BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Improving Independent Evaluation Systems In The Multilateral Development Banks

The multilateral development banks, of which the United States is a member--the Inter-American Development Bank, the World Bank and the Asian Development Bank--have made progress in implementing independent evaluation systems. Evaluation reports provide Bank member governments and the Congress valuable insight into the effectiveness and results of Bank operations and programs.

This status report highlights the evaluation systems of the three Banks, their accomplishments and the problems they face. Based on the review and a comparison of the three Bank systems, GAO recommends that the Secretary of the Treasury propose through the United States representatives to the Banks a number of actions to strengthen independence and further improve effectiveness of evaluation programs.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses our recommendations for improving the independent review and evaluation systems in the Inter-American Development Bank, the World Bank, and the Asian Development Bank. We made our review pursuant to Public Law 90-88, which amended the Inter-American Development Bank Act, and Public Law 93-189, which added Section 301(e) to the Foreign Assistance Act of 1961, as amended.

We are sending copies of this report to the Secretary of the Treasury and to appropriate congressional committees. To fulfill the requirements of section 301(e) that the report be sent to the President, we are sending it, in his behalf, to the Director, Office of Management and Budget.

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVING INDEPENDENT EVALUATION SYSTEMS IN THE MULTILATERAL DEVELOPMENT BANKS

D I G E S T

Establishment of independent review and evaluation systems in the multilateral development banks to improve their performance has been supported by their governing bodies and by member governments, including the United States. Such systems are considered essential to ensure that contributions and borrowing of member countries are handled effectively by the Banks--the Inter-American Development Bank, the World Bank, and the Asian Development Bank.

In the late 1960s and early 1970s, the Congress amended the Inter-American Development Bank Act and added Section 301(e) to the Foreign Assistance Act of 1961 to urge the establishment of independent evaluation groups in the Banks. The Comptroller General was required by this legislation to prepare a statement of suggested auditing and reporting standards to assist the Banks in formulating their independent review and evaluation systems. These standards also served as terms of reference for United States representatives to the Banks assisting in formulating such systems. The legislation also required GAO to periodically review evaluation reports and related information from the Banks and make appropriate suggestions to the Congress and the President for improvements.

Each Bank has established independent evaluation systems consistent with standards suggested by the Comptroller General, but as influenced by their organizational structure, program coverage, and reporting emphasis and the expressed interests and concerns of member governments. GAO has issued a number of reports identifying the progress made by each Bank in achieving independent evaluations. The reports' suggested improvements have been endorsed by the Department of the Treasury, which has primary responsibility for managing U.S. participation in the Banks.

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In this review GAO again assesses the progress made by each Bank and makes recommendations for improving the effectiveness of each Bank's evaluation system. GAO recommendations address the need for the Banks to broaden their coverage of evaluation programs, ensure that evaluation staff are more independent of Bank management, make recommendations based on report findings, and strengthen followup procedures to secure action on report recommendations.

INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank has taken a number of steps to improve its independent review and evaluation program. Many of these actions have been related to changes suggested in GAO reports and others to initiatives of the Bank. The commitment for improving the program has continued since its reorganization under one Director in 1979 and the adoption of new staffing procedures providing more independence from Bank management. Program results have been limited, however. Only two evaluation reports have been authorized and completed since the reorganization.

Responsibility for the evaluation program has been placed with the External Review and Evaluation Office which reports directly to the Board of Executive Directors. However, it was decided before the reorganization that Bank management would assume responsibility for independent assessments of Bank operations. GAO found that management has not fulfilled this responsibility due to

--staffing procedures and practices which are not designed to achieve the independence required for the external review and evaluation program and

--a policy of not distributing operations evaluation reports to the Board of Executive Directors. (See p. 17.)

THE WORLD BANK

The World Bank has supported the development and improvement of its independent evaluation system. In a 1978 report, GAO recommended that the Secretary of the Treasury direct the U.S. Executive Director to suggest that the World

Bank's evaluation system expand the scope of program coverage, broaden staff background to ensure more effective and objective evaluations, include recommendations in project reports, and develop procedures for systematic followup and periodic reporting on actions taken on evaluation findings and recommendations. The Department of the Treasury welcomed the report's emphasis on the need for the Bank's evaluation system to provide specific recommendations for improving the Bank's capacity and procedures for applying the lessons learned from the evaluation process.

The World Bank believes many of GAO's prior recommendations are not appropriate for it and has generally not adopted them. But GAO believes this review supports and revalidates its past recommendations.

During the Bank's fiscal years 1978-1980, over 300 individual projects were evaluated and reported on and 17 special studies were issued. Despite the scope of the program, key activities including many on-going projects have yet to be independently evaluated. The Bank needs a system to periodically review all major activities and operations in accordance with a specified plan. (See p. 24.)

The independent evaluation program has adopted a policy of internal recruitment and reassignment of its staff. Members of the staff normally rotate back into Bank operating divisions after completion of their assignment. GAO thinks such procedures could compromise their objectivity during evaluations. Bank officials in charge of the program, however, do not believe this practice compromises the overall independence of the evaluation system. GAO believes concerns about staff independence and objectivity would be alleviated if more evaluation personnel were recruited from outside the Bank. GAO also believes that formal training of the staff in audit and evaluation techniques would improve the effectiveness of the evaluation system. (See p. 26.)

The World Bank system for audits of individual projects does not, as a policy, direct evaluations toward the formulation of recommendations.

GAO criticized this practice in the 1978 report and the Department of the Treasury agreed that recommendations in project reports would help improve the overall system. Both the Inter-American Development Bank and the Asian Development Bank include recommendations in their evaluation reports of individual projects. In GAO's view, evaluation reports without recommendations are not systematically useful to management and do not provide an adequate basis for assessing management's response to evaluations. Recommendations in audit reports of individual projects would help increase the effectiveness of future Bank lending. (See p. 27.)

The Bank has made progress in implementing systematic followup procedures for recommendations made in operational policy reviews. This progress was in response to a 1978 GAO recommendation.

ASIAN DEVELOPMENT BANK

The Asian Development Bank has continued to improve its independent evaluation system through increased interaction with the Board of Directors, proposals to broaden the scope of the program, and increased attention to procedures for followup on report recommendations. In addition, the staffing of the program has increased, contributing to better program coverage.

The program still emphasizes project evaluations, but has proposed assessments of selected operations and loan sectors. It also relies more on management's project completion reports as the basic element for project reviews. The Bank staff has not been able to prepare completion reports for all projects, and only one-third of all eligible projects has been independently evaluated. Although broader program coverage has been proposed, GAO believes steps should be taken to ensure a more comprehensive mixture of operation, sector and project reviews. (See p. 36.)

