

ASIAN DEVELOPMENT BANK

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SPECIAL STUDY

OF THE

EFFECTIVENESS OF MULTIPROJECT LENDING

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ABBREVIATIONS

ADF	-	Asian Development Fund
DANIDA	-	Danish International Development Agency
DMC	-	Developing Member Country
EIRR	-	Economic Internal Rate of Return
FIRR	-	Financial Internal Rate of Return
FSM	-	Federated States of Micronesia
GDP	-	Gross Domestic Product
OPO	-	Office of Pacific Operations
PCR	-	Project Completion Report
PIDMC	-	Pacific Island Developing Member Country
PPAR	-	Project Performance Audit Report
PPTA	-	Project Preparatory Technical Assistance
RIM	-	Royal Institute of Management
TA	-	Technical Assistance
UCWSS	-	Urban Centers Water Supply and Sanitation

NOTE

In this Report, "\$" refers to US dollars.

EXECUTIVE SUMMARY

This Special Study reviews multiproject lending in the smaller developing member countries (DMCs). Based on consultations with government officials and other representatives in five countries, discussions with Bank staff, and analysis of Bank documents, the overall conclusion of the Study is that, subject to several measures to assure project quality and efficiency, multiproject lending should be retained among financing modalities available for the Pacific Island developing member countries and other small DMCs.

The Rationale for Multiproject Lending and Experience to Date

Multiproject lending was approved by the Board in 1978, to help meet the needs of the smaller DMCs. This lending modality facilitates Bank support for projects that would be too small for individual loan financing. While primarily an administrative convenience for grouping small projects, multiproject lending was also expected to be cost effective. In particular, it was anticipated that the cost of missions would be less for a multiproject than for several individually financed projects. The DMCs concerned are Pacific Island DMCs, the Maldives, and Bhutan.

To date, 12 multiprojects have been approved: four to Tonga, two to the Cook Islands, two to Samoa (one was subsequently cancelled), one to Vanuatu, two to Bhutan, and one to the Maldives. Collectively, \$40.9 million has been approved for multiprojects, while the actual amount lent was \$37.5 million. The average loan size for the 11 realized multiprojects was \$3.5 million. Most multiprojects included 5-6 subprojects, but the range was from a low of 2 to a high of 12. The last multiproject was approved in 1988.

The Bank's experience with multiproject lending has been poor. Three of six project performance audit reports (PPARs) on multiprojects rated them as generally successful, while three other multiprojects were rated as unsuccessful. Project completion reports (PCRs) rated three multiprojects as generally successful and one as partly successful. However, subsequent review suggests the results may be less positive than indicated by the PCRs.

Factors Contributing to Poor Performance

The poor performance of multiprojects was primarily due to weaknesses in the project loan cycle, such as insufficient attention to project rationale. Since multiprojects were, for the most part, assemblies of unrelated subprojects, it was important that the rationale for each subproject be well developed. Frequently, rationale appears to have been given only superficial consideration; perhaps this was because many subprojects were very small (about \$600,000 on average). There is little evidence that subprojects were based on sector studies. In several cases, the economics of the subprojects were not sound. Some subprojects appear to have been included to meet concerns of too small loan size, or to address a cross-cutting issue, but with insufficient attention to the technical merits.

These observations point to poor project preparation. None of the multiprojects was founded on project preparatory technical assistance. In a number of cases, fact-finding and appraisal missions were combined. Mission teams were usually small, causing mission members to review subjects not in their field of expertise. Some subprojects included late in the

loan processing cycle with only minimal appraisal necessitated more numerous review and special administration missions later. Failure to follow fully the operational procedures for loan processing and implementation resulted in wasted resources and in unsuccessful projects.

In part, the poor design of subprojects was attributable to weakness concerning consultants. In some cases, consultants were called upon to both design and appraise a subproject, a measure that called into question their objectivity in either function. In other cases, the consultant presented a design with flaws that were not identified until the implementation stage by the contractor. In some cases, the contractor was the source of the problem.

Poor project preparation is reflected in poor project implementation. Too little provision was made in many cases for institution strengthening. Executing and implementing agencies experienced difficulties understanding or complying with Bank procedures and standards. The executing agency often failed to establish benefit monitoring and evaluation systems, and implementing agencies failed to properly supervise consultants and contractors. Bank supervision was insufficient in some cases, reflecting the low priority accorded to such small-scale projects. Accountability within the Bank for monitoring multiprojects was weak.

Ownership of multiprojects at the country level was also weak. Insufficient effort was made to consult with the expected beneficiaries. Nor was there sufficient effort made to involve the administrative authorities or local governments ultimately responsible for maintenance of the subprojects. Supervision of implementation would have been more thorough if it had been linked with responsibility for sustainability. The number of subprojects, together with their lack of complementarity, may have undermined the sense of ownership.

The small economy nature of the countries involved also contributed to low success rates for multiprojects. Isolation and remoteness, together with sociocultural factors, severe resource limitations, and skill shortages, meant that it was very difficult to identify and implement projects with high economic internal rates of return. This was especially the case with projects designed to boost the productive capacity and investment attractiveness of the economies of smaller DMCs. Another factor that appears to have hindered success was the Bank's focus during the 1980s on project financing; it left the Bank's development role less well advanced. The smaller DMCs have experienced much lower success rates with Bank projects than have larger and medium-sized countries. This suggests a need for greater attention to the policy environment and to the institutional capacity of the smaller DMCs.

Improving Project Quality and Performance

Small projects in the smaller DMCs are a vital part of development. To discontinue funding such projects is to presume that other aid agencies can better support such projects, and/or that larger projects are available for Bank support with equal or higher rates of return. Rather than presume either of these positions, the Bank might first consider measures for improving the performance of multiprojects.

To improve project quality under multiproject lending, the following measures are recommended:

- (i) multiprojects should be more focused and their subprojects more complementary;
- (ii) project preparation should be much more thorough;
- (iii) institution strengthening should play a bigger role in multiprojects;

- (iv) implementation should be more closely supervised;
- (v) the sustainability of subprojects should be better ensured through appropriate pricing of project outputs, based on economic efficiency and full cost recovery; and
- (vi) greater attention should be given to the "environment" for multiprojects and the need to coordinate closely with other funding agencies.

Related to project quality more generally, the following measures are recommended:

- (i) country operational strategies should be well focused, based on economic, social, and sector analyses, sensitive to sociocultural aspects, and well integrated with other external assistance;
- (ii) projected economic and financial internal rates of return should be more critically assessed; and
- (iii) consultants and contractors who have performed well in the smaller DMCs should be encouraged to bid on multiprojects; also, "period contracts" should be considered.

To improve the efficiency of multiproject lending, the following measures are recommended:

- (i) incentives to improve the success rate for projects should be strengthened;
- (ii) greater participation by project beneficiaries should be encouraged;
- (iii) the Bank should tighten the relationship between the benefits and costs of projects through decentralization of public administration, drawing on the principles of marginal benefit taxation and subsidiarity;
- (iv) the Bank should consider ways of invoking the self-interest of consultants and contractors in project quality; and
- (v) the Bank should promote public-private sector partnership, particularly through initiatives to make a greater number of public sector investments "bankable"; a small country development facility should be considered, which would include a pre-investment fund, an investment fund, and a program for capacity building and policy support.

Efficiency and Development Considerations

Economy and efficiency in the use of resources need to be encouraged in carrying out the Bank's development mission. Unfortunately, economy and efficiency tend to be inversely related to loan size.

The measures suggested for improving the performance of multiproject lending would add to the cost of project preparation and loan administration. A key consideration, therefore, is whether the added costs would be justified in terms of development impact and

improved success rate. This, then, raises questions about when multiproject lending is appropriate. It is suggested that the cost of lending through the multiproject modality relative to the cost of other lending modes be considered in specific areas if a proposal for a multiproject loan is raised during country programming.

Conclusion

Multiproject lending should be retained as a financing modality for the smaller DMCs so as to facilitate support for small projects. However, multiprojects should be supported only when the following conditions are satisfied:

- (i) the multiproject is focused around a limited number of subprojects, each of which should have a strong rationale and be complementary to overall objectives;
- (ii) the institutional capacity of the executing and implementing agencies to properly manage the multiproject is assured; and
- (iii) any additional administrative expenses from a multiproject is considered worthwhile in view of favorable developmental impacts.

I. INTRODUCTION

1. Multiproject lending was adopted by the Bank in 1978 as a financing option for the smaller developing member countries (DMCs). Under this form of financing, a number of very small and usually unrelated projects were grouped together under one loan agreement. Twelve multiproject loans have been approved to date, most to Pacific Island DMCs (PIDMCs) but also to Bhutan and the Maldives. The last multiproject loan was approved in 1988, reflecting the relatively poor experience with such loans; their success rate has been significantly lower than the Bank average.

2. This Special Study considers whether multiproject lending should be retained or dropped.¹ It is based on consultations with government and other country representatives, discussions with Bank staff, a review of Bank documents, and site visits.² The Study first reviews the rationale for multiprojects and the Bank's experience with them. The factors contributing to their low success rate are identified. In light of the factors that tend to undermine project success, and the costs that may arise with remedial measures, the report then considers the circumstances whereby multiproject lending would be appropriate.

3. Although the report reviews possible alternatives to multiproject lending, it does not attempt to compare the development impact or administrative efficiency of other forms of Bank support. The question is whether some circumstances, for example pertaining specifically to smaller DMCs, warrant a modality designed to support very small projects. The drive in recent years to "do more with less" favors larger loans. However, the smaller DMCs have limited absorptive capacity, and for them, small projects may have higher economic rates of return. The smaller DMCs, especially the small island economies, pose very difficult development challenges for the Bank. In most cases, their economic prospects are extremely limited. Multiproject financing, however, is a subset of a larger issue: how can the Bank effectively and efficiently meet the development needs of the smaller DMCs? As such, some of the observations and recommendations of the report apply generally to other forms of Bank support.

II. THE RATIONALE FOR MULTIPROJECTS

4. The Bank's Articles of Agreement provide that there should be "special regard to the needs of the smaller or less developed member countries." Consequently, the Bank determined that for its smaller DMCs "it may be possible to apply a 'package' approach to lending, whereby a loan could be extended ... for a combination of well-defined projects or activities of small or intermediate size which may be suitable to be grouped together."³ In this spirit, the Bank's Board of Directors in 1978 endorsed multiproject lending as a Bank financing modality. It was felt that this modality would help the smaller DMCs draw more effectively on the resources of the Bank. Further, it was anticipated that multiproject lending would lead to savings for the Bank in terms of financial and staff resources.

