbanding of groups is simple and nonbureaucratic.
- Membership in the groups is kept small.
- Management is provided by elected group members who perform their duties principally for social prestige.
- The field of operations is limited and simple.

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- Members are fully liable for any individual default.
- Group security against default is provided by an advance deposit which is refunded with interest at full repayment of the loan.

It is interesting to note that these features coincide with the principles of Raiffeisen who founded the German cooperative movement more than a hundred years ago. When organizing the first primary societies among peasant farmers his principles were:

- Limited and simple sphere of operations.
- Unlimited liability of members.
- Honorary management (3).

Using these principles the Raiffeisen societies established a reputation of creditworthiness that enabled them to borrow from commercial lenders; only later did they broaden their sphere of operation to include input and output marketing, processing, and other services. Today they still handle more than 60 percent of all agricultural trade in the Federal Republic of Germany.

Thus, the group credit scheme in Malawi started with a concept that has a history of success. In line with historical experience, this pre-cooperative concept should not be considered an end in itself, but rather the preliminary stage of an institutional development that can expand and broaden into a genuine cooperative movement. Malawi's experience with a previous cooperative movement that failed - apparently while trying to accomplish too much in too short a time with too many political interferences - should guide further development so that the same mistakes are not made again. It may be wise to use a graduated process as has been indicated above; the final stage of which could result either in a savings and loan association or a multipurpose service cooperative.

References

- 1) Adams, D.W., and J.R. Ladman. "Lending to Rural Poor Through Informal Groups: A Promising Financial Market Innovation?" Studies in Rural Finance, Economics and Sociology Occasional Paper No. 587. Columbus: Ohio State University, 1979.
- 2) Adams, D.W., and A.A. Pablo. "Group Lending to the Rural Poor in the Dominican Republic: A Stunted Innovation." Studies in Rural Finance, Economics, and Sociology Occasional Paper No. 682. Columbus: Ohio State University, 1980.
- 3) Schiller, O. "Die Kooperation in der Landwirtschaft" ("Cooperation in Agriculture"), in P. von Blankenburg and H.D. Cremer, eds., Handbuch der Landwirtschaft und Ernährung in den Entwicklungsländern. (Handbook of Agriculture and Food in Developing Countries) Stuttgart: Verlag Eugen Ulmer, 1967.

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WBG ARCHIVES

JOINT AUDIT COMMITTEE

VII Annual
Review

JAC 81-15

FROM: The Secretary, Joint Audit Committee

May 29, 1981

PPARS: AFGHANISTAN, IRAN AND IRAQ

Attached for information is a copy of a memorandum prepared in the Operations Evaluation Department dated May 15, 1981, entitled "PPARS: Afghanistan, Iran and Iraq".

Distribution:

Committee

Mr. Abdulai
Ms. Kehler (Acting Alternate)
Mr. Khelil
Mr. Kurth
Mr. Looijen
Mr. Lundstrom
Mr. Muns
Mr. Ray

For Information

Other Executive Directors and Alternates
President
Mr. Burkes
Mr. Gabriel
Mr. Golsong
Mr. Hattori
Mr. Kapur
Mr. Qureshi
Mr. Rapley
Mr. Rotberg
Mr. Scott
Mr. Stern
Mr. Thahane
Mr. Weiner

OFFICE MEMORANDUM

TO: Mr. Anthony IJ. A. Looijen, Chairman, Joint Audit
Through: Mr. Mervyn L. Weiner, DGO *Handwritten signature* Committee
FROM: Shiv S. Kapur, Director, OED
SUBJECT: PPARs: Afghanistan, Iran and Iraq

DATE: May 15, 1981

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WBG ARCHIVES

1. A special difficulty has presented itself in preparing project completion and performance audit reports in respect of 12 Bank-financed projects in the above three countries. The purpose of this memorandum is to inform you of the nature of these difficulties and of the action proposed to be taken to meet the Bank's accountability obligations in a manner appropriate to these special circumstances.

2. The status of the latest information available on these projects has been carefully reviewed by the Europe, Middle East and North Africa Region. In view of the Bank's inability to sustain proper contact with the projects and the absence of supervision missions in more recent times, the available information has been found seriously deficient in important respects. At the same time, unsettled conditions continue in all three countries and it is difficult to anticipate when these might normalize. Given the institutional and even physical disruption which might have affected, or may still affect, a number of these projects, the restoration of normal conditions in a reasonably near future does not seem to hold out any guarantee that meaningful information for evaluative purposes will be available at a later date. Actually, with the likely dispersal of some of the staff involved in the projects in the three countries, and for any institutional deterioration that might take place, it is not unlikely that the quality of information available with the passage of time will further deteriorate.

3. For the above reasons, the Region has prepared brief memoranda in lieu of project completion reports in respect of each of the 12 projects involved. In all cases the projects have reached final disbursement and the loan/credit accounts are closed. A list of the projects is attached.

