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A COMPARISON OF AID AND WORLD BANK EVALUATION APPROACHES

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Introduction

Although AID and the World Bank share a common commitment to promoting economic growth and improving the quality of life in developing countries, the two institutions have significantly different mandates, structures, and portfolios. Very generally, the difference could be characterized as that between a more narrowly defined development bank emphasizing economic returns and a more broadly oriented development agency emphasizing beneficiary impact. This contrast is also reflected in differences in the institutions' approaches to program and project evaluation.

Whereas AID's evaluations are tailored to meet the needs of field managers who design and implement specific projects, the Bank's evaluations are designed to meet the needs of central decision-makers concerned with larger program and strategy issues and the needs of shareholders who want easily understandable yardsticks of program success. However, as AID decentralizes authority to missions, program and project evaluations are becoming increasingly important sources of feedback for senior managers. AID must decide whether these evaluations should incorporate more uniform and comparable measures of program and project performance, continue emphasizing country and project specific concerns, or both. This paper considers some of the issues involved in improving AID's

evaluation feedback, while retaining the decentralized management orientation that is an intrinsic part of AID's development strategy.

Overview of Institutional Differences

The World Bank was created to fund economically viable--in a sense, profitable--development projects. Indeed, initial planners envisioned the Bank not as a source of loan funds, but as a guarantor of loans from commercial institutions. Over time, of course, the Bank has become a major lender of development capital, has opened and enlarged its soft loan window, and has increasingly emphasized projects aimed at achieving broader human, social, and economic development goals. Even so, the Bank has continued to invest heavily in infrastructure, industry, and other capital development projects and considerably less in social development and institution building.

AID, from the outset, has taken a more diverse view of economic development and has placed a greater emphasis on improving the well-being of the rural poor. While both institutions seek to stimulate overall economic growth, AID has tended to be more concerned with the delivery of project services, the social and economic impacts of projects for beneficiaries, the improvement of human resources, and the creation of sustainable development institutions.

These differences in emphasis are reflected in the kinds of projects that AID and the Bank typically support. The bulk of AID's resources go to agricultural and nutrition projects serving the rural poor. Despite the Bank's increasing emphasis on agriculture, from 1974 to 1983 agriculture projects represented only 23% of the funding as reported in the Tenth Annual Project Performance Audit Review. Nearly 50% of the Bank's funding went to transportation and public utilities projects, relatively minor sectors of AID concern. Health and population projects, which represent nearly 25 percent of AID funding, accounted for only 3 percent of the projects included in the World Bank Review.

AID and the World Bank also have very different organizational structures. The Bank is an extremely centralized bureaucracy that operates largely from its Washington, D.C. headquarters with only limited support from a relatively small field staff. All project approval decisions are made by the Bank's central Board of Directors, with borrowers coming to Washington to negotiate agreements. Bank staff and expert consultants make periodic field trips for project appraisal, supervision, and evaluation, but project implementation remains primarily the responsibility of host governments.

AID, on the other hand, maintains field missions in virtually every country that receives U.S. assistance. Mission staff play a direct and active role in designing, managing, and evaluating projects, working closely with outside contractors and host country counterparts. AID missions have always had a major, and now

increasing, role in project development and approval. In an important sense AID's missions are themselves a form of development assistance, supplementing limited host country capacity for development management.

Even within the same sector, AID and World Bank projects tend to be quite different. Because of its size and visibility, the Bank can often be more selective than other development donors in choosing projects to support, in effect skimming off the most economically viable endeavors, while leaving less profitable or more risky projects to others. The Bank has also tended to emphasize larger projects and tried and true project designs.

AID has been considerably more willing to experiment with innovative approaches to overcoming difficult or persistent development problems, particularly in areas such as population, health, nutrition, and education. AID has also funded smaller projects (including some very small self-help efforts), has worked more closely with PVO's and other non-governmental organizations, and has been more deeply involved in food assistance and relief. As a development agency, AID provides both grant or loan funds, whereas the Bank provides only loans. This has enabled AID to effectively support technical assistance activities that are essential to institution building, but that host countries are reluctant to fund with loans.