Steps have been taken to report on the status of evaluation recommendations and suggestions have been made for more systematic implementation of recommendations. More systematic participation of management in the followup

on report recommendations has been suggested by the Bank Board of Directors and GAO agrees with these suggestions. Changes in the post evaluation program are planned, including revisions in criteria for selecting projects for review, limited use of outside consultants in studies, revisions in reporting requirements for project evaluation missions, and a concordance of reports as a cross index and reference source for report findings and recommendations.

RECOMMENDATIONS

GAO recommends that the Secretary of the Treasury instruct U.S. representatives to the Banks to support the following improvements

--The Inter-American Development Bank external review and evaluation program should include evaluations of selected project results. In addition, management should revise its policy for distributing operations evaluation reports to provide the Board of Executive Directors unlimited access to the reports.

--The World Bank should emphasize, as a matter of policy, recommendations in evaluation reports as the culmination of reviews and as the focal point for improving its followup system. In addition, it should ensure more effective and independent evaluations by systematic review of all major activities and functions and by establishing a staffing program which seeks additional personnel from outside the Bank and provides formal audit training.

--The Asian Development Bank should take additional steps to ensure that program coverage is more representative of Bank activities. Consideration should be given to reviewing projects for which management has not prepared project completion reports. In addition, the role of management in the report recommendation followup system should be strengthened to assure systematic responses to recommendations. (See pp. 18, 31, and 42.)

In view of the fact that this is a followup to prior GAO reports with which the Department of the Treasury generally agreed, GAO did not obtain official agency comments on this report.

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ABBREVIATIONS

ADB	Asian Development Bank
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

The establishment of effective independent review and evaluation systems in the multilateral development banks is essential for ensuring the governing bodies and member governments that (1) basic objectives and criteria for Bank support of development projects are being met, (2) strengths and weaknesses of completed and ongoing projects are considered--when and where appropriate--in other projects, and (3) donor and member countries' contributions and borrowings are applied in an effective manner.

In 1967, the Chairman of the Inter-American Affairs Subcommittee of the House Committee on Foreign Affairs requested us to review the Social Progress Trust Fund as then administered by the Inter-American Development Bank (IDB). This request was based upon a study mission to Central and South America which found weaknesses in certain programs and projects. Funds of the Social Progress Trust Fund were wholly U.S. funds and administered by IDB under agreement with the United States. Because we did not have the legal authority to audit Bank records relative to this fund, the Subcommittee Chairman after discussions with Treasury officials and representatives of our Office proposed amending IDB legislation to provide for the creation of an independent review and evaluation system in the Bank.

The Congress amended the Inter-American Development Bank Act in 1967 by Public Law 90-88 and, among other things, directed

--the Secretary of the Treasury to instruct the U.S. Executive Director to propose a continuing program of selective, independent, and comprehensive audits of the Bank, in accordance with such terms of reference as the Board of Executive Directors may prescribe;

--the Comptroller General to submit auditing and reporting standards to the Secretary of the Treasury for the U.S. Executive Director's use in helping to formulate the terms of reference; and

--the Comptroller General to review audit reports and findings periodically and to report to the Secretary of the Treasury and the Congress suggestions for improving the scope of audits and the auditing and reporting standards.

We were also instrumental in assisting the Congress in adding section 301(e) to the Foreign Assistance Act of 1961, which adopted similar provisions for independent evaluation systems in

the World Bank and the Asian Development Bank (ADB). Section 301(e) of the Foreign Assistance Act requires the President, acting through the U.S. representative to each Bank, to propose and actively seek establishment of an independent review and evaluation system in each Bank. Similar to Public Law 90-88, the act also directed the Comptroller General to

--prepare auditing and reporting standards to assist in formulating the terms of reference for review and evaluation groups,

--periodically review audit reports and related information, and

--report to the Congress and the President suggestions for improvements in the Bank systems.

In 1968, the Comptroller General submitted auditing and reporting standards which formed the basis for the standards governing the establishment and operation of the IDB audit program. Shortly after the Foreign Assistance Act was amended in 1973, the Comptroller General also submitted auditing and reporting standards for the World Bank and ADB which formed the basis for establishing independent review and evaluation systems in the two Banks.

COMPTROLLER GENERAL'S STATEMENT OF AUDITING AND REPORTING STANDARDS

The auditing and reporting standards suggested by the Comptroller General related to management auditing and reporting and were beyond the scope and standards applicable to the expression of opinion by an independent public accountant on the financial statements of the Banks. The Comptroller General's standards defined the major objectives of audits in the Banks as

--evaluating the conduct of Bank activities and programs, as they bear on the effectiveness of implementation and administration of loans and technical assistance activities and

--including recommendations concerning matters in which programs and activities can be improved, bearing in mind the international character of the institutions and their roles in financing development efforts.

In addition to these basic objectives, the Comptroller General's standards suggest that a primary consideration in establishing an effective review and evaluation system in the Banks is to ensure organizational independence from management. This concept of independence gives priority to informing

governing bodies and member governments of Bank activities and includes

--making evaluation reports available to all Governors and Executive Directors and

--requiring objective consideration of facts and unbiased judgments in performing evaluations and formulating conclusions.

OUR MOST RECENT REPORTS ON THE EFFECTIVENESS OF BANK EVALUATION SYSTEMS

Public Laws 90-88 and 93-189 require the Comptroller General to periodically report to the Congress, the President, and the Secretary of the Treasury appropriate suggestions concerning the scope of auditing and reporting standards adopted by the Banks. We have issued a number of reports addressing the efforts of each Bank in establishing independent and effective evaluation systems. (See app. I.) The most recent reports were in 1978 which noted, among other things, that:

--IDB effectiveness in evaluations had improved steadily. Evaluation reports had contained many recommendations for improving Bank activities and most of the recommendations had been adopted by the Board of Executive Directors. At the time of our 1978 report, IDB was considering a major reorganization of the evaluation system. Because of our concerns that any reorganization should maintain the independence of the system, we recommended that the Secretary of the Treasury and the National Advisory Council on International Monetary and Financial Policies develop and support a U.S. position maintaining such independence.

--The World Bank had made considerable progress toward developing an independent evaluation system. At that time, opportunities existed for strengthening the effectiveness of the system and we made several recommendations to bring the World Bank system more in line with our suggested standards. We urged development of a time-phased plan for systematic review of all World Bank activities and establishment of a standard requiring that reports contain recommendations when appropriate.

--ADB had made some progress in improving its review and evaluation of projects, but the then-expanding volume of Bank lending made more independent and wider-range evaluations necessary. At that time, a pending reorganization provided an opportunity to bring the Bank's organization and procedures in line with the standards of the Comptroller General. We recommended that the Secretary of the Treasury suggest that the Bank recognize the principle of review and evaluation by an independent group, which, over time, would perform selective reviews of all its important programs and activities.

The Department of the Treasury agreed with the basic thrust of our reports and concurred with our conclusions and recommendations. Treasury responses to specific recommendations in our 1978 reports are included in appropriate sections of this report along with detailed discussions concerning Bank actions related to our suggestions for improvement. This review updates our previous reports and assesses progress made by the Banks in establishing independent and more effective evaluation systems.