4. It is proposed to accept the memoranda prepared by the Region in lieu of completion reports; in the absence of a basis for preparing project performance audit memoranda by the Operations Evaluation Department, no PPARs will be prepared for these 12 projects, either now or in the future. The Regional memoranda will be placed on file with OED and will be available for inspection of any Board member who wishes to examine one or more of them. The 12 projects will be separately grouped in the Annual Review of Project Performance Audit Results and will be excluded from the overall assessment of results.

5. If you agree, I would suggest that you arrange for the Secretary to circulate copies of this note to members of the Committee and other Executive Directors for their information.

Attachment

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WBG ARCHIVES

ATTACHMENTLIST OF PROJECTS

Country	Project	Amount of Loan/Credit (US\$ mln)*	Date of Loan/Credit Signing
Afghanistan	Aviation Development Project (Credit 374-AF)	2.5	05/02/73
Afghanistan	Second Road Improvement and Maintenance Project (Credit 449-AF)	11.5	12/21/73
Afghanistan	Industrial Development Bank of Afghanistan (Credit 380-AF)	2.0	05/15/73
Iran	Education Project (Loan 718-IRN)	19.0	12/18/70
Iran	Industrial and Mining Development Bank of Iran (Loan 794-IRN)	50.0	01/18/72
Iran	Industrial and Mining Development Bank of Iran (Loan 963-IRN)	75.0	02/13/74
Iran	Ports I Project (Loan 855-IRN)	29.0	09/07/72
Iran	Power II Project (Loan 856-IRN)	51.0	09/20/72
Iran	Ports II Project (Loan 1000-IRN)	65.0	06/13/74
Iran	Gas Turbine and Trans- mission Project (Loan 1001-IRN)	58.0	06/13/74
Iran	Third Agricultural Credit Project (Loan 1046-IRN)	40.0	10/14/74
Iraq	Lower Khalis Irrigation Project (Loan 878-IRQ)	40.0	01/25/73

* Before cancellations.

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OFFICE MEMORANDUM

TO: AGR Advisory, AGREP and AGRME Staff

FROM: Donald C. Pickering, Assistant Director, AGR

SUBJECT: Quality Monitoring and the Project Review Process in AGR

DATE: May 29, 1981

1. It seems appropriate to take a look at the above topic in the light of experience over the past 12 months or so. During this time, AGR has sought to improve the efficiency and impact of its interventions throughout the project cycle from Project Briefs to the Project Performance Audit Reports (PPAR) and Impact Studies of the Operations Evaluations Department. As you know, such interventions are based on the concept of formal tripartite division of labor between technical advisers with first and second responsibility, and a member of the department's Economics and Policy Division (AGREP) [Only the lead adviser and an AGREP representative comment on PPARs however, see Para 6 below.]
2. The two technical advisers are selected on the basis of the principal components to be financed. Their primary responsibilities are consideration of the technical and organizational feasibility of the measures proposed, plus judgments as to the need to consult with others in AGR, such as Michael Cernea on sociological issues, or elsewhere in the CPS complex on areas outside their perceived competence. The Monitoring and Evaluation Unit (AGRME) should be consulted for its views on the adequacy of M and E provision in all projects. The AGREP advisory team member is responsible for assessment of the extent to which the project is responsive to the overall needs of the sector, has been subjected to appropriate economic, social and financial analysis, and addresses questions of nutritional and poverty alleviation.
3. The work of the review team is coordinated by the technical adviser with lead responsibility. Supervision of the economist is provided by the division chief of AGREP through his OSA coordinator, and overall supervision of the review team rests with the Assistant Director, General Agriculture. The latter comments as appropriate on project documents to the lead adviser who is responsible for harmonizing the views of AGR and other CPS staff, and their subsequent discussion with and transmission to regional projects staff.
4. Procedures vary within the above basic framework depending on the documents concerned. In all cases, however, the regional project officer and/or project economist are the primary recipients of comments on all documents. Members of the review team attend meetings to discuss project briefs as appropriate, pre-departure, pre-appraisal and appraisal review meetings, and such other gatherings as may be called and to which they are invited and can attend.

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5. During the decision meeting the lead adviser is responsible for recommending whether or not a formal AGR yellow cover SAR review is called for and, if this is agreed with regional staff and AGR management, for undertaking the review with appropriate colleagues, and ultimately preparation of a sign-off memorandum to the CPSVP cleared with the Assistant Director, General Agriculture through the Director, AGR. This memorandum indicates areas of substantive difference which have been resolved and how it is understood they will be handled in the green cover SAR, plus any substantive points that remain at issue between CPS and regional staff. In the event that the latter are thought to be such as to justify pre-Loan Committee consideration the sign-off memorandum is asterisked in red. In all cases, sign-off memoranda are copied to the relevant regional staff. Procedures for waiving the yellow cover SAR review are outlined in my memorandum of April 17, 1980, attached.