The World Bank's Approach to Project Evaluation

Although the Bank has increasingly targeted the poorest beneficiaries, project appraisal and evaluation remain guided by primarily economic criteria. Emphasis is placed on calculating each project's economic rate of return (ERR). This involves estimating costs and benefits--discounted to present value--for each project's estimated life and then expressing these benefits as a percentage annual rate of return on investment. Such calculations require many assumptions about implementation costs, operation and maintenance, the magnitude and value of project outputs, discount rates, and a range of other technical and economic factors. Such an approach is most easily (and appropriately) applied to business and infrastructure investments. It is more difficult (and subjectively) applied to broadly based agriculture projects and is virtually impossible to apply to education, health, human resources, institution building, and other social infrastructure projects.

Even for capital development projects, ERR calculations vary greatly depending on the assumptions upon which they are based. In the transportation sector, for example, the World Bank notes that "the calculation of ERR at project completion has presented considerable difficulties. Sometimes final costs were not available,...sometimes there was no specific, quantified information as to what actual improvements had occurred,...assumptions had to be made about improvements that

could be expected to occur under hypothetical circumstances. Overall, assessments...represent best judgments based on quantitative and qualitative information."

The Bank is well aware that ERR calculations lack precision, are sometimes unreliable, and are not applicable to all projects. While comparisons of ERR's among similar projects within a sector can provide useful indications of relative performance, comparisons across sectors are more difficult to interpret. The Bank therefore uses ERR comparisons conservatively, looking primarily at failure rates, defined as the percentage of projects with ERR's of less than 10%. Even so, a recent Bank study of 25 agriculture and education projects several years after completion found that more than half of the projects that had previously been judged successful had recalculated ERR's of less than 10%. In sectors, such as education, where economic rates of return are difficult or impossible to calculate, the World Bank has experimented with alternative methods of cost/benefit and cost/effectiveness analysis. However, these measures serve as a kind of ERR proxy and suffer from many of the same limitations.

The Bank's evaluation system is quite comprehensive. Standardized completion reports are prepared for every project with overall findings published annually in an evaluation "concordance." Detailed "project performance audit reviews" are completed for more than half of the bank's projects and provide the basis for summary statistical analyses published in annual "Project Performance Audit

Reviews." Other specialized evaluations and studies are conducted both by the Operations Evaluation Division and by the World Bank's regional and sectoral offices.

The World Bank's emphasis on calculating estimated economic benefits at project appraisal, completion, and evaluation has a pervasive influence on project design and implementation. The Bank, for example, tends to weigh the easily measurable present costs involved in project redesign, delays, or innovation, far more heavily than the possible future benefits these costs might yield. The Bank also prefers more predictable benefits and tends to overestimate their magnitude. As a result, the Bank tends to favor standard project packages, fixed designs, and timely project completion at the expense of long-term sustainability and institution building.

AID's Approach to Project Evaluation

Although AID, like the World Bank, seeks measurable economic benefits from projects, AID's performance criteria place greater emphasis on project implementation, service delivery, and social and economic impact for beneficiaries. Until 1980, AID missions planned annual project evaluations, focusing primarily on implementation (input and output) issues. In 1980 annual project evaluations were eliminated and missions began scheduling evaluations around key program and project decisions and events.

AID's project evaluation system is less standardized and far more decentralized than the World Bank's. AID does not have any uniform or official project evaluation criteria and most decisions regarding evaluation coverage and design are made by individual missions. As a result, the content, scope, and comparability of AID's project evaluations varies substantially from project to project, country to country, and region to region.

Although the focus and scope of project evaluations are delineated by mission staff, most evaluation activities are conducted by outside contractor teams. These evaluations typically concentrate on the projects' success in providing resources (inputs) and transforming them into intended products and services (outputs). Most AID evaluations provide a good description of implementation progress and problems, essential information for project management and mission decision-making. Few attempt any significant economic analysis (such as ERR or cost-benefit assessments) or more rigorous measures of program or project impact. Broader program, policy, or sector appraisals have remained primarily the responsibility of the regional and central bureaus.