1 In 1996, the Office of Pacific Operations requested the Post-Evaluation Office to undertake this Special Study.

2 A summary of the discussions held in Bhutan, Maldives, Samoa, Tonga, and Vanuatu is available on request.

3 R98-74: "Bank Operations in the Developing Member Countries in the South Pacific", 19 November.

5. The main rationale for multiprojects, then, is administrative convenience and economies of scale. For loans to the smaller DMCs, the cost of processing and implementing of project loans could amount to a high percentage of the total loan amount. By combining several smaller projects, the proportion of "overhead" in each dollar of lending would be less for multiproject financing than for individual loans.

6. Multiproject financing was also expected to be an effective way for the Bank to support projects that, individually, would be below the scale normally considered appropriate for Board review. The smaller DMCs cannot easily absorb large or even medium-sized loans. While there is occasionally a need for medium-sized loans, many projects require smaller amounts of support. Multiproject loans provide an "umbrella" arrangement whereby such projects can be cost effective for the Bank. Thus, this modality helps the Bank to fulfill its obligations as a development finance institution for the smaller DMCs.

III. MULTIPROJECTS TO DATE

7. Of the 12 multiprojects approved as of December 1997, ten have been completed. The Second Multiproject Loan to Samoa was cancelled⁴ and the Second Multiproject Loan to the Cook Islands is ongoing. Project completion reports (PCRs) have been prepared for each of the ten completed multiprojects and project performance audit reports (PPARs) have been prepared for six. Table 1 provides selected details of the ten completed multiprojects, together with their evaluation ratings. The Appendix provides additional details for each multiproject.

8. The average loan size for the ten multiprojects was \$3.75 million and each comprised an average of 5-6 subprojects. One exception to this was in Bhutan, where the Second Multiproject Loan's two subprojects an urban infrastructure subproject for \$6.8 million and a management institute subproject for \$3.3 million were essentially implemented as separate projects. Most subprojects were for physical infrastructure, such as rural roads, water supply and sanitation, ports and wharves, energy supply, and telecommunications. In several cases, infrastructure investment was in support of development of the agriculture, forestry, and fisheries sectors. Small industrial centers were frequently included in multiprojects in the PIDMCs; market produce centers and tourism centers were also included as components of the multiprojects. Education facilities were part of two multiproject loans, and two of Tonga's multiprojects included health centers. In general, physical infrastructure has figured prominently in multiproject loans, while social infrastructure has been weakly represented.

Table 1: Summary of Multiprojects

Loan Number	Loan Amount ^a (\$ million)	Number of Subprojects	Missions Staff		PCR ^b Rating	PPAR ^b Rating
			No.	Days		
637-BHU(SF)	4.3	6	16	251	n/a ^c	US
722-BHU(SF)	10.1	2	32	289	GS	n/a

⁴ The Second Multiproject Loan to Samoa was cancelled at the request of the Government because the first multiproject loan was still under implementation, and it was felt that it would be unable to administer two such loans simultaneously.

681-MLD(SF)	2.9	5	17	168	n/a ^c	GS
435-TON(SF)	1.2	7	9	137	GS	GS
540-TON(SF)	1.1	6	8	83	n/a ^c	GS
782-TON(SF)	2.4	6	14	45	GS	n/a
927-TON(SF)	3.2	3	14	180	GS	n/a
766-VAN(SF)	3.7	4	9	292	n/a ^c	US
752-SAM(SF)	5.8	5	20	367	GS	US
849-COO(SF)	2.8	12	20	288	PS	n/a

^a Actual disbursement.

^b GS - Generally Successful; PS - Partly Successful; US - Unsuccessful; n/a - not available.

^c Bank's guidelines did not require a rating at the time of PCR preparation.

9. Data in Table 1 show the number of missions and staff days spent on the identification, formulation, appraisal, implementation, and postevaluation of multiprojects. On average, each multiproject involved 16 missions. However, there was considerable variation in the number, from a high of 32 in the Second Multiproject for Bhutan to a low of 8 in the Second Multiproject for Tonga. The high number may reflect the separate treatment of the two subprojects involved in the Bhutan case. There appears to be little, if any, relationship between the number of missions and loan size or the number of subprojects. But there may be some relationship between the number of missions, the number of person-days involved, and the rating of the project. As indicated later in the Report, poor preparation appears to have resulted in weak project design and inadequate institutional capacity assessment, necessitating the large number of review and special administration missions.

10. Even though a large number of Bank missions was associated with multiprojects, project performance was significantly below that of other projects in the PIDMCs, Bhutan, and Maldives for a variety of reasons that will be discussed later. On average, multiprojects experienced completion delays of about three years, compared with 1.6 years for other types of projects. Although multiprojects and other projects in these DMCs experienced about the same degree of cost overrun (about 30 percent), multiprojects had a higher propensity for cost overruns than did other projects. Cost underruns were less likely to occur with multiprojects.

11. Postevaluation reports indicate a decidedly mixed record for multiproject loans. Of the six PPARs that have been prepared for multiprojects, three have been rated as generally successful, while three have been rated as unsuccessful. The PCRs for the other completed multiprojects indicate a better success rate: three of the four are rated as successful, while one is rated as partly successful. However, the PCRs seem to be overly generous in their ratings when compared with their narrative assessments. As shown in Table 2, the performance record of Bank-financed projects in the smaller DMCs has been much less favorable than the Bank average. Of the projects postevaluated up to the end of 1996, some 25 percent of Bank-financed projects in the smaller DMCs have been unsuccessful. And as noted above, of the multiprojects postevaluated, 50 percent were unsuccessful, compared with just under 11 percent for Bank projects as a whole.

Table 2: Summary of Postevaluation Results, 1966-1996

Country	Total No. of Projects Postevaluated	Generally Successful		Partly Successful		Unsuccessful	
		No.	(%)	No.	(%)	No.	(%)
Bhutan	1	-	-	-	-	1	100.0
Cook Islands	1	-	-	1	100.0	-	-
Fiji	7	6	85.7	-	-	1	14.3
Kiribati	2	1	50.0	-	-	1	50.0
Maldives	4	3	75.0	-	-	1	25.0
Marshall Islands	-	-	-	-	-	-	-
Micronesia, Fed. States of	-	-	-	-	-	-	-
Samoa	11	4	36.4	5	45.5	2	18.2
Solomon Islands	7	1	14.3	3	42.9	3	42.9
Tonga	8	7	87.5	1	12.5	-	-
Vanuatu	3	-	-	1	33.3	2	66.7
All Small DMCs	44	22	50.0	11	25.0	11	25.0
Bank Total	471	283	60.1	138	29.3	50	10.6

- = magnitude zero.

Source: (RPE 97004) Report of the President to the Board of Directors on 1996 Postevaluation Activities and the Nineteenth Annual Review of Postevaluation Reports, June 1997.

IV. FACTORS CONTRIBUTING TO UNSATISFACTORY RESULTS

12. Unsatisfactory results for multiprojects can often be traced to failure to follow and apply Bank procedures for loan processing and implementation. However, circumstances particular to small countries and other considerations have also contributed to less-than-satisfactory results.

A. Weaknesses Related to the Project Loan Cycle

1. Weakness of Multiproject Objectives and Supporting Rationale

13. Multiprojects tend to be an assembly of unrelated subprojects. Consequently, objectives for multiprojects tend to be very general, such as meeting a country's diverse

socioeconomic and developmental needs, promoting economic diversification, or raising rural incomes. Objectives for the individual subprojects are more focused, but explanation of how the objectives are to be met is often tenuous. For example:

- (i) Investment in wharves and landing sites for the outer islands of Vanuatu was intended to improve the transport of copra, leading to increases in production; however, the opportunity cost to growers of transporting their harvest to these wharves and landing sites, rather than using lighters to access ships waiting offshore, was not considered. Since there were few, if any, economies associated with the provision of the wharves and landing sites, there was little incentive to increase copra production, which had been the basis for projected high economic and financial returns from the subprojects. In short, even if the wharves and landing sites had been properly constructed and located, there was neither an economic nor a financial rationale for the subproject.
- (ii) Investment in rural road upgrading for Samoa was based on the expected returns from development opportunities facilitated by better access; however, the rationale was flawed, since the roads served only a very sparse population and resource base. Further, a coastal road alternative (a project undertaken subsequently by the World Bank) better served the needs of the island, further deflating the exaggerated economic and financial returns anticipated for the Bank-supported subproject.
- (iii) Several agricultural subprojects, such as the taro subproject for the Cook Islands, were based on the economic and financial returns from increased exports. Although the production targets were realized, they could not be sustained because the increase in output was insufficient to justify the costs of export sales. The rationale for the subprojects was too narrow based on only agricultural considerations.
- (iv) Several subprojects involved investments in commercial property, especially small-industry centers and produce markets. Investment in a produce market for Tonga was justified on the grounds that it would stimulate local production of vegetables and other foods; the high economic and financial returns projected for the Tonga produce market implicitly assumed that Tongans would start consuming more simply because of the market facility.

14. There is little evidence that multiproject objectives and rationale were based on adequate economic and sector work. Only recently have sector studies for the PIDMCs been commissioned by the Bank. Further, the sociocultural context was inadequately considered in many cases. According to the Strategy for the Pacific,⁵ "the failure to account adequately for the socioeconomic context of projects has proved particularly damaging in the agricultural and agroprocessing sector, where five out of seven projects have been classified as unsuccessful." Perhaps because the scale of subprojects was so small (about \$600,000 on average), their rationale appears to have been inadequately addressed in many cases. Nor does the policy environment appear to have been taken into account, even though in several cases (for example, Tonga's fishery industry) policy changes were important to the success of the subprojects (for example, a fish marketing and processing complex under Tonga's Second Multiproject Loan).

⁵ Asian Development Bank, 1996. *Strategy for the Pacific*, Manila: Asian Development Bank.

2. Weakness of Multiproject Design and Preparation

15. From the review of evaluation reports and discussions with country officials, it appears that weak project design and preparation was one of the main reasons for the poor performance of multiprojects. Multiproject loans included generous provision for technical assistance (TA), a good part of which was meant to be used in developing the subprojects. In other words, project definition was meant to evolve during implementation.

16. None of the multiprojects was founded on project preparatory technical assistance (PPTA). As noted in one PPAR, "the tree crop development subproject [for Samoa] was not preceded by any project preparatory work which would have identified the rationale for it, if indeed there was one." Given the wide assortment of subprojects frequently included in multiprojects (12 in the case of the Cook Islands multiproject loan), PPTAs would have been difficult to conduct. Still, PPTAs serve an important function in helping to identify and define sound projects. Even if more difficult, they should have been the foundation for multiprojects.