6. As noted above, the review of PPARs and other project related OED reports is handled by a lead adviser and a member of AGREP. Comments on each stage of the report, following discussion as appropriate with OED and regional staff, are combined in a draft by the lead adviser from the Assistant Director, General Agriculture to OED. The Assistant Director normally reviews the report himself, amending the draft as he feels appropriate, before finalization and extracting perceived lessons for issue in a separate memorandum to Agriculture and Rural Development Division Chiefs in the AGR Lessons from Project Performance, Audit Reports series.

Assessment of Review Procedures

7. The foregoing rather lengthy account seeks to indicate that AGR is following a systematic approach to project review. Procedures have been designed to ensure an interactive association with regional and OED staff. Emphasis is placed on maximum up-stream involvement based on consultation rather than confrontation. Allocation of responsibility is predicated to the greatest possible extent on available expertise within AGR. Nevertheless, there is no doubt that the system still has weaknesses and that, on occasion, its application is less than perfect.

8. Bank lending for agriculture and rural development encompasses a wide range of project types, frequently comprising many more components than are within the competence of assigned advisory staff (see paragraph 9). Further, advisory staff are rarely in a position to do more than trade judgments with regional staff on specific project situations except when clearly articulated points of Bank policy are at issue. Problems should not

(and rarely do) arise in the latter case. In the former however, advisers should seek to understand the rationale for courses of action proposed and exercise judgment on their validity. In the ultimate analysis though, they have normally not participated in the appraisal, and are thus not in a position to do more than express their reservations with perceived justifications ultimately to the CPSVP via the asterisked yellow cover SAR sign-off memorandum, or earlier if they deem it appropriate. In such cases it is incumbent on regional staff to persuade senior management that their position is tenable and should prevail.

9. The complexity of projects is a more difficult issue but one which can be handled rather better than it has in the past, as outlined below. AGR is currently short of expertise, particularly in financial analysis, agro-industries and fisheries. It is anticipated that the two latter areas will be covered in FY82 with the creation of appropriate advisory posts and the recruitment of staff with the relevant skills and experience. It is also proposed that internal reorganization will result in the opportunity to transfer to AGR an experienced financial analyst to strengthen the department's advisory capability in this field within the coming months. The question of institutional arrangements for projects and other issues such as land tenure and food marketing systems are not raised here, despite their importance, because of the attention being paid to ways and means of developing AGR support and advisory capacity in these and other areas via the forthcoming reorganization of the Rural Development Division.

10. Given these additional skills the department will be in a better position to provide comprehensive monitoring of project quality. However, it is possible to improve our work in this area by more assiduous consideration of all aspects of projects as they are reviewed. More attention must be paid to those areas outside the competence of assigned advisers. Components that relate to fields other than those covered by AGR should be referred to the relevant CPS sector department as soon as they are identified in project documents. Regional staff vary in their perceptions as to the need for such actions and it is the responsibility of lead advisers to ensure that such referrals are made when they deem it necessary. Equally, projects which, whilst predominantly addressing particular sub-sectors in agriculture, nevertheless are dependent on others for their successful implementation, or have sizeable components in these fields, should be brought to the attention of the relevant adviser/specialist for judgments on their viability or policy implications. Such referrals are not difficult and can only improve the quality of the department's review function.

11. Finally, advisers in AGR are selected for their perceived knowledge, experience and credibility. This extends not only to the particular sub-sectors covered by their titles; it also includes their experience in putting together, appraising and supervising projects financed by the Bank. In all cases, this includes an understanding of what makes projects work, or constrains them from working effectively. It is this ability, together with the capacity to convey and convince others what is or is not likely to work, that makes for an effective adviser and thereby, within the limitations of the system, an effective AGR input to the project review process.

cc and cleared with Mr. Christoffersen

cc: Messrs Baum, van der Tak, (CPSVP), Rajagopalan, (PAS)

Kapur (OED)

Yudelman (AGR),

Hendry (EAP), Haynes (EMP), van Gigh WAP),

Golan (AEP), Goffin (LCP), Rowe (ASP),

Division Chiefs, Agriculture and Rural Development

World Bank Resident Missions, New Delhi, Jakarta, Abidjan, Nairobi.


EDI

DCPickering:emw

OFFICE MEMORANDUM

TO: Distribution Below

DATE: April 17, 1980

FROM: Donald C. Pickering, Asst. Director, AGR SUBJECT: Waiving the Yellow Cover SAR Review

1. I refer to our various discussions of my memorandum dated March 31 on this topic and Mr. Baum's indication that we should aim initially for a 10% yellow cover review waiver.