Within the past few years, at least in part in response to increased delegation of authority to the field, several missions have begun exploring how their evaluations could provide better project, program, and mission management information. The ANE Bureau, for example, recently drafted guidelines requiring that all project papers include monitoring and evaluation systems that would

not only track project inputs and outputs, but also assess broader project outcomes and identify major issues for indepth study. In a related trend, several missions have asked the Center for Development Information and Evaluation (CDIE) for assistance in designing evaluations that better address program and strategy concerns and more fully meet emerging "action plan" accountability requirements. While these trends should provide mission and Washington managers with more useful information, there has been little emphasis placed thus far on developing standard evaluation approaches or measures to assess and compare program, project, or agency-wide performance. Given AID's emphasis on social and institutional development, simple ERR comparisons would have limited utility, but other cost-benefit, social accounting matrix, or impact indicator approaches might be developed. At the very least, AID could routinely include standard cost, cost-effectiveness, and cost-efficiency calculations in its project assessments.

As AID's central development information and evaluation office, CDIE conducts agency-wide impact evaluations and special studies, coordinates and supports mission and bureau evaluations, communicates evaluation findings and applications to managers and policy makers, and disseminates development information and statistics throughout the agency. CDIE's impact evaluations, initiated in 1979, focus particularly on the the achievement of longer term program and project purposes, goals and impacts. Although earlier impact evaluations emphasized sector-specific

concerns, more recent studies have increasingly considered cross-cutting issues such as technology transfer, project sustainability, and development management. CDIE has also conducted special assessments, such as the program review of the International Fund for Agricultural Development.

CDIE provides leadership and coordination for AID's overall, decentralized evaluation system. CDIE manages the Agency's automated evaluation tracking system, requests and compiles annual Bureau evaluation plans, and chairs the intra-agency Program Evaluation Committee. During the past two years, CDIE has also provided increased technical support for mission and bureau evaluation activities, including the development of an evaluation workshop, the publication of data collection and evaluation methods reports, and the provision of direct technical assistance for evaluation and information system design. In all of these activities, CDIE has emphasized the role of program and project evaluation in meeting mission, bureau, and host government management information needs. Although CDIE has not developed uniform agency-wide evaluation measures, it has promoted rapid and low cost methods, a user orientation, and an emphasis on collecting information to guide operational management decisions.

The Implications of Decentralization for Program and Project
Evaluation

The increased delegation of project approval authority to the field should enhance the ability of missions to respond rapidly, creatively, and sensitively to local needs and opportunities. Decentralization also means that mission, bureau, and central AID managers need better information about all aspects of program and project performance: Project managers need information on project inputs, outputs, and results to monitor project implementation and anticipate problems. Technical officers need to know whether successfully implemented projects are in fact achieving desired outcomes or whether different kinds projects would have greater impact. Program officers and senior mission managers need to know whether sector and country objectives are being achieved or whether changes in program strategy are needed. Central managers need information on program and project accomplishments to assess mission performance and the achievement of agency goals.

These information needs are receiving increasing emphasis by missions and bureaus. The new ANE Bureau guidelines on monitoring and evaluation specifically focus on providing more useful project implementation and impact information for mission managers. The LAC Bureau's emerging system of action plan goals, objectives, and benchmarks represents an effort to develop a bureau-wide program evaluation approach. Individual missions have become increasingly

interested in clustering project evaluations around sector and strategy concerns.

However, all of these efforts are at an early stage and a number of questions remain:

1. Should AID develop more uniform project evaluation criteria as a basis for more rigorous performance comparisons among projects, sectors, and countries?

AID's current project evaluation criteria are extremely flexible. The emphasis has been on tailoring monitoring and evaluation systems to meet each project's particular management information needs. While this approach is consistent with AID's participation in project design and implementation and with efforts to improve indigenous management capabilities, it makes comparisons of project effectiveness extremely difficult. Conversely, while the World Bank's emphasis on economic return calculations facilitates comparative judgements, it has less relevance to project management or to improving host country institutions.

Although the nature of AID's mandate and portfolio would make it inappropriate to mimic the World Bank's emphasis on economic rates of return, greater uniformity and rigor in evaluation measures might well be desirable. AID could, for example, require that plans for monitoring and evaluation systems be included as part of every project design. These

systems could include standard forms of economic analysis, while retaining a primary orientation towards project management. The focus would be on collecting information to meet real decision needs, emphasizing routine project monitoring and rapid, low-cost data collection methods. A more rigorous and uniform approach to project evaluation would also facilitate the program and sector performance assessments discussed below.