17. Often, fact-finding and appraisal missions were combined. In some cases, subprojects were included late in the loan processing cycle, and their development continued during the implementation stage. Mission composition may partly explain problems associated with project preparation. Typically, missions consisted of two people; frequently only one person was involved, sometimes three or four. Since the subprojects were diverse, this meant that mission members were often called upon to prepare and administer subprojects not in their field of expertise. Sector experts were seldom complemented by economic or financial experts.

18. Loan size explains in part why multiproject design and preparation were weak. Given the competing demands in the Bank, the desire to conserve staff and budget resources when loans are small is not surprising. Poor project preparation also appears to explain why several multiprojects involved so many review and special administration missions. In the case of the multiproject for Samoa, there were 20 such missions involving 400 person-days for a total cost approximating \$400,000 (including imputed staff costs and travel/accommodation costs). Skimping on project preparation, however, appears to have cost more in the long run, as it led to higher implementation and monitoring costs. Somewhat surprisingly, there appears to have been little attempt to guide multiproject preparation by drawing on the lessons learned from other projects. For example, several multiprojects included support for increased agricultural production even though export marketing problems meant that there was little future for these endeavors. In the case of subprojects for small industry centers, loan covenants stipulating "no profit-no loss" resulted in user charges being too low to adequately provide for maintenance and depreciation costs.

3. Weakness of Multiproject Consultants and Contractors

19. Another weakness in project design and implementation has been the consultants and contractors. According to several PPARs and PCRs for multiprojects, consultants should have provided more cost-effective designs and sound economic rationales. In some cases- such as the rural road subproject for Samoa- the same consultants were engaged for project design and appraisal/review, a measure that calls into question their objectivity in identifying problems and reporting on progress. The Vanuatu Multiproject suffered from unsatisfactory consultant performance, especially in the design of the Santo Port wharf extension. With regard to the outer-islands wharves component, either the design consultant or

the contractor chose a poor location for the six wharves. Fourth Multiproject in Tonga included two TAs; consultants engaged under these TAs were responsible for the design of subprojects, which were evaluated as only fair. The contractor for the main subproject, the Talamahu domestic produce market, performed poorly, and costs multiplied almost threefold. In the case of the Second Multiproject for Bhutan, the consultant's performance on the urban centers water supply and sanitation subproject was considered unsatisfactory.⁶ The performance of the domestic architect working with the Royal Institute of Management in Bhutan was also considered unsatisfactory.⁷

20. The performance of consultants and contractors engaged in multiprojects suggests that insufficient care was taken in selection and supervision. However, it must be noted that selection is narrowed by the fact that relatively few consultants and contractors are willing to bid on small projects. To do so would exhaust one of three opportunities per year to work with the Bank, potentially at the expense of a much larger contract. Moreover, the number of countries whose consultants have experience or interest in the smaller DMCs is limited. With the Bank's requirement that only one firm be shortlisted for a project per member, the range of suitable consulting firms narrows substantially, and the availability of domestic consultants and contractors in small countries is extremely limited. Supervision of their work is also complicated by transportation and communications difficulties. To ensure a wider selection of consultants and contractors, the Bank should consider making shortlisting for a project in smaller DMCs not count toward the three opportunities to bid on Bank projects in a given year, and allowing the shortlisting of more than one firm from any member.

4. Weakness of Multiproject Implementation

21. Executing and implementing agencies for multiprojects experienced many difficulties, reflecting their weak institutional and management capacity in the public sector and unfamiliarity with the Bank's procurement and other procedures. When multiprojects were first introduced, many of the DMCs were in an early stage of development. Bhutan, for example, only began expanding its education and training programs in the late 1960s and early 1970s, with the result that in the early 1980s there were still very few skilled administrators. Human resource limitations were common throughout the smaller DMCs. Further, as mentioned earlier, transportation and communications problems compounded the difficulties of monitoring multiproject implementation. Competing demands for time tended to encourage Bank staff to give higher priority to monitoring loans in the large and medium-sized DMCs.

22. As illustrated by the Cook Islands Multiproject, the lack of counterpart funds and paucity of technical expertise were yet further sources of delay and underperformance. As in the case of Maldives, Samoa, and Tonga multiprojects, project coordination committees seldom met, adding to the Bank's need to coordinate and guide the implementing agencies in the selection of consultants, the preparation of tender documents, and the evaluation and awarding of contracts. Full-time, independent project managers were not the norm. Changes in personnel and other organizational changes during project implementation created confusion and delays in some cases. Data limitations hampered project monitoring.

⁶ Design errors on the part of the consultant necessitated design changes and resulted in delays in the Project. Also, the consultant failed to provide adequate data for budgetary control.

⁷ The domestic architectural firm took much longer than expected to complete the design and engineering drawings. Further, they were not technically sound, and discrepancies had to be remedied during construction.

23. A failing common to multiprojects has been insufficient assessment of the capacity of the executing and implementing agencies. An obvious example of the lack of capacity assessment was the Second Multiproject Loan for Samoa, which was cancelled soon after Board approval because the Government felt it could not implement it simultaneously with the badly delayed First Multiproject Loan. There has also been insufficient attention to institution building. When attention has been given to this task, the results have often been disappointing or the positive benefits only transitory. Long-term consultants frequently substituted for domestic staff, providing advice and services at the time but with little transfer of knowledge so as to enable their continuation. One PPAR contains the following observation: "What was required was not only consultants to carry out specified tasks but also the capacity of the Public Works Department to supervise them, and close supervision of the project by the Bank." Generally, additional resources should have been provided to the implementing agencies to strengthen their capabilities to undertake the subprojects. Training in all aspects of project management was necessary, as were the data and accounting systems for project monitoring.

24. Multiproject implementation was impeded in some cases by inadequate aid coordination. The multiproject for Samoa involved cofinancing with the International Development Association (World Bank) and the Organization for Petroleum Exporting Countries. The Ministry of Finance, which served as the executing agency for the multiproject, found it extremely difficult to meet the different reporting requirements of the aid agencies involved. Further, subprojects on container park upgrading involved coordinating the engineering work of two separately funded components. Failure to properly coordinate the harbor improvements (funded by the Japan International Cooperation Agency) with expansion of the container assembly site (funded by the Bank) necessitated extensive drainage work following project completion.

5. Weakness of DMC Ownership of Multiprojects

25. Ownership is cited by many Bank reports as essential to project quality and success.⁸ Unless there is ownership and commitment on the part of borrowers and beneficiaries, project quality is likely to suffer and sustainability diminishes. At issue, really, is how multiprojects are identified and formulated, and whether they adequately reflect local interests. Ownership and commitment are normally nurtured by consultation with expected beneficiaries, and by incorporating principles of marginal benefit taxation and subsidiarity⁹ into the financing and administrative arrangements. Several examples surfaced during the country missions, suggesting that insufficient attention had been given to these concerns. In the case of the wharves and landing sites built on the outer islands of Vanuatu, the Provincial Council (which represents local government) was not consulted. Ironically, the Provincial Council has been requested to assume responsibility for the wharves and landing sites, even though only one of the six built under the multiproject is operational. Representatives of the Provincial Council suggested that the Council, rather than the Public Works Department, should have acted as the implementing agency. The incentive to ensure project quality would have been

8 Including: the *Report of the Task Force on Improving Project Quality*, January 1994; the *Interim Report of the Staff Working Group of the Bank's Business Processes*, March 1997; and the *1997 Annual Performance Evaluation Program*, June 1997.

9 Marginal benefit taxation refers to alignment of expenditure and taxation responsibilities; that is, jurisdictions that undertake expenditures should be responsible for raising the necessary revenues. The principle of subsidiarity refers to decentralization of government so as to best reflect consumer preferences; unless there are compelling reasons to the contrary, spending and tax responsibilities should be assigned to the lowest possible level of government.

enhanced by combining supervision of implementation with the responsibility for sustainability. Project implementation should involve the beneficiaries and local authorities.

26. Multiprojects diffuse ownership, since at least some of the subprojects involved are likely to be outside the area of interest and expertise of the Executing Agency. Implementing agencies also may have less sense of ownership than with individual loan projects, especially when project coordination committees fail to function effectively. Officials in the Maldives noted that, although they support multiproject loans, it is more difficult to shift resources from one subproject to another when this requires the agreement of several implementing agencies. The diverse nature of the collections of subprojects included in multiprojects is likely another factor detracting from DMC ownership and commitment. Since so many of the subprojects appeared to be "one-time" initiatives, executing and implementing agencies often had only passing interest in them. As discussed later, greater focus, continuity, complementarity of subprojects, and consultation with beneficiaries would help strengthen DMC ownership and commitment.

6. Weakness of Bank and DMC Accountability for Multiprojects

27. Domestic accountability is related to ownership. However, several Bank reports have also drawn attention to the need to improve internal Bank accountability.¹⁰

28. The various phases of a multiproject loan, as in the case of individual project loans, obfuscate accountability. The Bank's Programs Department takes the lead for defining the country operational strategy, which serves as a framework for project selection. A projects division takes responsibility for the preparation of the selected project and its implementation. Accountability is clouded by the fact that several Bank departments share responsibility for the project. Organizational changes in recent years have endeavored to improve the system of accountability; hence, some of the problems encountered with multiprojects may now be avoidable. The creation of the Office of Pacific Operations (OPO) in 1995, for example, provides a point of accountability for projects undertaken in that region. Still, as pointed out in the 1997 Annual Performance Evaluation Program and the Interim Report of the Task Force on the Bank's Business Practices, accountability still needs to be strengthened. The first report highlighted the need for greater accountability for project monitoring, while the second report highlighted the need for greater accountability by those responsible for project identification and design.

B. Small Economy Factors

1. Nature of Small Island Economies

29. With the exception of Bhutan, all the DMCs addressed in this report are small island economies. More precisely, they are small countries each comprising a group of islands or atolls, most of which have a small population and a very small land mass but cover a large geographic area. They are highly vulnerable to natural disasters, such as cyclones and

¹⁰ See references op.cit.

droughts. Furthermore, linkages with the rest of the world are hampered by transportation and communications difficulties, compounding the challenge of promoting trade and investment. Their very limited productive capacity makes it hard to develop and sustain export markets. Common features of smaller island economies include the dominance of the government sector and the heavy reliance on foreign aid.¹¹

30. The special circumstances facing these small island economies are reflected in their relatively poor economic performance. During the 1980s, when most multiprojects were undertaken, three PIDMCs (Kiribati, Federal States of Micronesia [FSM], and Samoa) had annual gross domestic product (GDP) growth rates of less than 1 percent. Three others (Fiji, Tonga, and Vanuatu) had annual growth rates of 1-2 percent. Cook Islands, Maldives, Marshall Islands, and Solomon Islands were the only small island countries with relatively strong growth during the 1980s. Economic growth in the Cook Islands and the Marshall Islands was nurtured by heavy infusions of foreign aid; growth during the 1990s has dropped to a third or less of the earlier rates. The Maldives' success is closely linked to the development of tourism and fisheries. Rapid growth in the Solomon Islands was led by forestry exports, but recently growth has faltered. The other PIDMCs experienced wide swings in performance. Samoa experienced a 28 percent drop in its real GDP in 1991, when a devastating cyclone swept the country. High inflation and other forms of macroeconomic instability, low investment and savings rates, and insupportable current account deficits meant a poor economic environment for many Bank projects. This compounded the difficulties of multiproject implementation, especially for those subprojects dependent on the domestic market for successful results (for example, small industry centers).