2. Obviously no firm position can, or should, be taken on any project until the Issues Paper has been discussed and the Decision Memorandum has been accepted by CPS and the SVPO. It appears appropriate therefore that the following procedure should be followed for all projects:

- a) Potential candidates should be discussed at the appraisal predeparture briefing/issues meeting with the object of spelling out points which need resolution during appraisal if a waiver is to be possible.
- b) The final screening should take place at the Issues/Decision stage when it should be possible to determine whether or not, in the light of information available, the waiver should be applied. Regional colleagues should be informed orally at the Decision Meeting whether or not you propose to recommend a waiver. Confirmation will be provided from my office to the Office of the CPS VP and Director, PAS, the Director, AGR, the Regional Asst. Director concerned, the relevant Projects and Programs Division Chief, and the project officer. Confirmation will take account of your recommendation, following issuance of the Decision Memorandum and such comments as may be made by the SVPO's office.
- c) The memorandum confirming waiver of the yellow cover review will be addressed to the Projects Division Chief concerned and copied to the other involved parties referred to in (b) above. It will clearly state that the waiver is being made on the basis of understandings reached following discussion of issues with regional staff. If other issues arise in the course of processing the appraisal report, it will be incumbent on regional staff to bring them to the attention of the originator and recipients of the waiver memorandum at or before circulation of the yellow cover SAR. The lead adviser will seek resolution of these issues as appropriate with his colleagues and will notify the CPS VP of the outcome in a sign-off memorandum following the procedures established for routine yellow cover SAR review.

April 17, 1980

3. I propose to review progress in this area on June 30 and on a quarterly basis thereafter. If few waivers are recommended, it is likely to be assumed that our appetite for the relatively routine indicates either a poor sense of priorities, a low opinion of our Regional colleagues, or even overstaffing. I do not consider that any of these assumptions are correct.

Distribution

Messrs Argyle, Collins, Fransen, Gray, Hotes, Russell, Spears, Sutherland
Mesdames Wilson, Joss, Melonson, Myers, Miranda, McCrae, Moral

Messrs Donaldson, Abbai, Goering, Graves, Kim, Scandizzo, Sfeir-Younis,
Temple, von Pischke, Nelson
Mesdames Tolerton, Fountain, Ullrich, Hopkins, Claverie

cc and cleared with Mr. Yudelman

cc: Messrs Stern, Baum, van der Tak, Rajagopalan

Regional Assistant Directors, Agriculture & Rural Devt.

Regional Division Chiefs

Program Division Chiefs

DCPickering:emw

OFFICE MEMORANDUM

VII Annual R.

TO: Division Chiefs, Agriculture and Rural Dev.
 FROM: D. C. Pickering, Asst. Director, AGR
 SUBJECT: Lessons Learnt from Project Performance Audit Reports - No. 6

DATE: May 21, 1981

1. Our review of the PPAR and PCR of the Kadana Irrigation Project in India (approved in early 1970) indicates that the following conclusions could be of general interest.

- (a) Cost of the dam increased by about 420% due primarily to an underestimated spillway capacity, which had to be increased twice on the basis of record floods actually experienced during construction, and problems resulting from a geologic fault not considered serious by original designers. It is quite obvious that appraisal missions should satisfy themselves about the adequacy of geologic explorations, and of hydrologic studies and estimates of design floods, failing which physical contingencies should be suitably increased. However, the experience of the Kadana Project serves as a reminder that in a project involving a dam very full and careful attention should be paid to hydrology and geology during preparation and appraisal.
- (b) One of the major reasons for delay in project implementation was the non-availability of adequate counterpart funds during the first year of the project. This is a common problem which requires special attention at appraisal and can be avoided, or mitigated by incorporating special measures like revolving funds or larger disbursement percentages during the project's early years.
- (c) It is unrealistic to assume that once additional suppliers of irrigation water are available at farm outlets, farmers will share it equitably and use it optimally. The experience of the Kadana Project underscores the importance now attached in irrigation project design to mechanisms for appropriate water distribution and management at the farm level.

cc: Messrs. Baum (CPSVP); Rajagopalan (PAS); Weiner, Kapur (OED); Yudelman (AGR)