ORGANIZATION OF THE MULTILATERAL BANKS

Organization of the multilateral banks is structured to represent the interests of member governments and to accomplish respective Charter objectives. The following briefly describes the organizational structure of each Bank.

Inter-American Development Bank

IDB was established in 1959 to help accelerate the process of economic and social development of its member countries in Latin America. According to the 1979 annual report of the Bank, member countries included 26 regional members of the Western Hemisphere and 15 non-regional members from Europe, Asia, and the Middle East. By the end of 1979, the cumulative lending of IDB had reached nearly $16 billion. U.S. membership in IDB was authorized in 1959 by the Inter-American Development Bank Act.

The IDB Board of Governors and their alternates are appointed by the member governments. With certain exceptions, the Governors have delegated powers to the Board of Executive Directors, which is comprised of 12 members and responsible for conducting Bank operations. The External Review and Evaluation Office is responsible for independent evaluations as envisioned by Public Law 90-88 and reports directly to the Board of Executive Directors.

The Secretary of the Treasury has the primary responsibility for managing U.S. participation in IDB. The Secretary also serves as the U.S. Governor on the Board of Governors and instructs the U.S. Executive Director on U.S. positions concerning the Bank. The Secretary is assisted in these responsibilities by the National Advisory Council on International Monetary and Financial Policies and the Working Group on Multilateral Assistance. According to the 1979 IDB Annual Report, the voting power of the U.S. Executive Director to the Bank represented about 35 percent of the total.

The World Bank Group

The World Bank Group consists of the following organizations:

--The International Bank for Reconstruction and Development, which was created in 1945 and currently contributes to the economic development of member countries throughout the world.

--The International Finance Corporation (IFC), which was created in 1956 to encourage private investment in developing member countries by granting loans to qualified private interests unable to obtain the government guarantees required for Bank loans.

--The International Development Association (IDA), which was created in 1960 to make concessional loans to developing countries suffering from poverty, lacking creditworthiness for conventional loans, and making acceptable efforts to improve their economic performance.

In fiscal year 1980 (July 1 to June 30), the Bank Group made lending and investment commitments of $12.16 billion. Membership totaled 135 countries in the Bank, 113 in IFC, and 121 in IDA. The United States 1/ is the major financial contributor to the Bank and consequently has the largest voting power of any single country. The Board of Governors has overall responsibility for Bank operations and activities. The Secretary of the Treasury is the U.S. Governor, and the Deputy Under Secretary of State for Economic Affairs is the alternate. The Board of Governors has delegated most of its authority to the Executive Directors. The Bank President, who is Chairman of the Executive Directors, conducts the Bank's day-to-day business. Responsibilities for independent evaluation of Bank operations have been placed in the Operations Evaluation Department which reports to the Executive Directors.

Asian Development Bank

The Asian Development Bank was established in Manila by international agreement in December 1965. ADB's purpose is to foster growth and cooperation in Asia and the Far East and to contribute to the acceleration of the process of economic development of its developing member countries. ADB cumulative lending totaled over $6.6 billion in the period 1967-1979. As of April 1979 there were 43 members--29 regional and 14 nonregional. The Asian Development Bank Act authorized membership of the United States in 1966.

The organizational structure of ADB consists of a Board of Governors, a Board of Directors, a President, two Vice-Presidents, and other officers and staff. The responsibility for general policy direction of Bank operations rests with the Board of Directors and this includes making decisions concerning loans, guarantees,

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1/U.S. membership in the World Bank Group is authorized by the Bretton Woods Agreement Act of 1945, the International Finance Corporation Act of 1955, and the International Development Association Act of 1960.

and other investments by the Bank. The Post Evaluation Office is responsible for carrying out independent post-evaluations of ADB operational activities. This Office reports directly to the Bank President who is Chairman of the Board of Directors.

The U.S. Director is the focal point through which the United States exercises its role. The Director receives his instructions from the Secretary of the Treasury, who has primary responsibility for managing U.S. interests with the assistance and advice of the National Advisory Council on International Monetary and Financial Policies and the Working Group on Multilateral Assistance. United States voting power in ADB represented about 10 percent of the total as of December 1979.

OBJECTIVES, SCOPE, AND METHODOLOGY

Consistent with our reporting responsibilities under Public Laws 90-88 and 93-189, we assessed the current status of each Bank's efforts to improve the effectiveness of their independent review and evaluation systems. The Bank systems were assessed in relation to the suggested auditing and reporting standards of the Comptroller General and conclusions and recommendations of our past reports concerning opportunities for improvements. Our recommendations for improvements based on this review are intended to further strengthen evaluation systems which have demonstrated a capability to improve Bank lending programs.

Because the multilateral Banks are outside our audit authority, the scope of our review was somewhat limited. Other than their evaluation reports, we had only limited access to Bank documents concerning operations. Our access was more limited at IDB since Bank management has assumed responsibility for operations evaluations and restricts access of member governments to its reports. However, with the assistance of the respective U.S. Executive Directors, we received exceptional cooperation from Bank officials and received access to many documents concerning implementation and use of evaluations in the Banks. In addition, we had access to activity reports for the evaluation liaison committee recently established in IDB and minutes of the Joint Audit Committees of the World Bank and ADB. We were also provided access to the Banks' organizational and operations manuals pertaining to the evaluation function.

We reviewed numerous Bank evaluation reports dealing with individual project results as well as multiproject and special sectoral analyses. Our review of the IDB evaluation reports included the recently completed study of the Bank management's operations evaluation function. This study was initiated based on questions raised during meetings of the Board of Executive Directors concerning the effectiveness of management's evaluation of Bank projects. We also held discussions with the U.S. Executive Directors to the Banks and key Bank officials including the

IDB Director of the External Review and Evaluation Office and the Controller; the World Bank Director-General of Operations Evaluation, the Director of the Operations Evaluation Department, the Vice President of Projects Staff and selected regional department directors; and the ADB President, both Vice Presidents and the Chief of the Post-Evaluation Office. These discussions addressed (1) the scope of evaluation programs, (2) the contents and use of Bank evaluation reports in relation to the Comptroller General's standards, and (3) potential areas for improvement in the Bank systems. In view of the fact that this is a follow-up to our prior reports with which the Department of the Treasury generally agreed, we did not obtain official agency comments on this report.

CHAPTER 2

INDEPENDENCE OF INTER-AMERICAN DEVELOPMENT BANK EVALUATIONS MAY BE REDUCED BY ORGANIZATIONAL STRUCTURE

The Inter-American Development Bank has taken a number of steps to conduct more independent and effective evaluations of its activities. Many of these actions have been related to observations and suggestions in our 1978 report. Others have been at the initiative of the Bank to create a more conducive organizational structure for evaluations. We are concerned, however, that the Board of Executive Directors is not being fully and independently informed of individual project results. This situation has evolved historically through a number of organizational changes resulting in two separate and distinct offices being responsible for evaluation functions in the Bank.