2. Sensitivity to External Developments

31. Small economies are highly sensitive to external developments, including world trade agreements. Favored trade provisions extended by Australia and New Zealand toward PIDMCs are being eliminated by the World Trade Organization. The marginal supplier position of the PIDMCs to Japan and other markets has meant a weak trade position, causing some agricultural subprojects of Bank multiprojects to be unsustainable. Bhutan's heavy dependence on India appears to have lowered the "rents" from its hydropower and forestry exports. Cultural concerns have led Bhutan to limit tourism. Further, domestic disturbances in the south of the country, again related to cultural concerns over "foreign" influences, resulted in a major subproject (the Samchi-Dorokha road) of Bhutan's First Multiproject never being completed.

3. Institutional Limitations and the Policy Framework

32. The smaller DMCs, at least until recently, lacked the institutional capacity for sound economic management. While governments played a major role in resource allocation, they lacked the means for determining the optimal allocation. They also lacked the institutional capacity to manage and monitor Bank projects. Human resource deficiencies and budgetary constraints meant Bank projects were highly dependent on outside expertise. These factors also meant that effective partnership with the private sector was extremely difficult. In many cases,

¹¹ Public expenditures as a percentage of national income range as high as 100 percent for the Marshall Islands, while ratios in the 50-60 percent range are usual. Foreign aid provides a good deal of the funds to finance the external resource gap. In 1995, foreign aid was equal to 13 percent of the total GDP for smaller DMCs; abstracting from Fiji (where foreign aid is only 2 percent of GDP), the average is almost 40 percent.

the policy framework was ill suited to market-based entrepreneurial business investment. Capital markets functioned poorly, and the banking system was very weak, limiting resource mobilization. Institutional limitations and weakness of the policy framework undermined Bank projects aimed at promoting economic activity, and lowered their returns and sustainability.

4. Customary Land Tenure

33. A problem common to small economies is customary land tenure. These PIDMCs are divided into hundreds of small territories under the control of groups of people with a common identity and culture. In turn, these territories are internally divided into estates controlled by landowning groups usually linked by kinship. This makes private ownership of land difficult, hampering investment in productive facilities. In response, several multiprojects have included subprojects for small industrial centers and other forms of commercial property development, with disappointing results. Bank support for solutions to the land shortage problem would have been more appropriate, leaving investment in commercial property to the private sector.

5. Work Force Factors

34. Small economies have limited work forces, making it difficult to provide sufficient labor- especially skilled labor- to attract foreign investment. Residents who have received training or higher education tend to emigrate in search of better employment opportunities and higher wages. Furthermore, real wages appear to be high, at least relative to those in labor surplus countries like People's Republic of China and Viet Nam.¹² The success of multiprojects with subprojects intended to attract foreign investment and promote exports has been undermined by these factors. Lack of skilled people is also hampering efforts to strengthen the public service in many of the smaller DMCs.

35. The Strategy for the Pacific notes that the PIDMCs now have relatively high levels of expenditure on human development, and that bilateral support is considerable. The smaller DMCs have been reluctant to borrow from the Bank for human development, even on an Asian Development Fund (ADF) basis; Bhutan, Cook Islands, and Marshall Islands have been exceptions. The Bank's area of comparative advantage with regards to human development in the smaller DMCs appears to be institution strengthening of ministries, especially in planning, budgeting, and management systems. This includes the design of user charges, so as to increase the efficiency of service use and to contribute to the sustainability of service delivery.

12 Wage levels may have been pushed up by the heavy concentration of aid targeted at the public sector. In the case of the PIDMCs, wages in the public sector have acted as a benchmark for wage levels in the whole economy. International wage rate comparisons are considerably influenced by exchange rates. Foreign assistance of the magnitude experienced by many small countries is likely to have caused real appreciation over and above the long-run equilibrium exchange rate. If so, an unintended effect of foreign assistance has been to encourage imports and to make exports more expensive to foreign buyers. There does not appear to be any analyses of the exchange rate implications of foreign assistance for Bhutan, the Maldives, or the PIDMCs. RETA 30521: Economic and Policy Analyses in Pacific DMCs could usefully address this issue.

6. The Need for Greater Project Integration

36. The success of projects in the smaller DMCs is frequently dependent upon complementary projects, reflecting the very narrow base of supporting services and infrastructure in such countries. In contrast, Bank interventions in large and medium-sized DMCs tend to represent additions to or improvements in an already extensive set of services and infrastructure. Thus, while a sector programming approach works well in large and medium-sized DMCs, more attention is required on cross-sector project integration for the smaller DMCs. For example, if a project is designed to promote agricultural production, it is important that all stages of production and distribution are well considered. A series of complementary interventions may be needed, including attention to export marketing. The circumstances of the smaller DMCs call for a diverse but interrelated set of projects, and a diverse set of specializations, which the Bank and the governments concerned appear to have had difficulty in planning and coordinating. A "normal" set of project components is not the answer. Multiprojects appear to have compounded the problem, and should have been more carefully designed to ensure reinforcing results.

C. Other Considerations

37. The smaller DMCs may be below the Bank's threshold of efficiency; that is, the "overhead" necessary to process and implement very small loans is too high relative to the loan amounts. The Bank is geared to making large loans, and needs of the smaller DMCs are often at odds with this cultural ethos. Nevertheless, the Bank's concessional financing and TA are perceived by smaller DMCs to be much needed, and as developing member countries of the Bank, they have a right to this support. Thus, there is a strong "pull" from the smaller DMCs for Bank support, especially now that many of them are in transition to more market-based economic systems and bilateral assistance has been declining.

38. Not being geared to thinking "small", the Bank may have added some subprojects to multiproject loans so as to augment the loan amounts. Also, it would appear that some subprojects proposed by the governments were insufficiently appraised by the Bank, perhaps because the amounts involved were insignificant relative to other loan responsibilities of the project officers. Unless project quality can be ensured in an efficient manner, Bank support to the smaller DMCs may need to be founded on a quite different approach and procedures than those applied to large and medium-sized DMCs. Possible options are addressed later in this Study. The establishment of OPO and the regional office in Vanuatu are important developments that should help to improve the success rate of multiprojects by providing an arena in which specialization in small projects can be developed.

V. MEASURES FOR STRENGTHENING THE SUCCESS OF MULTIPROJECTS

39. There is no indication that multiproject lending has characteristics inherently biased against project success. Each of the factors that has contributed to unsatisfactory results (weak rationale, poor project preparation and implementation, etc.) may be addressed in a simple and cost-effective manner. Factors of a broader nature (small island economies, external

factors, policy framework, etc.) will be more difficult to address, but could be mitigated to some extent to avoid poor project results.

40. Reflecting on these factors, the Bank's operations procedures were supplemented in September 1996. Section 2 of the Operations Manual states that a more selective approach will be used to ensure detailed project preparation before multiproject loan approval. Consultants for multiprojects will be more closely administered by the Bank, in order to minimize the heavy burden of coordination responsibilities placed on the principal executing agencies. Subprojects will be selected in a manner that emphasizes consistency, mutual reinforcement, modest size, simplicity of technology and design, and workable institutional arrangements for implementation. Multiproject loans will be limited to a few key sectors. What follows is an elaboration of these points, together with other suggestions for improving project quality.

A. Measures Building on the Current Loan Processing Cycle

1. Development of Sound Country Operational Strategies and Project Selection

41. Unsuccessful projects weigh more heavily on the smaller DMCs, since their economies are so limited and fragile. It is vital, therefore, that the project selection process begins correctly. This requires the development of sound country operational strategies, incorporating the elements of the Bank's Medium-Term Strategic Framework but in a manner that gives sufficient focus. A widely defined country operational strategy suffers from permitting ad hoc project proposals, with little or no interrelationship or complementarity.

42. Government officials have stressed the need for more closely integrating the Bank's assistance with public investment programs and the activities of other aid agencies. Bhutan expressed its interest in a much more integrated approach to development, whereby an aid agency- in concert with the Government- would concentrate on a particular geographic area or sector. The Maldives expressed a similar interest, particularly in having the Bank take a lead role in developing one of the three designated growth centers. Decidedly, the disjointed assembly of subprojects that characterized most multiprojects in the 1980s is out of favor with governments, and closer collaboration in the selection process is needed. The Interim Report (March 1997) of the Staff Working Group on Review of the Bank's Business Processes, recommends that "the Bank should invest its resources in a project only when it is clear that the Bank can be the best partner or promoter, and when the direct linkage to sector objectives of both the DMC and the Bank is demonstrated on a comprehensive basis."

2. Proper Project Definition

43. While the procedures for project formulation and implementation are specified in some detail in the Bank's operations manuals, this review of multiproject loans indicates that, in many cases, these procedures were not adequately followed. To improve the quality of multiproject definition, the 1996 Audit Committee of the Board recommendation that a logical framework be mandatory for all projects and TAs so as to set clear, monitorable objectives, and

indicators should be applied consistently. Consideration should also be given to making PPTAs mandatory for all multiprojects, and to other measures that would ensure adequate project preparation.

3. Greater Attention to Project Rationale

44. The Project Brief is being expanded to include a discussion of the rationale for the project, thereby addressing a major weakness of multiprojects. Many subprojects have been based on weak socioeconomic and technical rationales. Subprojects should not proceed if these are unsound, even if assessment of cross-cutting issues (e.g., women in development, environment) is favorable.

4. Checking the EIRRs and FIRRs

45. A critical factor in project assessment is the calculation of economic and financial internal rates of return (EIRR and FIRR, respectively). These appear to have been considerably exaggerated in some cases. The EIRR for an agricultural machinery workshop subproject, included in Bhutan's First Multiproject Loan, was appraised at 39 percent; the PPAR concluded that the contribution was negative. In some cases, no economic or financial evaluation was made; the urban centers water supply and sanitation subproject included in Bhutan's Second Multiproject Loan proceeded without estimates of the EIRR or FIRR, "because of the absence of financial data." In other cases, the expected EIRRs and FIRRs were not tested properly against project alternatives; this was the case of the rural roads improvement subproject included in Samoa's multiproject. EIRRs and FIRRs of multiprojects need to be assessed with the same attention to detail as other projects.