Assistant Directors, Agric. & Rural Dev.
 AGR Advisers

SN/DP:mm

MAY 22 1981

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OFFICE MEMORANDUM

1. Annual Review File
 2. cc: Project File
 3. cc: All Agricultural Section Staff
 Mr. Baum

TO: Division Chiefs, Agriculture and Rural Development

DATE: March 6, 1981

FROM: D.C. Pickering, Assistant Director, AGR

SUBJECT: Lessons Learned from Project Performance Audit Reports - Number 4

1. A recent PPAR on an integrated rural development project which failed signally to reach appraisal expectations draws attention to a number of general issues which could profitably be borne in mind by those concerned with the design and implementation of similar projects.
2. The project did not achieve its production objectives for a variety of reasons including faulty design, weaknesses in management, unfavorable Government policies, questionable technical packages, and lack of consistency and continuity in Bank support.
3. Design faults centered on the failure to take appropriate account of the relationship of the institutional organization selected with the socio-economic and ecological environment. A suitable project organization is one which controls the basic functions necessary to achieve physical targets and also establishes or already exerts a network of influence over other, concerned, independent agencies. In this instance the organization had incomplete control over key functions needed to achieve project objectives and little or no influence over other agencies where cooperation was essential for project success.
4. Some weaknesses in management were discernible but "management" problems noted in course of supervision were in large part design faults in that in many respects the project was so organized that it was not susceptible to management. This characteristic, incidentally, typifies a good number of livestock projects in sub-saharan Africa.
5. The principal component for achieving expanded agricultural production was an intensification of extension work. However, the system chosen proved to be too costly; its philosophy was basically one way, i.e. top to bottom with an implicit distrust of farmers' capabilities. Predictably it failed.
6. The technical package for the principal income earning crop was far from universally applicable throughout the project area. The extension philosophy outlined above consequently resulted in the dissemination of bad advice in some areas.
7. Finally, in addition to the extension lesson drawn in paragraph 5 more attention should have been paid to the validity of the technical packages upon which increased production was predicated. The variability of conditions in many project areas and the location specificity of many technical recommendations are factors which in some past projects at least have not received due evaluation during preparation, appraisal or supervision. While some may say this point verges on platitudinous, experience is such that it still warrants specific and continued emphasis.

cc: Messrs. Baum, Weiner, Yudelman, Kapur, Hendry, Haynes, van Gigh, Goffin, Golan, Blaxall, Rowe, Christoffersen

DCPickering:hrv

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Also, Annual Review file.

Mr. ~~Kapur~~, o/r


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Following your instructions on a different memo (attached below) on the same subject, I have also circulated copies of this memo to the Agric. staff, plus copies of Annual Report file and Project file.

R.M.

OFFICE MEMORANDUM

① Mr. Brar
② Mr. Kapur

TO: Mr. Ernest Stern, VPO

DATE: February 11, 1981

FROM: A. David Knox, WANVP *AK*SUBJECT: PPAR - Mali Integrated Rural Development Project

1. You have asked for a note on what steps have been taken to prevent a recurrence of this type of performance--both in regard to our Mali lending program and in regard to supervision of such projects. I would like to address the issue of lending, first from the narrow viewpoint of our assistance to Mali; then I would like to utilize the experience gained from this project to illustrate the evolution of our approach to rural development work in West Africa more generally. I shall deal with supervision last.

Assistance Strategy in Mali

2. As noted in the CPP of January 1980, the poor economic performance and mixed record of project implementation had led us to adopt an assistance strategy in Mali of conditioning projects on related reforms and requiring implementation prior to Board presentation. We have been following this strategy since early 1978. In important instances the Government was not able to move on the conditions (e.g. the Second Integrated Rural Development Project, Fourth Highways Project). As a result both of these projects were delayed by over a year and ultimately considerably scaled down in size. As a result, the level of lending is lower than it would have been if performance had been better, as illustrated by the fact that the CPP proposed a 20% cut in the lending program.

3. The history of the Second Integrated Rural Development Project is a good example of our strategy in action. Originally appraised in April 1978, it involved a credit of US\$12 million and was conditioned on implementation of a number of measures including producer pricing policy and institutional and management changes. The Government was unable to move on any of the conditions. In 1980, the project was scaled down to a credit of US\$5.6 million, comprising mainly technical assistance to a reconstituted project organization, now called ODIPAC. This smaller project was conditioned merely on legal approval of ODIPAC; statutes and preparation of a financing plan for it, leaving aside some of the sectoral changes which had been envisaged for the larger project. Even with the reduced conditionality, the Government has not been able to move to date, though there is a mission in the field exploring the latest situation. The project--ODIPAC Technical Assistance--is now shown as FY82S. Our assistance strategy, while it has not resolved the problems of this project or its sub-sector, has made the Government aware that in a very practical and forceful fashion the Bank will only provide assistance in areas where the Government is willing to take measures needed to make the projects work.

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Assistance for Rural Development in the Sahelian Areas of West Africa

4. It is important to recall the context in which rural development projects in the Sahel were launched in earnest at the turn of the 70s, in order to appreciate the extent and limitations of our evolving approach to these activities. Two important factors come to mind. First, the Bank itself, the rest of the International Community and, importantly, the Borrowers, had imperfect knowledge about the technical and organizational elements of this type of project. While we have learned a lot and are applying the lessons of experience, it must be recognized that much still remains to be learned. Second, well before our intervention in these countries, the Borrowers had generally adopted policy options which we often felt inadequate, about which they felt strongly, but whose ultimate consequences we could not completely appreciate for lack of hard practical experience at that stage. This lack of appreciation limited our willingness to press hard for reform at that time.