The External Review and Evaluation Office, which is the independent evaluation system envisioned by the Congress, has not structured its program to include selective evaluations of the results and impact of individual projects. Operations evaluations of this nature are performed by Bank management within the Office of the Controller and have a stated objective of providing member countries an independent assessment of project results. This objective, however, has not been achieved due to (1) the inherent role of management in the system which reduces the independence of evaluations and (2) the management policy of not distributing individual project evaluation reports to the Board of Executive Directors. We believe the purpose of independent evaluations could be better achieved if the External Review and Evaluation Office performs selected project evaluations and the Board of Executive Directors has unlimited access to operations evaluation reports by management. Unlimited distribution of operations evaluation reports would also enable us to better fulfill our reporting requirements under Public Law 90-88.

Our position on the scope of the external review and evaluation program remains basically the same as in our prior reports. In a 1974 report, 1/ we recommended that the Secretary of the Treasury urge that the independent evaluation program place greater emphasis on evaluating and reporting how well the economic and social objectives of Bank programs are being met. The Bank decided to establish an impact evaluation office under its internal Controller, which was later absorbed by an Operations Evaluation Office within the Office of the Controller.

1/"Effectiveness of Independent and Comprehensive Audits of the Inter-American Development Bank," (Nov. 26, 1974, B-146937).

Our position was supported by the Department of the Treasury in its comments on our 1974 report. Treasury agreed that the independent review and evaluation program should do that amount of quantifiable economic and social analysis which is necessary for it to meet its stated responsibilities. Treasury preferred to have management retain the basic responsibility for project evaluation. We continue to believe that the External Review and Evaluation Office should meet its responsibilities to the Board by independently evaluating selected Bank projects.

ESTABLISHMENT OF INDEPENDENT REVIEW AND EVALUATION PROGRAM

In October 1968, the Board of Executive Directors established the independent review and evaluation program. At the time of our 1978 report, the program was directed by a Group of Controllers consisting of three principal members, one from the United States and two from other member countries, who were under the guidance of and responsible to the Board. Since then, IDB has reorganized placing responsibility for the program with one Director from the Federal Republic of Germany. The External Review and Evaluation Office implements the programs of independent assessments and reports directly to the Board of Executive Directors.

The stated functions of the External Review and Evaluation Office include examining selected areas of significant Bank activities; conducting analytical studies, reviews, evaluations and appraisals of Bank policies, systems, procedures and operations; and submitting independent reports to the Board containing findings, conclusions, and recommendations for appropriate action. The reports issued have generally addressed sectors of Bank lending programs and broad policy issues. The following evaluation reports were completed in the time period January 1979 - December 1980.

1. IDB Programs for Institution Strengthening (authorized in 1977 work program of Group of Controllers).

2. IDB Headquarters/Field Office Relationships (authorized in 1977 work program of Group of Controllers).

3. Rural Electrification and Energy (authorized in 1978 work program of Group of Controllers).

4. Banking Lending to Animal Health Subsector (authorized in 1978 work program of Group of Controllers).

5. Selected Loan Processing Problems (authorized August 1979 by special action of the Board).

6. IDB Operations Evaluation System.

Evaluations planned or underway at the time of our review included management and use of Bank information systems and the Auditor General function within the Bank. The review of the Auditor General function is expected to complement the recently completed study of operations evaluations, which is discussed in detail later in this chapter. The IDB Auditor General's Office performs normal auditing functions as well as conducting routine and special management reviews of Bank operating divisions and field offices, including management reviews of ongoing projects.

A Committee on Review and Evaluation of the Board of Executive Directors has been established for liaison between the Board and the External Review and Evaluation Office. This Committee is composed of six Executive Directors and meets at least monthly with representatives of the External Review and Evaluation Office to discuss issues of interest. The Director of the Office prepares monthly reports for the Board concerning Committee activities.

IDB ACTIONS SINCE 1978 TO STRENGTHEN INDEPENDENCE OF THE EXTERNAL REVIEW AND EVALUATION OFFICE

Our 1978 report contained specific observations, conclusions, and recommendations for (1) strengthening the independence of IDB evaluations and (2) improving evaluation report quality. We recommended

--development and support of a U.S. position sustaining independence of the evaluation function in the Bank and

--improvement in evaluation report clarity and conciseness.

Independence of the External Review and Evaluation Office

Our 1978 recommendation that the United States support and sustain independence of IDB evaluations was based on a pending reorganization of the then-existing Group of Controllers. The Department of the Treasury concurred with our recommendation noting that an examination of the structure of the IDB review and evaluation system had been undertaken at the time of our work. The Group of Controllers was replaced in 1979 by a single Director in charge of the External Review and Evaluation Office.

The Alternate to the U.S. Executive Director to IDB advised us that, in his opinion, placing external review and evaluations under one Director instead of three Controllers has maintained

independence of the program and created a structure which should improve effectiveness. Based on our review of the operating procedures for the External Review and Evaluation Office and the two reports initiated and completed since reorganization of the program, we agree with this opinion regarding independence. However, due to the issuance of only two reports iniated since the reorganization, we are reserving judgment on overall program effectiveness. The proposed 1981 work plan for the program noted the need for continuing efforts to improve effectiveness through a more adequate timing of studies.

Bank officials responsible for the external review and evaluation program believe the reorganization has been a positive step toward improving evaluations of Bank activities. They said that the previous Group of Controllers were viewed by many in the Bank as ineffective due to their conflicting viewpoints and opinions which affected their ability to make effective and timely decisions. They also believed an atmosphere for a more effective program has been established since reorganization due to a closer working relationship with the Board of Executive Directors.

At the time of our 1978 report, there were questions concerning the adequacy of support provided the then-existing Group of Controllers by the Board of Executive Directors. Bank officials believed that since reorganization, the relationship between the Board and the External Review and Evaluation Office has improved and been readily apparent in meetings addressing evaluation report recommendations and comments by management. It was noted in the 1981 proposed program work plan that the relevance of reviews and evaluations performed depends greatly on the expectations which Board members attach to them. The proposed work plan also noted that, in the past, there was perhaps not a very clear realization by the Board of the usefulness which independent reviews and evaluations had for borrowing, as well as for nonborrowing members. Such a realization has been growing and we believe is necessary to fully achieve the purposes intended for the program.

Bank officials said that in the past there had been some apprehension by borrowing members of the Board concerning the role of the Group of Controllers since one of the Controllers was an American. They believed that American interests in sustaining independent and effective evaluations in IDB are being served by having a European as Director of the system--in that European donor interests in the Bank are essentially the same as those of the United States.

At the time of our 1978 report, we did not consider it essential that an American be directly involved in independent reviews and evaluations, even though the United States was the major contributor to Bank funds. We did not state nor do we believe that an American should be precluded from serving as Director of the External Review and Evaluation Office.