5. Narrowing the Focus of Multiprojects

46. Multiproject financing has frequently meant folding into the "package" subprojects that are completely unrelated. Inclusion of 6 or 7 subprojects (in one case 12 subprojects) presents a confusing array of tasks for the executing and implementing agencies. Multiprojects should be more narrowly focused, and the subprojects carefully considered. Complementarity of subprojects would strengthen the objectives and rationale of multiproject financing. Furthermore, it would contribute to coordination of subprojects.

47. Accordingly, it is recommended that a limit (possibly five) be put on the number of subprojects included in multiprojects. Further, it is recommended that the grounds for inclusion should be their complementarity with a central, unifying multiproject objective.

6. Improving Project Management and Monitoring

48. In addition to proper preparation, project implementation must be managed and monitored. In the past, multiprojects have not made proper use of benefit monitoring and evaluations systems. PPTAs, fact-finding, and appraisal missions should make reference to the

benefit, monitoring and evaluation (now the project performance management system) requirement, and make appropriate provisions in the report and recommendation of the President. Preferably, a project manager would be assigned full-time by the country to oversee implementation of the subprojects. Review missions by the Bank should ensure sufficient time for site visits and thorough assessment of project implementation. Fewer but more in-depth missions may be advisable. Review missions should also monitor TA associated with multiproject loans; in some cases, this assistance has been poorly implemented. Full advantage of the regional mission needs to be taken.

7. Institution Strengthening

49. Multiprojects were introduced at a time when many of the smaller DMCs had very limited institutional capacity to manage them. As noted earlier, too little attention was paid to this problem.¹³ In recent years, the aid community has devoted considerable resources to institution strengthening, and presumably the institutional basis for carrying out multiprojects has improved. Furthermore, the Bank has greatly expanded its efforts to promote good governance and capacity building for effective management of the development process.

50. Discussions with government officials of the five countries visited for purposes of this Special Study stressed both the progress that has been made over the past 10 years in institutional building and the continuing requirements for further assistance. Since multiprojects involve greater attention to management and coordination, future multiprojects must properly address institutional capacity. The institutional capacity issue should also form a mandatory section of country portfolio review mission reports to highlight problems concerning project implementation.

8. Selection and Monitoring of Consultants and Contractors

51. Consideration should be given to the special difficulties of the smaller DMCs in securing good consultants and contractors. As pointed out in the Bank's 1996 Strategy for the Pacific,¹⁴ greater flexibility is needed to ensure that consultants are available on a timely basis. "Period contracts" were recommended, whereby firms could bid on the basis of expected work inputs for a pool of qualified persons over a two-year period. While experience with the smaller DMCs is important, it is equally important that consultants bring in new ideas from elsewhere. A further recommendation of the Strategy was project advisers to help implement policies and projects and to address ongoing issues. Each multiproject needs qualified personnel who devote sufficient time to overseeing implementation of the subprojects and to monitoring the performance of consultants and contractors.

9. Improving the Policy Environment for Multiprojects and Their Sustainability

13 Views expressed by officials from PIDMCs to the Task Force on Improving Project Quality indicated that institutional weakness and lack of skilled labor are the most important causes of failure of projects in the PIDMCs.

14 The report noted that "there is scope to seek competitive tenders from firms in advance of specific details about countries and institutions, ... The use of a roster of preselected consultants, revised annually, would also be valuable in enabling a quick response to the frequent requests of PIDMCs" (page 37).

52. Multiprojects should include provisions on the policy environment. Most smaller DMCs are in transition to more market-based economic systems, and there is much to be done to promote proper resource allocation and sound economic management. Public sector reform and other sector reforms are urgently required. Where the Bank is not needed to lead these reforms, it must work closely with other multilateral or bilateral organizations.¹⁵ By paying greater attention to the policy environment, projects including multiprojects in the smaller DMCs are more likely to be viable and sustainable.

53. Part of the transition to more market-based economic systems is assisting the government to clarify its role, so as to avoid unnecessary market interventions (such as ventures into commercial property) that have characterized several multiprojects.¹⁶ The transition also entails appropriate pricing of project outputs, based on economic efficiency and full cost recovery. For example, the urban centers water supply and sanitation subproject included in Bhutan's Second Multiproject Loan made provision for water metering and the adoption of user charges, which is helping to introduce commercial principles to public utilities. While full cost recovery is far from being realized, it is a start. In many cases, failure to apply the user-pays principle has meant lack of maintenance. For instance, insufficient harbor fees and, therefore, insufficient funds for maintenance led to extensive siltation after dredging and expanding two harbor subprojects included in the Maldives Multiproject. Where the application of commercial principles is appropriate, multiprojects should include specific provisions for pricing of outputs.

B. Measures for Improving the Incentives for Multiproject Success

54. Improving the incentives for multiproject success involves both the Bank and the concerned DMC. For the Bank, the essential factor is accountability. For the DMC, accountability must be complemented by strong ownership. Performance incentives relating to each of these factors would have to be formulated to apply to Bank projects generally. In this context, improving the incentives for multiproject success must be viewed in the context of Bank-wide incentives for project quality.

55. For the beneficiaries, there must be greater realization that loans have to be repaid and that they will bear part or all of the cost. To tighten the relationship between benefits and costs, the Bank could promote greater decentralization in public administration. The principle of marginal benefit taxation could guide cost recovery measures; that is, local administrations representing the beneficiaries of Bank projects would be charged with raising the necessary revenues to repay the loans and maintain facilities established under the project. While national benefits will accrue from some projects (e.g., a better educated population), at least some of the benefits will be proprietary. By applying the concept of marginal benefit taxation to this portion, and making provision for it before a Bank project commences, expected beneficiaries will be encouraged to become much more involved in the design and implementation. Accountability and ownership will be served simultaneously.

56. The Bank could also endeavor to invoke the self-interest of consultants and contractors in ensuring project quality. By greater use of competitions for project design and greater use of penalties/bonuses for poor/good project results, the Bank would give consultants

¹⁵ Greater cooperation with regional agencies, such as the Foreign Investment Advisory Services, would also be advisable.

¹⁶ Determination of the role of government should be guided by the principles of public goods (nonrival, nonexcludable), externalities, increasing returns to scale (natural monopolies), moral hazard problems (information asymmetry concerning the provision of social insurance), and income distribution.

and contractors a vested interest in all stages of the project. Consultants and contractors would be encouraged to work in tandem, rather than separately. They would also be encouraged to be more responsive to the needs of the client, that is, the host government and the expected beneficiaries.

57. Many projects, of course, have to be undertaken in the traditional fashion. However, there is growing experience internationally with new ways of contracting-out to the mutual advantage of private interests and the public at large. Even "sacred trusts," such as health and education services, are amenable to public-private sector partnership. This experience needs to be considered more widely in the smaller DMCs.

C. Measures for Facilitating Public-Private Sector Partnership

58. The success of multiprojects would be increased by encouraging greater private sector participation. There are two conditions critical to private sector participation in public sector investments projects: (i) identification and preparation of good projects that are technically sound and that can generate sustainable revenue streams¹⁷; and (ii) an appropriate allocation and management of risk between the government and the private sector.

59. Many, if not most, infrastructure projects are quasipublic goods; pricing and usage cannot be sufficiently discrete to fully capture the economic benefits. In addition, policy deficiencies, isolation and other factors mean that even projects capable of generating revenue streams are not "bankable." The challenge, then, is to forge a partnership between the public and private sectors such that these benefits are realized in an efficient and effective manner.

60. Aid agencies could consider the establishment of an investment facility to promote public-private partnerships for infrastructure development in small countries. This facility would have three main components:

- (i) a pre-investment fund: this would assist in preparing bankable projects;
- (ii) an investment fund: the sector focus would be mainly infrastructure projects (transport, telecommunications, and energy projects) or other small country projects that can be structured to yield steady revenue streams; and
- (iii) a capacity building and policy support program: this would assist the governments in streamlining policies and procedures for private sector investment in infrastructure projects; furthermore, the program would strengthen the capacity of the governments to prepare, structure, and negotiate agreements with private investors.

VI. EFFICIENCY AND DEVELOPMENT CONSIDERATIONS

¹⁷ Revenue streams can be based on shadow prices whereby the government commits to pay the private investor on the basis of use of the facility, even though user charges may not actually be collected or, if so, at rates well below recovery costs. User charges have their own costs, and normally a high volume of use is required before it is economical to levy them.

A. Efficiency Considerations

61. Economy and efficiency in the use of resources in carrying out the Bank's development mission must be considered. Unfortunately, economy and efficiency in the use of Bank resources tend to be inversely related to loan size. The small size of loans to the PIDMCs, Bhutan, and Maldives is shown in Table 3. With the exception of Fiji, all Bank lending to these countries has been on a concessional basis, that is, from ADF. Lending to Fiji is on a nonconcessional basis, that is, from the Bank's ordinary capital resources.

62. The main problem associated with this feature of lending in small countries is that a high percentage of the costs of loan preparation, implementation and supervision is relatively fixed. The administrative "burden" carried on behalf of the smaller DMCs may be appreciated by comparing the average costs of loan preparation, implementation and supervision to average loan size. The Bank apportions its administrative expenses between ordinary capital resources and ADF loans according to the number of loans and equity investments approved during the year. Of the total administrative expenses of \$190,784,000 in 1996, \$81,991,000 was charged to ADF. Since 44 ADF loans were approved last year, the average administrative expense was almost \$1.9 million. Given that the average-sized ADF loan in 1996 was \$38 million, the administrative expense was 5 percent of the loan amount.

Table 3: Bank Lending to Small DMCs

Country	Loan Approvals	No. of Projects	Loan Approvals	No. of Projects
	1966-1996 (\$ million)	1966-1996	1993-1996 (\$ million)	1993-1996
Bhutan	51.5	11	12.7	2
Cook Islands	23.7	10	11.5	4
Fiji	121.1	12	-	-
FSM	17.1	2	17.1	2
Kiribati	4.9	5	-	-
Maldives	33.9	6	8.8	1
Marshall Islands	31.1	6	23.6	4
Samoa	89.9	25	2.0	1
Solomon Islands	43.3	13	.5	1
Tonga	47.8	14	18.5	3
Vanuatu	29.3	7	10.0	1
Total	493.6	111	104.7	19

- = not available.

Source: Asian Development Bank, *Annual Report*, 1996.

Note: Five projects were canceled: one each in the case of FSM, Samoa, and Vanuatu, and two in the case of Tonga. Consequently, cumulative net effective loans were about \$44 million less than cumulative loan amounts approved.