5. How did factors such as these influence the particular outcome of projects such as Mali's Integrated Rural Development Project? The problem of the Mali IRDP was essentially one of design which did not permit the project to adapt to unpredictable changes in circumstances. The project was designed to expand chiefly groundnut production. Ironically, in this case, the Bank did not go ahead without the support of strong precedents. The design was based on a previous successful experience financed by FAC, which continued to be the project co-financier, and furthermore, in terms of production targets, the first three years of the project led to conclude that the choice of design had been adequate. Since the project was not geared to support the other crops of the farm system, when the groundnut market deteriorated it became evident that the project's major deficiency in design was its lack of flexibility to respond to market changes. These lessons have long since been learned and you will have noticed that in recent times we have seldom proposed to you a rural development project which did not address itself to the whole farm system involving both cash and subsistence crops and had a modicum of response to market changes.

6. Deterioration of the groundnut market also brought up the deficiencies of the organizational and institutional aspect of the Mali IRDP, the full impact of which remained hidden while the main argument of the project remained valid. The sluggish market not only decreased farmers' incentives to follow the recommendations of the project, but also cut off Government funds to key supporting agencies, chiefly SOMIEX for marketing, and SCAER for input distribution. While the inefficiencies of these institutions were a mere nuisance as long as the groundnut market was firm, with changing circumstances their inability to perform became a hindrance.

7. Considering that the main deficiency of the project was its inflexible design, one must remain skeptical as to whether the existence of more effective support institutions would have allowed a reorientation of the project in the proper direction following the collapse of the groundnut market. But this is not the most important issue. The real significance is that the Borrower is now aware of the critical deficiencies of some key institutions and is therefore amenable to reviewing its policy options. This is not a unique case in West Africa. Often, fortunately under less traumatic experiences, our support of rural development projects in West Africa has brought into focus institutional and policy deficiencies which have given substance to our dialogue

with Borrowers on these matters. On our side, we must also admit that experience has given us more confidence to press for some policy reforms. As a result of all this, as you know, we are now associated with some important agriculture policy reforms throughout West Africa: Senegal is finally reviewing, in the context of the SAL, the role of ONCAD in input distribution and marketing; Ivory Coast is prepared to discuss paddy and rice price policies; and Nigeria is willing to redesign its fertilizer supply policy, to mention a few.

Supervision

8. It is quite axiomatic that some shortcomings in project design cannot be made up by supervision. In the case of the Mali IRDP, I believe--and the reading of the audit report leads me to conclude that OED shares my belief--that the principal factor that led to the failure of the project was deficiency in the project design, specifically the inability of the project to adapt to changing circumstances. Under those conditions, the quality of supervision cannot be easily related to the outcome of the project.

9. The supervision of this project was perhaps uneven, but not poor: frequency was regular and the supervision coefficients were above average. All mission leaders were experienced and consultants services were extensively used. The monitoring and evaluation unit was also especially supervised. The OED report argues (para. 12) that we were late in detecting the decline in technical adoption rates and the deteriorating financial management. This judgement is substantially correct (para. 9.04 of the PCR). However, the problem of adoption rates and possible remedies was brought to the attention of Government and project management as soon as the first results of the monitoring and evaluation unit became available after 1976. The need for earlier action did not appear obvious because at that time groundnut production was still in line with appraisal estimates. Commitments leading to the explosion of operating expenditures commenced in early 1977 following a January supervision mission. The following mission found out that the financial problem had reached critical proportions. This was in December 1977, near project completion. IDA was admittedly lax in following up on key sectoral covenants. This was understandable early during project implementation, when it was essential to concentrate on project start up. Later on, it became obvious that Government was not ready to undertake fruitful dialogues on these sectoral matters, in particular those concerning the use of Government groundnut revenues and groundnut farm-gate prices. In fact on the latter, Government refused to consider IDA recommendations (as early as 1975) until it was made a condition of processing the appraisal of the follow-up project in 1978. Since then we have tightened up considerably our monitoring of the status of covenants in general; every supervision mission is now required to report in detail on these matters.

10. As I mentioned in paragraph 3, it is also the lack of effective dialogue that led us to hold in abeyance a follow-up to this disappointing project. The subsequent deterioration in the performance of the agriculture sector at large has made the Government more amenable to a policy dialogue. If we reach satisfaction in the areas of cereals and groundnut marketing,

input distribution, and prices and subsidies, we would be ready to consider recommending a groundnut zone technical assistance project to Mali, which would ultimately lead to a new, hopefully better, rural development project in the original area of the IRDP.

FvanGigch/SDenning/JTillier:fh

cc.: Messrs. El Darwish, WAP
Alisbah, WAl
Kapur, OED
Baum, CPS
Ms. Stockhard, WAl

OFFICE MEMORANDUM

TO: Mr. E. Stern (Vice President, Operations)

DATE: February 12, 1981

FROM: W.C. Baum (Vice President, Central Projects Staff)

SUBJECT: MALI - Integrated Rural Development Project
Project Performance Audit Report

Mr. Kapur
done

1. Project File

2. Annual Report File

3. cc: Agricultural Staff; OED.

1. In your memorandum of January 19, 1981, you asked for my views on actions required to build on our past experience in the Sahelian Zone, both in providing agricultural extension services and addressing problems of soil fertility.