Staffing procedures have increased independence

Hiring and staffing procedures for the external review and evaluation program have been designed to maintain and strengthen independence, but at the same time have contributed to difficulties in hiring new staff which in turn has affected program workload. Bank regulations provide that:

--Staff members shall be employed for a term of not longer than the remaining contractual term of the Office Director; however, the contract of a professional staff member may be renewed by a successor Director.

--A professional staff member shall not be eligible, upon termination of his contract, for regular Bank staff employment for a period of 1 year.

--The Director shall have a term of 3 years, which may be extended for up to 2 additional years if the Board of Executive Directors so decides.

--The Director of the Office shall not, at the time of his nomination, be a staff member of the Bank, or have any interest in any operation financed by the Bank.

These regulations clearly create a personnel staffing system with independence in mind. However, the regulations also delayed the hiring of new staff and in turn reduced the number of evaluations completed. After the three members of the Group of Controllers were replaced by one Director in 1979, the External Review and Evaluation Office functioned with the lowest number of professional staff since 1971 and only became fully staffed in March 1980. Only two evaluations have been initiated and completed by the Office since reorganization, due primarily to inadequate staffing levels. Now that there is a full staff, we expect more evaluations to be undertaken and completed and believe that, under the above criteria, staff independence will continue to be achieved.

Improvements in report clarity and conciseness

We concluded in our 1978 review that evaluation reports could be further improved through a more direct style of writing, since they seemed to be wordy and excessively detailed. The need to translate from one language to another and to reconcile the styles of the then-existing three Controllers appeared to further aggravate report-writing problems. We recommended that the Secretary of the Treasury have the U.S. Executive Director suggest that efforts be made to improve report clarity and

conciseness. We also noted that delays were encountered in completing evaluations which reduced the timeliness of findings and recommendations.

In presenting to the Board of Executive Directors the external review and evaluation work program for 1979 and 1980, the Director of the program noted that the following areas deserved attention for improvements:

--The format of evaluation reports should be improved by stating more clearly the conclusions of the studies and focusing on more concrete suggestions for action. This implied that the size of reports, and particularly the detailed discussion of technical aspects, could be reduced.

--Reports should be written in a much more action- and future-oriented style with less emphasis on detailed reporting of Bank experience, particularly in sector studies.

--The timing of studies must be improved. For example, the practice of having sector and other studies taking more than 2 years to complete must be avoided.

Our review of the recently completed study of the Bank operations evaluation function shows that steps to improve report format and style have been taken by preparing an abbreviated summary of evaluation conclusions and recommendations. This summary has been presented to the Board of Directors along with detailed attachments for consideration by individual Board members if desired.

OPERATIONS EVALUATIONS BY MANAGEMENT

Responsibilities for operations evaluations were placed with the Bank Controller in 1977. The operations evaluation function has a number of stated purposes, including (1) announcing to the Bank the results of operations evaluations conducted and the experience acquired and (2) making periodic, systematic and selective reviews of ongoing loan and technical assistance operations to identify problems and prepare appropriate observations and recommendations. The IDB Operations Policy Manual states that a key objective of ex-post evaluations (evaluations of completed projects) is to furnish an independent assessment of project results to the member countries which provide the resources and to those which borrow them. IDB has adopted a philosophy that ex-post evaluations should be the result of a collaborative effort of all departments and other management units of the Bank.

The role of management in the process typically includes the discussion of project report conclusions and recommendations in interdepartmental staff meetings as to their feasibility and practicality. After this process, senior management provides the direction for action to be taken and implementation is monitored by the Bank Controller. However, the individual evaluation reports are not distributed to the Board of Executive Directors for their consideration. We believe the role of management in the process and the limited report distribution policy have resulted in a situation where the objective of independent assessments of IDB operations is not being met.

Staffing procedures for the management operations evaluation function are also not designed to achieve the degree of independence prescribed for the external review and evaluation program. Professional staff of the Operations Evaluation Office are subject to the same hiring procedures and requirements as other Bank management, contributing to a majority of the staff having been hired from within the operating divisions of the Bank.

Reports on operations

Bank officials described the operations evaluation function of management as three systems: (1) Field Office Project Completion Reports, (2) selected ex-post project evaluations within the Controller's Office, and (3) borrower ex-post evaluation reports. Field office reports and ex-post evaluations by the Controller have been used as management information tools for a number of years. The policy to encourage borrower ex-post evaluations was made in 1978. Since systematic borrower evaluations represent a relatively new policy, implementation has so far been devoted to the development of a data base for selected project analysis. No borrower reports have been prepared, but Bank officials believe the policy will lead to successful ex-post evaluations by borrowing members in the future.

Field office reports are considered the most basic element in the total operations evaluation system and are required for all projects within 6 months after the last loan disbursement. These reports are viewed as operations summaries, not evaluations, and they concentrate on the physical, financial and institutional aspects of completed projects. Recommendations for improvements are not included in the reports and distribution generally is limited to the Operations Department and the Office of the Controller.

Within the Controller's Office, loan and technical assistance projects are selected for ex-post evaluation based on information in the field office reports and a policy that evaluations conducted be representative of Bank interests. These evaluation reports contain detailed discussions of project results, conclusions and recommendations but, as already noted,

are not distributed to the Board of Executive Directors. It is management policy that copies of individual project evaluation reports are provided to the Operations Department, other departments as appropriate, and sometimes to the executing agency in the borrowing-member country. Copies are also provided to the External Review and Evaluation Office which indirectly provides the six members of the Board's Review and Evaluation Liaison Committee access to the evaluation reports. This access is physically limited to the External Review and Evaluation Office and copies may not be removed.

Since the beginning of 1979, 16 ex-post operations evaluation reports have been completed by Bank management. These reports included two sectoral summaries of water and sewage projects and road loans, and individual project evaluations in a number of development sectors including potable water supply, rural roads and rural electrification. Individual project evaluations were conducted for Bank-financed projects in Mexico, Chile, Ecuador, Panama, Colombia, Brazil, Argentina, Paraguay, Costa Rica and Guatemala.

The number and scope of operations evaluations have grown significantly since 1977 and a number of questions have been raised by the Board of Executive Directors concerning their use and value to Bank management. These questions were serious enough to warrant a major study by the External Review and Evaluation Office of management's operations evaluation function. This study was completed and forwarded to the Board in December 1980 and contained major recommendations for improving the effectiveness of operations evaluations and making them, to the extent possible, under the current organizational structure, more independent and responsive to the Board.

STUDY OF THE OPERATIONS EVALUATION FUNCTION

As authorized by the Board of Executive Directors, the External Review and Evaluation Office recently studied management's operations evaluation function in the Bank. This study was in response to a number of questions raised during Board meetings concerning the nature and use of the function in relation to other evaluation activities in the Bank. In addition to the matters of effectiveness, one of the issues considered in the course of the study concerned the independence of the operations evaluations conducted by management.