63. It is difficult to estimate the comparable percentage for ADF loans to the smaller DMCs, but it was well above 30 percent in many cases. Often, the loan size was under \$2 million (\$600,000 was the average size of subprojects), with the consequence that the administrative "overhead" as a share of the loan amount escalated.

64. The measures suggested for improving the performance of multiproject lending would add to the cost of overall loan administration. A key consideration, therefore, is whether the added costs would be justified in terms of development impact and improved success rate. While there would likely be savings in project implementation, deriving from better project identification and preparation, the cost of thoroughly undertaking these steps for each subproject could be considerable. This, then, raises questions about when multiproject lending is appropriate. The Bank should monitor the efficiency of its multiproject lending operations.

B. Development Considerations

65. The measures recommended for strengthening the success of multiprojects were focused on improving project quality. Unsuccessful or only partially successful projects are an unproductive encumbrance for the borrowing DMC. This fact must be balanced against the Bank's concern for economy and efficiency. There is little merit in squeezing lower administrative cost ratios if the result is contrary to the interests of DMCs. Nor is there any merit in selecting loan modalities simply on the basis of low administrative overheads.

66. For the smaller DMCs, small projects will inevitably be vital to the development process. They can be expected to have relatively high EIRRs and FIRRs. Excluding small projects from Bank support would risk distorting resource allocation in the smaller DMCs. Further, the smaller DMCs are in many ways ill suited to larger scale loan projects; "the provision of large-scale resources can produce effects that undermine the effectiveness and sustainability of the intervention".¹⁸ Only if it can be shown that large projects have nearly equivalent benefits, on a per dollar basis, should they be selected over small projects.

67. Multiproject lending helps leave open the option of Bank support for small projects. The smaller DMCs favor continuation of multiproject lending, especially in light of declining bilateral support. Grant funds from bilateral aid agencies have supported small projects in the past, but many have been phasing out this form of support. Further, some smaller DMCs (e.g., Bhutan and the Maldives) see multiproject financing as highly suitable to their integrated development plans. It should also be noted that changes both at the Bank and within the smaller DMCs should contribute to greater effectiveness of multiproject loans. The Bank has increasingly emphasized its development role, as opposed to its financing role, with the consequence that its procedures for project quality have been considerably improved. Public consumption expenditure, which formerly constituted a large part of aid by the Bank and others, is being downplayed in favor of policy reform and institution building. The smaller DMCs, in turn, now have better capacity to manage multiprojects.

VII. POSSIBLE OPTIONS FOR BANK LENDING TO THE SMALLER DMCS

68. The purpose of this paper is to determine whether multiproject lending should continue to be used in the future. The discussion thus far has reviewed the Bank's experience with multiprojects and some of the measures that could be implemented to improve their performance. Consideration has also been given to efficiency and development considerations. However, alternatives to multiproject lending deserve mention.

A. Greater Emphasis on Program Lending

69. One possibility is to put more emphasis on program lending for the smaller DMCs. This, in fact, has been the trend in recent years, at least with regard to the PIDMCs,

18 Asian Development Bank, *Strategy for the Pacific*, Pacific Studies Series, 1996, p. 36.

where the Bank has provided broad adjustment programs in support of wide-ranging structural reforms. In 1996 and the first half of 1997, three program loans were approved (for Cook Islands, Marshall Islands, and FSM). Program loans for Samoa and Vanuatu are also being developed.¹⁹ Greater emphasis on program lending is timely, as most of the smaller DMCs must continue or intensify the policy and sector reform process.

70. The Bank's strategy for the PIDMCs states that: the intervention should involve significant policy reform or capacity building, and the intervention should address key factors contributing to economic growth.²⁰ It also states that, while the Bank will support a range of sectors in the region, it will only support one or two sectors in any one country. The Strategy, therefore, embraces both program and project lending. In this context, multiproject lending is one option, which could be complemented by program lending designed to address related policy reform or institutional capacity building concerns.

71. The other small DMCs, namely Bhutan and Maldives are stressing integrated development approaches, either on a sector or area (spatial) basis. Again, program lending is seen as a complement rather than as a possible replacement to multiproject lending.

B. Fewer But Larger Projects

72. Another option would be to reserve project lending to those instances in which a sufficiently large project is identified. Since 1966, there have been 30 nonmultiproject loans in the \$5-10 million range for the smaller DMCs. Since 1988, when the last multiproject was approved, the Bank has apparently not had difficulties in identifying sufficient projects to maintain or expand its lending to the smaller DMCs. As shown in Table 4, with few exceptions, the smaller DMCs have maintained or increased their share of Bank ADF lending over the past decade, even though ADF lending during this period doubled. This could suggest that multiproject lending is no longer necessary or relevant, in sharp contrast to two decades ago when multiproject lending was introduced. However, development impact should be the first criterion in reviewing support options. Small projects appear to be an essential part of the development process for the smaller DMCs; although the smaller DMCs have progressed over the past 20 years, large-scale loans still give rise to problems. A possible compromise involving fewer but larger projects would be to blend in small projects through the use of multiproject lending.

¹⁹ In the case of Vanuatu, a program loan of \$14 million is proposed, largely dealing with governance issues.

²⁰ Asian Development Bank, *Strategy for the Pacific*, Pacific Studies Series, 1996, p. 24.

Table 4: Smaller DMCs' Percentage Share of Bank ADF Lending

	1978-1982	1983-1987	1988-1992	1993-1996
Bhutan	-	0.8	0.2	0.2
Cook Islands	0.1	0.1	0.1	0.2
FSM	-	-	-	0.3
Kiribati	-	-	-	-
Maldives	0.1	0.2	0.2	0.2
Marshall Is.	-	-	0.1	0.4
Samoa	0.7	0.4	0.6	-
Solomon Is.	0.2	0.6	0.1	-
Tonga	0.2	0.2	0.3	0.3
Vanuatu	0.1	0.3	0.1	0.2
Total	1.4	2.6	1.7	1.8

- = magnitude zero.

Source: Asian Development Bank, *Annual Report*, 1966.

VIII. CONCLUSIONS AND RECOMMENDATIONS

73. On reviewing the needs of the smaller DMCs and Bank experience to date with multiproject loans, the conclusion is that this financing modality should be kept as one of the options for assisting the smaller DMCs. This modality allows several projects to be financed concurrently under one loan, each project being too small on its own to be considered by the Bank.²¹

74. The disappointing success rate with multiprojects resulted largely from poor preparation, inadequate attention to institutional capacity problems, and failure to properly supervise implementation. Therefore, the Study concludes that there is nothing inherently wrong with the multiproject approach, other than the way it has been applied. To improve project quality under multiproject lending, the following measures are recommended.

- (i) Multiprojects should be more narrowly focused, and subprojects selected for complementarity.

²¹ Some OPO staff feel that multiproject lending should be replaced with sector lending. However, it is the view of this Study that sector lending is more restrictive and is thus not a substitute for multiproject lending. Moreover, the required conditions for sector loans in many small DMCs do not exist.

- (ii) Project preparation should be much more thorough, with PPTAs and project frameworks as mandatory steps; consultation with expected beneficiaries should be a requirement from the outset; fact-finding and appraisal missions should include the necessary experts, so as to define subprojects properly and to reduce the need for problem-solving review missions.
- (iii) The rationale for subprojects under multiprojects should be more thoroughly developed and reviewed, and alternative means for realizing objectives should be examined systematically; multiproject loans should not be approved until each of the subprojects is properly prepared.
- (iv) Institution strengthening should play a bigger role in multiprojects; the institutional requirements for a successful multiproject should be identified by the PPTA, fact-finding and appraisal missions, and be reported as a mandatory section in the Project Administration Memorandum; institution strengthening should include measures to improve the ability of the smaller DMCs to thoroughly assess project proposals.
- (v) Multiproject implementation should be more closely supervised, preferably by the designation of full-time project managers in the country; establishment of project performance management system should be made mandatory; review missions should play a strong role in monitoring project implementation.
- (vi) The sustainability of subprojects should be better ensured through appropriate pricing of project outputs, based on economic efficiency and full cost recovery.
- (vii) Multiprojects should be complemented by program loans that address policy factors that are key to their success; greater attention should be given to the policy environment for multiprojects and to the need to coordinate closely with other funding agencies.

75. For general project quality, the following measures are recommended.

- (i) Country operational strategies should be better focused, based on economic, social and sector analyses, sensitive to sociocultural aspects, and well integrated with other external assistance; the rationale for a multiproject should be fully supported by the strategy in the DMCs.
- (ii) Estimated economic and financial internal rates of return for projects should be critically assessed.
- (iii) The use of consultants and contractors that have performed well in the smaller DMCs should be encouraged for small projects; also, "period contracts" could be considered, so as to ensure that consultants are available on a timely basis.

76. To improve the efficiency of multiproject lending, and of Bank projects in general, the following measures are recommended.

- (i) The incentives for key stakeholders to improve the success rate for multiprojects should be strengthened.

- (ii) The Bank should tighten the relationship between the benefits and costs of multiprojects; decentralization in public administration should be encouraged, drawing on the principles of marginal benefit taxation and subsidiarity.
- (iii) The Bank should consider ways of invoking the self-interest of consultants and contractors in project quality; design competitions and greater use of penalties/bonuses related to project results should be considered within the limits of the Bank's guidelines; international experience with new ways of contracting-out should be more widely applied in the smaller DMCs.
- (iv) The Bank should promote public-private sector partnership, particularly through initiatives to make a greater number of public sector investments "bankable"; establishment of a small country development facility should be considered which would include: a pre-investment fund; an investment fund; and a capacity building and policy support program.

77. The smaller DMCs require special modalities and efforts, and multiproject lending in many cases meets the requirement. Measures recommended in this Special Study should contribute substantially to improved results for multiprojects. Further, changes introduced by the Bank in recent years, including the establishment of a regional mission and improvements to the loan processing cycle, provide a better basis for multiprojects. Also, the smaller DMCs have progressed considerably during the past 10-15 years and now have stronger institutional capabilities to handle multiprojects. Nonetheless, multiprojects should only be entered into when the following conditions are satisfied:

- (i) the multiproject is focused on a limited number of subprojects, each with a strong rationale and complementarity to the overall objectives;
- (ii) the institutional capacity of the executing and implementing agencies to properly manage the multiproject is assured; and
- (iii) any additional administrative expense expected with the multiproject in relation to other possible lending modes have been considered and are expected to be worthwhile in view of the enhanced likelihood and magnitude of favorable developmental impacts.