2. Following up on the recommendations of the PPAR, the Agriculture and Rural Development Department (AGR) had already taken the initiative in seeking the opinions of experienced Regional Projects staff. While everyone has his own theory of what needs to be done in particular situations with which they are familiar, there seems to be a consensus on the following points:

- (a) The Sahel is a large area with no precise boundaries; it has certain characteristics throughout, but there is also a wide variety of differences between different countries and regions within the Sahel. Therefore, one cannot develop standard solutions to problems for the whole zone, but only broad technologies and methods which need adaptation for individual localities.
- (b) The problems of the Sahel, such as low soil fertility, cannot be addressed in isolation; indeed, one cannot address the development of the Sahel without also considering future development in the forest lands to the south, where opportunities for employment may be created to relieve the population pressures in the Sahel, which are a major cause of land degradation.

3. On the basis of these discussions, AGR is in the process of forming a Working Group, comprising Regional and CPS staff, to bring together the expertise and knowledge that we have in the Bank and to identify relevant sources of knowledge and experience elsewhere. It would attempt to produce an overall assessment of the kinds of problems which need to be addressed, how they differ between regions within the zone, and the present status of progress towards solutions. The Working Group would assist exchange of information and help to generate better technology bases for future projects. It would examine more efficient ways of extending new practices to the farmers. It would---if it felt the need---make recommendations for particular lines of research to be undertaken at the international or national level, as might be appropriate, making use of the CGIAR-funded network of international agricultural research centers. It would examine the need for seminars and workshops to address particular problems or groups of problems; and, if necessary, recommend location, sponsorship and participants.

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2/13

4. It is proposed that the Working Group chairman would be from East or West Africa Regional Projects staff, and that the African Regional Projects Assistant Directors would each nominate a representative and alternate. Messrs. Collins and Russell of AGR would be joint secretaries of the group, and other AGR Advisors would be co-opted, along with others as may be necessary, and including EMENA staff with experience in arid countries. It is anticipated that the group would prepare a draft report on its findings by July 30, 1981, for review by Messrs. Pickering, van Gigch and Hendry. Following their approval, the report would be sent to the RVPs and myself.

5. I think this broad approach is wise, and the initiative taken by AGR is timely and important. In view of the size and complexity of the problems, and subject to your approval, I have asked AGR to give priority to forming the Working Group, which would then draw up its full terms of reference and establish a detailed timetable for its activities, drawing (where appropriate) on the findings of the ongoing African study. A seminar on the Bank's experience with live-stock projects in Sub-Sahara Africa, planned for April, will be highly relevant to its work. I shall keep you informed on the work of the group as conclusions are drawn and recommendations are made.

JCCollins:rm

cc: Messrs. Rajagopalan (PAS); Kapur (OED); van Gigch (WAP); Hendry (EAP); Haynes (EMP); Yudelman, Pickering, Christoffersen, Russell (AGR).

VII

Annual Review File

Agriculture

AGRICULTURAL SECTOR REVIEW FOR SEVENTH ANNUAL REVIEW OF PPARS

Outline as agreed in January 26, 1981, meeting attended by Messrs. Kapur, Malone, Egbert and Bouwhuis

I. Introduction

Same as last year

II. Return on Investments

1. Overview
2. Beneficiaries
3. *Impact on Food Production*
4. ~~3.~~ Pattern by type of project
5. ~~4.~~ Productivity and Technology
6. ~~5.~~ Influence of production levels
7. ~~6.~~ Influence of farmgate prices

III. Special Issues

A. Agricultural infrastructure

Research; extension; training; planning; organization of input supplies; marketing and processing; credit; and rural roads.

B. Sector Policy and Planning
C. B. Irrigation and rural development

On-farm development; and relation of findings to those in earlier reviews.

D. G. Land Tenure

Effect of existing systems on production; and land settlement and grazing rights.

IV. The Process

1. Project Preparation and Design
2. Project Implementation: Overview
3. Project Implementation: Changes and Causes
4. Implementation: Cost
5. Implementation: Timing
6. Implementation: Supervision
7. Implementation: Institutional Experience

V. Experience of Miscellaneous Groups

Technical Assistance and Fisheries; relation of findings to those in earlier Annual Reviews

VI. Summary Findings

OFFICE MEMORANDUM

TO: Mr. Hans Kordik

DATE: January 15, 1981

FROM: Jan Bouwhuis *JB*SUBJECT: Note on Outline of Agriculture Sector Review
For Seventh Annual Review of PPARS (per your request)

1. The typical outline for the agriculture sector review has in the past (Annual Reviews Three to Five) been as follows:

- Objectives and Strategy
- Preparation and Design
- Implementation
- Project Results
- Summary Findings

2. In search of a more appealing presentation, this typical outline was during preparation of the Sixth Annual Review changed to:

- Introduction
- Past in Light of the Present
- Return on Investment
- The Process
- Experience of Two Special Groups
- Summary Findings

The section "Objectives and Strategy" in previous reviews has been included in a reduced form in the "Introduction" of the Sixth Review, and the previous section "Project Results" became "Return on Investment" in the Sixth Review. The multitude of figures prevalent in earlier reviews was reduced to only (i) those needed in support of issues raised and (ii) those in the new section "The Process", replacing - and reducing - the sections "Preparation and Design" and "Implementation" of previous annual reviews. But the most important innovation was the section "Past in Light of Present", where three topical issues were presented.