External Review and Evaluation officials said that the study shows management's evaluation system is not independent and that there is a need for (1) greater access of the Board to information concerning project results and (2) improvements in the effectiveness of management staff in the system. They viewed study recommendations as only an initial step toward assuring more independence and effectiveness in project evaluations, within the

currently approved organizational structure providing dual evaluation functions. Bank management supported the study recommendations, but added the caveat that implementation will be phased in over time, as possible. Management believed that staffing limitations and their desire to maintain the operations evaluation system as it is would reduce their capability to implement the recommendations within any specific time period.

The External Review and Evaluation Office recommended that in order for the Board to be kept informed of the status and results of operations evaluations, the Board should require that

--management present to the Board an annual report on the state of the system during the previous year, including summaries of (1) evaluation reports completed, (2) the extent to which the reviewed projects had achieved their planned results, and (3) significant actions taken by the Bank as a result of these studies and

--the Director of the External Review and Evaluation Office comment on management's annual reports, and the Office within future Board-approved work programs, again make independent appraisals of the Bank's operations evaluation system.

In our opinion, an annual report of the type envisioned in the first recommendation would not be sufficient for independently informing the Board of project results. The Board has already been provided copies of the two management sector summaries of individual project evaluations. However, Bank officials agreed with us that these summaries do not contain all recommendations for specific projects and are written in a style which makes it difficult, if not impossible, to identify precisely what has happened in individual projects. It is important to note that the two sector summaries which have been provided to the Board of Executive Directors did not identify the countries in which the projects had been implemented. We believe sector summaries of this nature do not provide member governments through the Executive Directors an independent assessment of project results.

The recommendation to make further appraisals of the Bank's operations evaluation system implies that the system is not independent. We believe that periodic assessment of the operations evaluation function will not fully ensure independence. Consistent with suggested Comptroller General standards, we believe independence can be better ensured by direct involvement of the External Review and Evaluation Office in selected evaluations of Bank projects. This involvement would be consistent with Bank regulations established for the independent review and evaluation program which state that particular attention should be given to determining whether Bank operations accomplish their intended objectives.

Limited access of Board to operations evaluation reports

Although the Board of Executive Directors has the basic responsibility for conduct of Bank operations, project evaluation reports are not distributed to them. We were permitted to review two project evaluation reports of management which, in our opinion, were well-documented studies containing several recommendations for improvements in Bank operations. The study of operations evaluations by the External Review and Evaluation Office raised serious questions concerning this limited access of the Board to operations evaluation reports by noting that in a 20-month period Board members had only received the two management-produced sector summaries and those only on an informational basis.

We believe the limited access of the Board of Executive Directors to operations evaluation reports is a major weakness of the IDB operations evaluation system as performed by Bank management. The standards prepared by the Comptroller General for consideration by the U.S. Executive Director defined independent evaluation to be analytical examinations of all important operations, functions and procedures of the Bank. These standards also suggested that evaluation reports should be made available to all Executive Directors of the Bank. The effective discharge of these responsibilities requires the prompt reporting of evaluation findings and related recommendations to the Board.

Bank officials told us that management has historically been protective of the sensitivities of borrowing members concerning the use and impact of Bank-provided assistance. This concern has led to the policy of limited access for the Board to operations evaluation reports. One official believed that the restricted access is due primarily to the concerns of senior management that evaluations would not be frank assessments by the Bank staff if they knew the results would eventually reach borrowing-member countries vis-a-vis Board feedback. We believe that the concerns of borrowing-member countries may be overstated since the World Bank and ADB provide relatively unhindered distribution of project evaluation reports to all member governments. We further believe unlimited access of donor governments to project reports will provide a better balance of interests for all parties concerned. The alternate U.S. Executive Director agreed that Bank policy limiting access to operations evaluation reports is questionable.

Need to improve effectiveness of operations evaluation functions

Based on the study, the External Review and Evaluation Office also recommended to the Board that to improve the effectiveness of operations evaluations, Bank management should

--provide opportunities for greater and more productive participation of borrowing-member countries in the operations evaluation system,

--increase Bank assistance to interested borrowing member countries for expansion of their ex-post evaluation capacity,

--promote staff understanding of the operations evaluation system as a means to improve staff performance.

--improve departmental controls to ensure increased staff followup and compliance with evaluation report submission requirements,

--upgrade the content of staff-produced reports within the operations evaluation system, and

--build more staff access and senior management review into the present system.

The study identified both strengths and weaknesses concerning the role of Bank management and staff in operations evaluations. It was concluded that within the senior management of the Bank and the Controller's Office, participation in the operations evaluation system has been significant and helpful in improving Bank activities. However, the nature of Bank staff participation in the system was noted to have been routine and pro-forma and weak in a number of areas. The weaknesses in staff participation included inadequate staff understanding, followup and compliance with the operations evaluation system; insufficient content of staff-produced project completion reports; and the limited usefulness of individual project evaluations and summary reports by the Operations Evaluation Office. The study concluded that due to failures by staff to submit and review project completion and ex-post project impact reports, findings and recommendations could not be presented to management on a broadly representative sample.

CONCLUSIONS AND RECOMMENDATIONS

IDB has made a commitment to strengthen and improve its external review and evaluation program. This commitment has continued since reorganization of the program in 1979 and by adoption of new staffing procedures providing more organizational independence from Bank management. Program results, however, have been quite limited since reorganization. Only two reports have been authorized and completed and individual project assessments are not part of program coverage.

Management has assumed responsibility for independent assessments of project operations, but this independence has been compromised by the role of Bank staff and management in the system.

The project evaluation function as performed by management also has a stated objective of informing all member governments of project results, but has fallen far short of this objective by restricting access of the Board of Executive Directors to evaluation reports.

We believe the problems noted in the recent Bank study of the operations evaluation system further justify a greater role by the External Review and Evaluation Office in conducting selected project reviews. We believe appropriate action on the study recommendations would complement these selected reviews and strengthen the overall effort to provide a stronger program for evaluation of Bank projects. We also believe the participation of borrowing members in evaluations should be encouraged as a means of reducing sensitivities concerning the purpose and use of the evaluation function.

To achieve the purposes of independent evaluation and help the Board of Executive Directors perform their responsibilities, we recommend that the Secretary of the Treasury have the U.S. Executive Director to IDB suggest that

--the external review and evaluation program include evaluations of selected project results and

--management revise its operations evaluation report distribution policy to provide the Board of Executive Directors unlimited access to evaluation reports.

CHAPTER 3

WORLD BANK PROGRESSES BUT AREAS FOR IMPROVEMENT REMAIN

The World Bank has actively supported development of an independent evaluation system, and continues efforts to improve it. The Bank has implemented many practices consistent with the auditing and reporting standards submitted by the Comptroller General, through the Secretary of the Treasury, to the U.S. Executive Director in 1974. Bank officials, although believing the World Bank system generally follows the Comptroller General's standards, also believe that most of our recommendations made in 1978, pursuant to those standards, were generally inappropriate for the World Bank system. The Treasury Department strongly supported many of our 1978 recommendations and agreed that the evaluation system of the Bank should focus more sharply on recommendations, followup procedures, and extending the scope of review activities to include areas not evaluated.