SUMMARIES OF INDIVIDUAL MULTIPROJECTS

- A. Multiproject Loan (Loan No. 637-BHU [SF]) in Bhutan
1. Loan Amount
 - a. Expected: \$5 million
 - b. Actual: \$4.3 million
 2. Approval: September 1983
 3. Commencement: January 1984
 4. Completion
 - a. Expected: December 1986
 - b. Actual: December 1992
 5. Subprojects
 - a. Agricultural Workshop Machinery
 - b. Forest Logging and Road Construction Equipment and Forest Roads
 - c. Samchi-Dorokha Road
 - d. Suspension Bridges
 - e. Solar Panels for Wireless Stations
 - f. Water Supply and Sanitation
 6. Missions
 - a. Fact-finding/Preappraisal/Appraisal: 2 missions for 61 person-days, excluding travel time
 - b. Loan Negotiations: 1 mission for 2 person-days
 - c. Inception/Review: 10 missions for 129 person-days, excluding travel time
 - d. Special Project Administration: 1 mission for 8 person-days
 - e. Project Completion/Postevaluation: 2 missions for 51 person-days, excluding travel time
 7. PPAR Evaluation: Unsuccessful
 - a. Major Conclusions and Recommendations
 - 1) Although four of the subprojects have satisfactory economic internal rates of return, the two major subprojects accounting for 75% of project costs were unsuccessful.
 - 2) Design for Samchi-Dorokha Road (65% of project costs) was incomplete.
 - 3) Financial viability of subprojects was not examined at appraisal.
 - 4) Amount of machinery included in agriculture subproject was far in excess of need.
 - 5) Sustainability of subprojects was not provided for.

(Reference in text: page 2, para. 7)

- 6) Project supervision and monitoring was ineffective.
- 7) There were significant cost overruns and serious delays for the two main subprojects.

b. Study's Observations

- 1) It is uncertain why the Bank supported the Government's efforts of import substitution for farm implements; it is generally wrong policy, particularly for a small country.
- 2) The forestry subproject provides a good example of a productive investment.
- 3) Other aid agencies contributed to the same subprojects; clearly better coordination is needed.

B. Second Multiproject Loan (Loan No. 722-BHU [SF]) in Bhutan

- 1. Loan Amount
 - a. Expected: \$7.4 million
 - b. Actual: \$10.1 million
- 2. Approval: December 1984
- 3. Commencement: September 1985
- 4. Completion
 - a. Expected: December 1989
 - b. Actual: January 1996
- 5. Subprojects
 - a. Urban centers water supply and sanitation (UCWSS) subproject
 - b. Royal Institute of Management (RIM) subproject
- 6. Missions*
 - a. Fact-finding/Appraisal: 2 missions, 2-4 persons for 84 person-days
 - b. Part 1
 - 1) Special Loan Administration: 5 missions, 1-2 persons each, for 46-person days
 - 2) Country Loan Disbursement: 2 missions, 2-3 persons each, for 8 person-days
 - 3) Review: 5 missions, 1-2 persons each, for 59 person-days
 - 4) PCR: 1 mission, 2 persons, for 14 person-days
 - c. Part 2
 - 1) Country Loan Disbursement: 1 mission, 4 persons, for 4 person-days
 - 2) Review: 15 missions, 1-2 persons each, for 64 person-days
 - 3) PCR: 1 mission, 2 persons for 10 person-days

* excludes travel time

- 6. PCR Evaluation: Generally successful
 - a. Major Conclusions and Recommendations

- 1) Cost overrun for the UCWSS subproject was almost 100%.
- 2) Civil works/equipment and depreciation of the US dollar against the special drawing right were significant cost factors.
- 3) The cost overrun for RIM subproject was 215 %, due to site change, increase in scope of civil works, delays of four years, and labor shortages.
- 4) The sustainability of subprojects was critically dependent on user charges and proper budget support.

b. Study's Observations

- 1) It appears that the two subprojects were, for the most part, treated as separate projects, i.e., it was a multiproject in name only.
- 2) The RIM subproject provides a good example of ownership.
- 3) Both subprojects appear to have been soundly based; better cost control and implementation would have improved the rates of return.
- 4) The Danish International Development Agency (DANIDA) grant financing of elements of the UCWSS subproject undermined cost control.
- 5) DANIDA follow-up on the UCWSS subproject was a good example of aid coordination.

C. Second Multiproject Loan (Loan No. 849-COS [SF]) in Cook Islands

1. Loan Amount
 - a. Expected: \$2.75 million
 - b. Actual: \$2.80 million
2. Approval: October 1987
3. Commencement: March 1988
4. Completion
 - a. Expected: June 1991
 - b. Actual: February 1995
5. TA: \$288,000 for appraisal of subprojects and design and Project implementation
6. Subprojects
 - a. Agriculture
 - 1) Smallholder vanilla development on Mangaia, Mauke and Atiu islands
 - 2) Two farm irrigation systems and equipment for taro production on Mangaia
 - 3) Farm irrigation, roads, and equipment to develop agricultural land on Atiu
 - 4) Small-scale dam for water and irrigation on Mauke
 - 5) Farm road improvements/equipment for agricultural development on Aitutaki
 - 6) Tonga cold storage (dropped)
 - 7) Smallholder vegetable production on Atiu, Aitutaki and Mangaia
 - b. Infrastructure/Energy
 - 1) Aitutaki telecommunications upgrading
 - 2) Rarotonga sewerage system upgrading (dropped)
 - 3) Harbor improvements in Mangaia, Atiu, and Mauke
 - 4) Outer islands fuel storage in Mangaia, Atiu, Mauke and Penrhyn
7. Missions

- a. Reconnaissance/Appraisal: 3 missions for 96 person-days, excluding travel time
- b. Project Inception: 1 mission for 12 person-days, excluding travel time
- c. Project and TA Review: 13 missions for 135 person-days, excluding travel time
- d. Special Project Administration: 2 missions for 11 person-days, excluding travel time
- e. PCR: 1 mission for 34 person-days

8. PCR Evaluation: Partly successful

- a. Major Conclusions and Recommendations
 - 1) Of the 12 subprojects, 9 rated were successful, 2 unsuccessful, and 1 partly successful.
 - 2) The overall EIRR was 6 percent.
 - 3) Consulting services should have been provided for Project coordination and supervision; the executing and implementing agencies were weak; capacity building is needed.
 - 4) The multiproject modality is not one of the significant causes of lack of success.
 - 5) Estimates of benefits during appraisal were unrealistic.
- b. Study's Observations
 - 1) The conclusion of the PCR that the project "has generated significant benefits" appears unrealistic.
 - 2) Most of the subprojects appear to have little sustainability, as provision for levies/user charges and maintenance is poor; much equipment/materials is unusable.
 - 3) The subproject rationale was seriously deficient in several cases.
 - 4) There is little evidence that the multiproject results will support repayment of the loan.

D. Multiproject Loan (Loan No. 681-MLD [SF]) in Maldives

- 1. Loan Amount
 - a. Expected: \$2.4 million
 - b. Actual: \$2.9 million
- 2. Approval: March 1984
- 3. Commencement: April 1984
- 4. Completion
 - a. Expected: March 1986
 - b. Actual: June 1989
- 5. TAs: Four project preparatory and advisory TAs, for a total of \$1,038,000
- 6. Subprojects
 - a. Development of Male' New Commercial Harbor (subsequently deleted)
 - b. Deepening of priority island harbors and jetty construction (expanded)
 - c. Provision of meteorological equipment
 - d. Upgrading of Male' power supply system
 - e. Electrification of two atoll islands
 - f. Technical assistance for subprojects and advisory study

7. Missions

- a. Fact-finding: 1 mission for 15 person-days
- b. Appraisal: 1 mission for 61 person-days
- c. Loan Negotiations/Inception: 3 missions for 16 person-days
- d. Review: 10 missions for 47 person-days
- e. PCR/PPAR: 2 missions for 29 person-days

8. PPAR Evaluation: Generally successful

a. Major Conclusions and Recommendations

- 1) Cost overrun of 16% was considered acceptable; delays of up to 60 months.
- 2) EIRRs ranged from 9 to 37 % for the subprojects.
- 3) None of the subprojects was subject to feasibility study or detailed design.
- 4) Continuous involvement of Bank staff contributed strongly to success.
- 5) Flexibility of loan covenants facilitated reallocation of resources.
- 6) Sustainability needs to be better assured, e.g., through user charges, dredging equipment.
- 7) Japan's assistance to telecommunications sector did not follow recommendations of advisory study.
- 8) Multiproject financing was appropriate as subprojects were too small on their own.
- 9) The multiproject contributed to regional balance.

b. Study's Observations

- 1) Better selection of the TA consultant would have economized on review missions.
- 2) Better preparation of subprojects would have reduced implementation delays.
- 3) TA was equal to one-third of total project costs, which is very high.
- 4) Account of TA resource use would significantly lower the EIRRs for the subprojects.
- 5) The relatively simple, straightforward and pragmatic nature of the subprojects appears to have contributed to overall Project success.

E. Multiproject Loan (Loan No. 752-SAM [SF]) in Samoa

1. Loan Amount

- a. Expected: \$4.4 million
- b. Actual: \$5.8 million

2. Approval: November 1985

3. Commencement: April 1986

4. Completion

- a. Expected: December 1991
- b. Actual: April 1994

5. Cofinancing

- a. \$2.5 million International Development Association
- b. \$1.7 million Organization of Petroleum Exporting Countries

6. TA: \$500,000 for appraisal of subprojects

7. Consulting Services: \$2.2 million (including United Nations Development Programme's grant of \$250,000)

8. Subprojects

- a. Tree crop development
- b. Small industries center
- c. Rural roads upgrading
- d. Container park upgrading
- e. Upolu power rehabilitation (added for administrative purposes)

9. Missions

- a. Fact-finding/Appraisal: 2 missions for 94 person-days, excluding travel time
- b. Inception: 1 mission for 10 person-days, excluding travel time
- c. Special Loan Administration: 3 missions for 75 person-days, excluding travel time
- d. Project Review: 13 missions for 202 person-days, excluding travel time
- e. PCR/PPAR: 2 missions for 28 person-days

10. PPAR Evaluation: Unsuccessful

a. Major Conclusions and Recommendations

- 1) The tree crop development, small industry center, and rural roads projects had low EIRRs.
- 2) Although successful, the container park upgrading was poorly coordinated.
- 3) The Upolu power rehabilitation subproject was highly successful but not really part of the multiproject.
- 4) Better project preparation is required, especially assessment of institutional capacity, greater sector focus, and local consultations.

b. Study's Observations

- 1) PPAR assessment of "unsuccessful" understates the misallocation of resources.
- 2) Excluding the energy subproject, Project cost was 42% higher than estimated.
- 3) The cost of rural road upgrading spiralled almost threefold (to \$8.4 million) yet the roads have very little traffic; now they have even less as a result of a World Bank coastal road.
- 4) The small industry center subproject should have been a private sector investment; no rent is being paid.
- 5) The container park subproject demonstrated a lack of aid coordination.
- 6) Numerous project review missions were required due to poor project preparation.
- 7) Political intervention by the Government and conflict of interest by the design/contractor should have been addressed by the Bank.