3. This new presentation was favorably received by the Executive Directors and in the Bank and may also form the basis for the Seventh Annual Review. The agriculture sector review may thus have the following main headings:

- | | | |
|-----|-----|--|
| I | - | Introduction |
| II | - | Past in Light of the Present (or Special Issues) |
| III | - | Return on Investment (or Project Results) |
| | (-) | The Process - this chapter can be included in chapters I and II - see para. 7) |
| IV | - | Experience of Special Groups |
| V | - | Summary Findings. |

*MR. Kordik**1 st draft**Seely, a gross under-statement!**In other words, a very different app. to the review.**No; we can't repeat this unless we have a group of projects similar to that of last year.*

4. The Special Issues (II) have tentatively been determined - in an OED senior staff meeting and an agriculture section meeting - as (i) agricultural infrastructure, (ii) choice of technology and (iii) changes during implementation. Other subjects prominent in past reviews - e.g., those concerning beneficiaries, production, institution-building, follow-on projects - will be covered under appropriate headings (para. 6). Comparisons with and references to conclusions in previous reviews will be made throughout the text. The Executive Directors' concerns, as expressed during their October 28, 1980 discussion of the Reviews on Operations Evaluation and PPARs, will also serve as a general guideline for preparing the text.

5. A brief look at the projects to be reviewed shows the following pattern. Unlike in any previous annual review, this one includes irrigation projects as the largest group. Other types of agricultural activities represented by three or more projects are tree crops, agricultural credit, and livestock. The remaining projects cover a wide variety of agricultural activities: technical assistance, fisheries, drought relief, integrated rural development, annual crops, flood rehabilitation and grain storage. Looked at another way, 7 of the 32 projects (22%) are rural development projects (as per CPS classification). Geographical coverage is uneven and quite different from last year's: the East Asia and Pacific Region accounts for almost one third of the projects (was least represented last year), while East Africa and LAC between them are represented with only 4 projects (last year with 20 projects); West Africa accounts for 9 projects (same number last year). A preliminary look at the economic returns show the (simple) average to be 18%, below last years' 19.5%. Another difference with last year is that the percentage of satisfactory projects in terms of economic returns decreased to 78% (18 out of 23 projects) from 88% last year (38 out of 43 projects). A table with project details is at Annex 1.

6. I suggest the following outline for this year's agriculture sector review. Where appropriate, chapters will also include an overview.

- I. Introduction, including types of projects; geographical distribution; size in terms of costs estimated; years of approval; and objectives and strategy (including preparation and design).

II. [Special Issues:]

- A. Agricultural infrastructure, including research; extension; training; planning; organization of input supplies; marketing and processing; credit, and rural roads.
- B. Choice of technology, including technical packages at farm level, and capital versus labor intensive technology.
- C. Changes in project design during implementation, including need for changes; actual changes made; cost overruns; time overruns; institutional changes; supervision (including procurement); and pilot projects.

III. Return on Investment

Agricultural Infrastructure
Land Tenure
Productivity & Technological
Irrigation & Rural Dev.

III. Project Results, including yields; ^{cr}averages; herd sizes; volume of production; types of products; product prices; value of production; economic rates of return; farm income; beneficiaries; employment; institutional results and follow-on projects; discussion in text will be by type of projects and indicate causes for success and failure.

IV. Experience of Special Groups, including technical assistance; fisheries, drought relief; flood rehabilitation and grain storage.

V. Summary findings, to be decided later in light of issues emerging from the text and summary findings in earlier reviews.

7. Based on this outline, I will prepare a detailed checklist and then extract quantitative and qualitative information from the audit reports. As soon as I will have compiled the data, I will discuss with Al Egbert use of the computer for data processing. Text tables and histograms have been used in the Sixth Annual Review and show figures more clearly than presenting them in the text. Some small tables, etc., throughout the text, as required, and one or two overview tables may also be included in the Seventh Review. Assuming a professional manpower input of 19 manhours per audit (actual figure for the Fifth Review), the agriculture sector review would require about 3.5 manmonths of uninterrupted work. Further, assuming that my input would be two-thirds of this, or about 2.5 months, you may expect a first draft towards the end of March or the beginning of April, depending on the time occupied by interruptions.

cc: John Malone
Al Egbert
Salem Gafsi
Kathy McPhail

Return on Investment -
Overview