Bank evaluation officials have not adopted all of our 1978 recommendations, but we believe it is important to note that the U.S. representative to the Bank has supported efforts to improve the evaluation process. This support has included participation in activities of the Joint Audit Committee which has suggested improvements in the scope and content of individual project audits and the need to ensure continuing attention to special sectoral and policy studies. Officials of the independent evaluation system agreed with our 1978 report conclusion that greater emphasis should be given to sector and policy reviews.

After reviewing the World Bank's independent evaluation system, and analyzing the relevance of our recommendations in the context of current Bank practices and procedures, we believe that the World Bank has most of the elements essential for an effective evaluation system, but that improvements in accordance with our earlier recommendations would enhance the system. The most important improvements the Bank should make include emphasizing recommendations as the culmination of all reviews, as a matter of policy. We believe such a policy would improve the overall scope and content of the audit process and also strengthen the followup system for assessing response to recommendations.

EVALUATION SYSTEM

The World Bank utilizes a two-tier evaluation system. The first tier consists of self-evaluation by the relevant Bank offices. The second tier consists of reviews of these self-evaluations and the relevant bank experiences, by an independent evaluation system, which also carries out special studies of selected topics and issues.

The Director-General and the Operations Evaluation Department

Responsibility for the independent system lies with a Director-General of Operations Evaluation who is assisted by an Operations Evaluation Department. Although the independent system has an administrative link to the Bank President, the Executive Directors appoint the Director-General for renewable 5-year terms and only they can remove the incumbent from his position. The Director-General cannot later become a regular staff member of the Bank except in unusual circumstances. The Operations Evaluation Department, in turn, is responsible to the Director-General.

The Director-General is responsible for appraising the evaluation system and for reporting on its adequacy. He is also responsible for conducting independent reviews, on a selective basis, of operational programs and activities to determine if the objectives are being realized and how the programs might be made more effective, efficient, and responsive to the needs and concerns of member governments.

The Operations Evaluation Department is the staff arm of the Director-General, and has unrestricted access to the staff and records of the World Bank. Its principal functions are

--to assist the Director-General in periodic assessments of the adequacy and effectiveness of the operations evaluation system;

--to carry out performance audits on all completed projects and to conduct evaluation studies and operational policy reviews on subjects which the Director-General determines warrant examination, with a view to identifying areas for improvement in World Bank policies and procedures and their application;

--to help the World Bank encourage and assist member countries to develop an operations evaluation function;

--to assess actions taken by the World Bank in connection with the findings of studies by the Operations Evaluation Department, and report thereon to the Executive Directors and the Bank President; and

--to help disseminate evaluation findings regarding World Bank operations, and the lessons emerging therefrom, both within the Bank and to the wider development community.

The Joint Audit Committee

The Joint Audit Committee, comprised of 8 of the 20 Executive Directors, has a broad mandate to assess the adequacy and efficiency of the World Bank's evaluation system. To fulfill these responsibilities, the Committee

--reviews with the Director-General his annual reports before they are discussed by the full Board of Executive Directors;

--recommends the draft annual work program and budget of the independent evaluation system to the Executive Directors;

--screens reports for policy issues or major operational problems which it recommends the Board consider;

--reviews all special studies and a small representative sample of project performance audit reports to assess the adequacy of their coverage, methodology, and adherence to Bank standards; and

--reports annually on its conclusions and findings concerning the evaluation system.

SCOPE AND METHODOLOGY OF THE EVALUATION SYSTEM

The independent evaluation system provides audits for all completed projects, and reviews various areas of Bank activities. The independent evaluation staff conducts a performance audit on every individual completed project. Bank staff evaluate completed projects through preparation of a project completion report normally within 6 months after final disbursement of loan funds or IDA credits. The independent evaluation staff then reviews the project completion report for comprehensiveness, internal consistency, and objectivity. To perform this latter review, the independent evaluation staff, in all cases, examines relevant Bank documents and discusses the project with Bank staff. The resulting audit report consists of both the audit memorandum resulting from the review, and the project completion report itself. Borrower comments are requested and included when possible.

Audits of individual projects may be based on an abbreviated, intermediate, or full review. An abbreviated review is comprised of an examination of relevant Bank documents and discussions with Bank staff. Use of an abbreviated procedure is normally linked to an acceptable economic return, no significant time or cost overruns, and a satisfactory project completion report for the project. Projects undergo a more thorough review depending on the decisions of the evaluation staff regarding the importance

of the project experience, the lessons for Bank operations, and the issues raised. In addition to reviewing Bank documents and talking with Bank staff, a full review almost always includes a full field visit to the borrowing country to discuss the project experience and to obtain the views of borrower governments and their implementing agencies. Evaluation staff determine the actual content of an intermediate review, which falls somewhere between the abbreviated process and a full review. Projects may also occasionally be selected for more thorough review for purposes of quality control.

In the Bank's fiscal year 1980 (July 1 through June 30), 26 percent of the audits used abbreviated procedures, 27 percent used intermediate, and the remaining 47 percent used full review procedures. In addition to audits of individual projects, the evaluation staff prepares several kinds of reports and special studies, including

--evaluations which examine the impact of groups of projects and their implications for Bank policies, practices and procedures;

--evaluations which focus on a single project to assess its impact several years after completion;

--operational policy reviews which look at the actual application of Bank policies and procedures governing the management and administration of lending and technical assistance programs;

--annual reports on individual project performance audits which bring together for summary review many of the findings of individual project audits conducted during the preceding calendar year;

--annual reports on operations evaluations; and

--a concordance which is a reference work to help users find individual audit reports which have dealt with relevant aspects of Bank operations.

During the Bank fiscal years of 1978, 1979, and 1980, the evaluation staff audited 124, 91, and 109 individual projects, respectively. During those same years a total of 17 reports or special studies were issued, along with a concordance which was updated periodically.

Scope of coverage

In 1978 we recommended that the independent evaluation system utilize a time-phased plan for the review of all major Bank activities and operations in order to provide the most effective scope of coverage. The independent evaluation system

had not evaluated the effectiveness of all significant Bank activities. One of the more important of these activities included the effectiveness of ongoing projects.

Bank officials still have not utilized a time-phased plan because they believe its application is inappropriate at the World Bank. The Director-General of the independent evaluation system believes the coverage of independent reviews should focus on the interests expressed by the Board of Executive Directors and whether the independent evaluation system has responded to those interests. He added that the Board does not want the independent evaluation system to duplicate, without cause, evaluation work done elsewhere in the Bank. Officials believe that activities not subjected to independent evaluation have been adequately scrutinized by the Bank's internal auditing department, its organization planning department, and, in some instances, outside consultants. Officials informed us that the Joint Audit Committee reviews the annual work program for the independent evaluation system and the internal audit department.