F. Multiproject Loan (Loan No. 435-TON [SF]) in Tonga

1. Loan Amount

- a. Expected: \$1.2 million
- b. Actual: \$1.2 million

2. Approval: December 1979

3. Commencement: March 1981

4. Completion
 - a. Expected: September 1981
 - b. Actual: September 1982
 5. Subprojects
 - a. Construction of four landing ramps and wharfs
 - b. Construction of 5 km of roads
 - c. Provision and installation of telecommunications equipment
 - d. Construction of five additional factory sheds
 - e. Construction of four rural health centers
 - f. Provision of three windmill powered water pumps
 - g. Provision of road construction and maintenance equipment
 6. Missions
 - a. Appraisal: 4 persons for 48 person-days, excluding travel time
 - b. Review: 6 review missions for 57 person-days
 - c. PCR: 2 persons for 32 person-days
 7. PPAR Evaluation: Generally successful
 - a. Major Conclusions and Recommendations
 - 1) Costs ran over by 17% and implementation was delayed 18 months.
 - 2) Multiproject financing resulted in significant administrative cost savings.
 - 3) Greater care in the selection and direction of consultants was required.
 - 4) Better evaluation of the socioeconomic impact of subprojects was required.
 - 5) Multiproject financing is an appropriate modality for PIDMCs.
 - b. Study's Observations
 - 1) The generally satisfactory rating needs to be qualified.
 - 2) The high EIRRs for the health projects are questionable given the degree of staff shortages.
 - 3) The windmill-powered water pumps are not operational; it is puzzling why they were experimented in Tonga, especially since windmills are so susceptible to hurricanes.
 - 4) Small industry centers are an inappropriate intervention in commercial property; ground and buildings are not being properly maintained.
 - 5) The objective of improved interisland shipping services was insufficiently coordinated with the Germany, which provided a too-large ship resulting in a negative EIRR for the port facilities.
 - 6) Administrative cost savings were expressed only in terms of shorter missions, raising the question as to why multiprojects would have this result; their effect on the number of missions was not assessed.
- G. Second Multiproject Loan (Loan No. 540-TON [SF]) in Tonga
1. Loan Amount
 - a. Expected: \$1.68 million
 - b. Actual: \$1.08 million
 2. Approval: November 1981
 3. Commencement: February 1982

4. Completion
 - a. Expected: December 1985
 - b. Actual: December 1987
5. Subprojects
 - a. Facilities for vanilla farming
 - b. Tourist and handicraft center; small passenger airport terminal
 - c. Two health care centers
 - d. Agricultural roads (19 km)
 - e. A fish marketing, processing and storage complex
 - f. A new small industries center: two factory sheds and two "nursery" sheds
6. Missions
 - a. Fact-finding/Appraisal: 2 persons for 24 person-days, excluding travel time
 - b. Inception: 1 person for 4 person-days excluding travel time
 - c. Review: 4 review missions for 22 person-days
 - d. PCR/PPAR: 2 missions for 33 person-days excluding travel time and head office time
7. PPAR Evaluation: Generally successful
 - a. Major Conclusions and Recommendations
 - 1) Implementation delays for the subprojects ranged from 9 to 23 months.
 - 2) Project cost was \$1.4 million compared with estimated \$2.5 million.
 - 3) Costs ran over by 14-20% for most subprojects except the vanilla subproject.
 - 4) There is a need for sustained support for vanilla growers.
 - 5) The government should refrain from building sheds for tenants of small industry centers.
 - 6) The multiproject approach seems appropriate.
 - 7) Greater attention must be paid to project identification and capability of the executing agency.
 - 8) Tonga's economic position is weak, hence, the need for high EIRRs and FIRR's.
 - b. Study's Observations
 - 1) The generally successful rating is questionable.
 - 2) The development model is centered on Government intervention.
 - 3) As pointed out in the PPAR, there is no basis to conclude that the vanilla subproject contributed to increased productivity; it was generally a failure.
 - 4) Road projects are not being properly maintained.
 - 5) Health centers are seriously underutilized due to staffing constraints.
 - 6) The fish complex is operating at 25% of capacity and not being properly maintained.
 - 7) There is little apparent rationale for Government intervention in providing commercial property; the SICs are inefficient forms of subsidy to tenants.
- H. Third Multiproject Loan (Loan No. 782-TON [SF]) in Tonga
 1. Loan Amount
 - a. Expected: \$2 million
 - b. Actual: \$2.4 million

2. Approval: June 1986
 3. Commencement: October 1 86
 4. Completion
 - a. Expected: June 1989
 - b. Actual: May 1 91
 5. Subprojects
 - a. Expansion of small industry center, Tongatapu
 - b. Establishment of small industry center, Vava'u
 - c. Nafanua Harbor improvement
 - d. Agricultural access roads
 - e. Telecommunications upgrade
 - f. Rural road improvement, Tongatapu
 6. Missions
 - a. Fact-finding: 2 persons for 22 person-days, excluding travel time
 - b. Appraisal: 4 persons for 8 person-days, excluding travel time
 - c. Inception: 2 persons for 6 person-days excluding travel time
 - d. Review: 8 review missions involving 1-2 persons each and 67 person-days
 - e. PCR and Special Administration: 3 missions involving 1-2 persons each for 45 person-days
 7. PCR Evaluation: Generally successful
 - a. Major Conclusions and Recommendations
 - 1) Subprojects were not adequately appraised.
 - 2) The project incurred a cost overrun of 25 percent and implementation delay of two years.
 - 3) Consultants should be engaged for project preparation under a PPTA.
 - 4) Four of the subprojects should be monitored on an annual basis.
 - b. Study's Observations
 - 1) Again, it is not apparent why the Bank supported Government intervention in the commercial property market, though expansion/establishment of small industry centers.
 - 2) The loan covenant specifying the "no profit, no loss" guideline for the small industry centers is resulting in substandard maintenance of the site and buildings.
 - 3) The high number of review missions, and the follow-up PCR and special administration missions, suggests that there was a high cost to inadequate subproject preparation and appraisal.
 - 4) Since the Nafanua harbor improvement subprojects resulted in very low EIRRs, it should be concluded that the multiproject was only partly successful.
- I. Fourth Multiproject Loan (Loan No. 927-TON [SF]) in Tonga
1. Loan Amount
 - a. Expected: \$3.3 million
 - b. Actual: \$3.2 million
 2. Approval: November 1988

3. Commencement: January 1989
 4. Completion
 - a. Expected: June 1992
 - b. Actual: February 1996
 5. Subprojects
 - a. Construction of domestic produce markets (Talamahu and Nyku'alofa)
 - b. Road improvements (32 km)
 - c. Construction of a second small industry center; later modified to expansion of existing small industry center
 6. TAs of \$894,000 for appraisal and special plans of subprojects; also institution strengthening
 7. Missions
 - a. Reconnaissance: 2 persons for 16 person-days (headquarters)
 - b. Appraisal: 4 persons for 60 person-days (headquarters)
 - c. Loan Negotiations: 3 persons for 9 person-days (headquarters)
 - d. TA Inception/Review: 2 missions persons for 5 person-days (headquarters)
 - e. Project Review: 6 missions of 1-2 persons for 49 person-days excluding travel time
 - f. Special Loan Administration: 2 missions of 1 person for 8 person-days excluding travel time
 - g. PCR: 3 persons for 33 person-days
 8. PCR Evaluation: Generally successful
 - a. Major Conclusions and Recommendations
 - 1) There were significant variations in subprojects; appraisals were poor.
 - 2) Bank supervision of project implementation was unsatisfactory.
 - 3) The multiproject led to significant administrative burdens for the Government.
 - 4) The Talamahu market structure cost \$2.3 million, or 2.7 times the estimate.
 - 5) The satellite market subproject had to be dropped.
 - 6) The second small industry center was dropped; the existing small industry center was expanded instead.
 - b. Study's Observations
 - 1) Two of the subprojects involves Government intervention in the commercial property market (the small industry center subproject and the Talamahu domestic produce market), which is a questionable use of Asian Development Fund resources.
 - 2) Despite problems with the "no profit, no loss" covenant for the small industry center included in the third multiproject, it was repeated in the fourth multiproject.
 - 3) The almost threefold increase in the cost of the Talamahu market structure, together with other problems, suggests that the multiproject was only partially successful.
 - 4) A 41 person-day fact-finding mission was held four years after the loan negotiation, attesting to poor appraisal work.
- J. Multiproject Loan (Loan No. 766-VAN [SF]) in Vanuatu
1. Loan Amount
 - a. Expected: \$3.0 million

- b. Actual: \$3.7 million
- 2. Approval: December 1985
- 3. Commencement: July 1986
- 4. Completion
 - a. Expected: December 1989
 - b. Actual: June 1993
- 5. Subprojects
 - a. Reconstruction and upgrading of schools destroyed by cyclones
 - b. Building of wharves and landing sites in six outer island locations
 - c. Improvement of roads leading to these and other facilities
 - d. Preparation of detailed engineering design for Santo Port
- 6. Missions
 - a. Fact-finding: 1 mission for 68 person-days, excluding travel time
 - b. Appraisal: 1 mission for 52 person-days, excluding travel time
 - c. Inception: 1 mission for 5 person-days
 - d. Review: 5 missions for 106 person-days, excluding travel time
 - e. PCR/PPAR: 2 missions for 61 person-days, excluding travel time
- 7. PPAR Evaluation: Unsuccessful
 - a. Major Conclusions and Recommendations
 - 1) Loan mission participants should have necessary fields of expertise.
 - 2) The performance of consultants under the TA (\$270,000) was not satisfactory.
 - 3) Transport subprojects (75% of multiproject) had negative EIRRs.
 - 4) The cost of schools was twice the normal cost.
 - 5) The quality of engineering design for Santo Port wharf was not satisfactory.
 - 6) Subproject appraisal and implementation supervision were inadequate.
 - 7) Local consultation should be strengthened.
 - b. Study's Observations
 - 1) The PPAR rating of "unsuccessful" understates the misallocation of resources.
 - 2) Only one of the six wharves/landing sites is usable.
 - 3) The unusable facilities damage the Bank's reputation as a development institution.
 - 4) The \$1.9 million spent on the wharves and landing sites has no intrinsic value.
 - 5) The \$3.3 million spent on related roads has little if any financial value.
 - 6) The poor quality of the Santo Port wharf design resulted in a near doubling of construction cost: \$3.4 million additional initially and another \$1-2 million to correct faults now appearing.
 - 7) The economic rationale for the transport subprojects was very doubtful.