2. Should AID develop more standardized program and sector evaluation measures and methods?

With the delegation of project approval authority to the field, evaluations of program and sector performance have become an increasingly critical feedback for senior managers. The delineation of clearly defined strategic goals in AID's new "Blueprint for Development" underlines the importance of comparable measures of progress towards goal achievement. The LAC Bureau's emerging system of goals, objectives, and benchmarks, represents a promising initial effort to develop consistent sets of project, program, and agency performance measures.

Questions remain, however, about how uniform these performance measures can and should be across sectors and countries. While such measures should reflect overall agency goals, benchmarks and objectives, they must also be consistent with

local project conditions and with locally available information. They must, in other words, reflect a compromise between what is desirable from the perspective of central managers and what is relevant to and obtainable by the mission. The LAC initiative is, in this sense, a useful experiment. More generally, missions could be encouraged to initiate larger sector, program, and strategy evaluations, and to cluster related project evaluations around these issues.

Whatever measures are chosen, however, program and sector performance will still be extremely difficult to assess. A health program, for example, may have a "benchmark" of reducing infant mortality by 5 percent in three years. But infant mortality will be affected not only by AID's activities, but also by the state of the economy, levels of agricultural production, unanticipated epidemics, and a host of other factors. Whether infant mortality goes up, goes down, or remains unchanged after three years by itself tells us little about program success. A more detailed analysis of the factors affecting infant mortality would be needed. While Bureaus recognize the need for more sophisticated analysis (for example, see the recent ANE action plan guidance), no standard or uniform methods have been developed thus far.

3. Should agency-wide performance be assessed and summarized on a regular basis?

Despite the lack of uniform evaluation criteria, CDIE's summary analysis of FY 1984 project evaluations yielded useful findings about factors affecting the achievement of program and strategy objectives. CDIE therefore plans to continue preparing agency-wide project evaluation summaries, at least for the next few years.

These project evaluation summaries do not, however, rigorously assess the Agency's progress in achieving specific goals and objectives as outlined, for example, in the strategic plan. As AID's program and project evaluation methods become more uniform, and more universally applied, a broader appraisal of agency wide performance should become possible.

4. How should evaluation feedback be institutionalized to assure that appropriate information is available and applied by relevant managers?

Although the need for effective evaluation feedback has become more pressing in AID's increasingly decentralized management environment, more rigorous and uniform evaluation methods will be of little value unless evaluation findings are actually applied to improve programs and projects. While CDIE can facilitate coordination and ensure that evaluation information

is appropriately disseminated, a clear senior management commitment to using evaluation information is essential.

The adoption of more uniform and rigorous evaluation methods has costs as well as benefits. Before revising existing evaluation approaches, AID should carefully consider how new evaluation information will be used and whether existing information is adequate. The use of standard evaluation criteria could, for example, make it easier to document progress for external accountability, but would have less relevance to project management and improvement. Care must be taken not to add unnecessary requirements for already overburdened mission staff.

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DATE:

MEMO TO: M. Peter McPherson

FROM: AAA/PPC, W. Haven North

SUBJECT: Improving AID's Capability to Evaluate Program and Project Performance

The attached report compares AID and World Bank evaluation approaches. It notes that the two institutions have developed rather different evaluation strategies, reflecting their different mandates, structures, and portfolios. Whereas AID's evaluations emphasize project implementation and impact information tailored to meet the needs of designers and managers in the field, the Bank focuses on summary economic performance indicators for central decision-makers and shareholders. However, AID's increasing decentralization of authority to mission, has made project and program evaluations increasingly important sources of performance information for senior managers. The paper therefore concludes by examining some of the issues involved in making AID's evaluations more rigorous and uniform while retaining a decentralized management orientation. The most pressing needs identified in the report include:

- o Developing improved methods for routinely incorporating basic economic analysis (e.g. service/cost and benefit cost/calculations) in all project evaluations.
- o Developing improved methods of evaluating program performance and clustering project evaluations around larger sector, strategy and policy issues.
- o Developing better systems for using evaluation feedback as part of the Agency's management information system.
- o Developing better summaries of project, program, and agency performance both for internal management and external accountability.

I look forward to your reactions.

CDIE stands ready to assist by developing the specific guidance necessary for improved evaluation feedback.