To prevent unnecessary duplication within the Bank, the independent evaluation system coordinates its coverage with that of other evaluations conducted by Bank management. Bank management views the roles of the independent evaluation system and the interal auditing department as complementary. The independent evaluation system does not generally examine those operations evaluated by the internal auditing department. The internal auditing department is responsible for evaluating all management functions, procedures, and systems. The department has prepared a master work program of all Bank operations which it must evaluate, and reviews each of those operations at least once in a 3-year period. The auditing department directs its reports to the director(s) of the department(s) affected and does not distribute them to either the Joint Audit Committee or Board of Executive Directors.

We are concerned that examination of major activities within the structure of Bank management does not meet the requirements of independent evaluation, particularly that of advising member governments of the examination results. In contrast to evaluations conducted by management, a primary responsibility of the independent evaluation system is to regularly and systematically keep member governments apprised of the extent to which Bank activities and operations meet Bank goals and policies. The independent system can fulfill this role only for those activities which it reviews. We believe the independent evaluation system should, therefore, review all major Bank activities and operations.

The standards and procedures adopted for operations evaluation state that the Director-General is not concerned with the functions of the internal auditing department. We disagree with

this view because internal auditing is a major function of Bank management and should not be exempt from the scrutiny of the independent evaluation system.

Our review showed that there clearly is interest within the Bank in having the evaluation system broaden the scope of its evaluation activities. The Executive Directors, to whom the Board has delegated its authority, have consistently expressed interest in independent evaluation of areas not yet independently reviewed.

Ongoing projects

Although evaluation of ongoing projects is included in special studies, review of ongoing projects, in and of themselves, is not systematically part of the independent evaluation program. In 1979, the U.S. Senate Committee on Governmental Affairs questioned the effectiveness of multilateral bank evaluations that do not deal with the kinds of projects under current consideration. Unless ongoing projects are evaluated, several years will probably pass before the Bank can learn from its current experiences or from Bank activities in a new lending area.

In a 1980 report reviewing supervision within the Bank, the independent evaluation system reported that many staff believed that feedback and lessons learned on current projects, other than experience personal to the staff immediately involved, are not used in the design of subsequent projects. Others believed that feedback from supervision experience only occasionally influences project design. The report noted that Bank operations are working to improve feedback from supervision. We believe reviews of selected ongoing projects by the independent evaluation staff, and the subsequent reports, could provide useful vehicles for timely and broad dissemination of Bank experience.

Further, evaluation may occur, according to Bank officials, as many as 5 or 6 years after a loan has been granted; during that time, however, other loans in that same lending area may be granted. In August 1978, in the Fourth Annual Review of Project Performance Audit Results, the Bank reported that four of the newest areas of Bank activity had not been reviewed by the independent evaluation system. In one of these areas--rural development--the Bank reported in February 1978 that major Bank involvement had begun some 4 years earlier. In 1979, the Bank reported that three of those same four areas remained unreviewed. In 1980, although the Bank could report that all but one area had been reviewed, projects in the unreviewed area had been underway for some time.

STAFF RECRUITMENT AND TRAINING

In 1978, we expressed concern about the potential loss of independence when staff for the independent evaluation system

are both recruited from inside the Bank and subsequently reassigned to Bank operations. We also recommended that the independent evaluation system provide its staff with specific guidance on audit techniques to ensure consistent, efficient, and effective reviews. Staffing policies remain basically the same as noted in our 1978 report. Information acquired during this review further suggests that the independent evaluation system needs to revise these policies to minimize concerns about the appearance of staff independence.

Officials within the independent evaluation system have maintained their preference for recruiting staff from existing Bank personnel. They believe the staffing requirements of the system are too small to provide long-term career opportunities and, hence, it is more beneficial to the system to be able to draw experienced staff from inside the Bank as part of their career development. One official noted especially that the sector and institutional knowledge of Bank personnel was a strong argument in favor of hiring from inside the Bank. Bank evaluation officials also supported staff-reassignment policies in the belief that experience gained in evaluations contributes to performance in operations.

The Director-General does not believe that this staffing policy compromises the independence of the independent evaluation system. He believed that staff do not carry previous biases into their evaluation work since their analyses and conclusions must be supported by evidence in order to be sustained. Bank officials also believed that conflicts of interest are avoided by relying on staff to disqualify themselves from evaluating projects they worked on prior to joining the independent evaluation system.

Although these arguments were presented in support of the current staffing policy, we noted that problems and concerns with staff independence, recruitment, and reassignment have arisen within the Bank at various times since our 1978 review. Some officials have expressed concern over the appearance of lessened objectivity because of the rotation policy. Further, the 1979 Annual Report on Operations Evaluation noted that concerns have been raised within the Bank about the difficulties evaluation staff would have returning to areas of Bank operations which they may have criticized. The issue of staff rotation back into Bank operations arose at that time apparently because some staff were beginning to finish their assignments with the independent evaluation system. Bank administration responded to these concerns by noting that rotation was a problem throughout the Bank, but that the independent evaluation system had particular problems both recruiting and reassigning Bank personnel because (1) personnel found line assignments in Bank operational divisions more attractive and (2) Bank managers preferred staff who they believed could work immediately on agreed work programs.

We believe the policy of recruiting evaluation staff from existing Bank operations personnel and reassigning them to Bank operations leads to questions concerning the independence of the World Bank evaluation system. Our concern is heightened by the fact that staff receive no formal training in basic audit techniques to help demonstrate to them the difference in the work of the independent evaluation system when compared to Bank operations work.

We are in no way questioning the personal integrity or professionalism of the independent evaluation system staff. We do believe, however, that a better mix of personnel hired from outside and inside the Bank would provide a system more organizationally independent of management. Such a mix, combined with formal training in auditing techniques for independent evaluation would enhance the individual and collective contribution of staff. An overall staffing plan describing the professional backgrounds needed to conduct the studies planned by the independent evaluation system could help in deciding which needs are best filled from inside and outside the Bank.

RECOMMENDATIONS SHOULD BE THE CULMINATION OF REVIEWS

In our 1978 report, we recommended that the U.S. Executive Director suggest that the Executive Directors of the World Bank require reports of the independent evaluation system to contain recommendations when appropriate. The Treasury Department strongly agreed with this recommendation stating

> "* * * the Bank's evaluation system should be more sharply focused on producing specific recommendations for improving the Bank's capacity and procedures for applying the lessons learned from the whole evaluation process * * * With such recommendations in hand, the Bank would be in a much better position to institute followup procedures * * * This is a deficiency in present practices."

Our recommendation was based on Comptroller General auditing and reporting standards which suggest that audits should include recommendations for improvements. The World Bank independent evaluation system has not adopted this practice in reporting on audits of individual projects, which represent nearly one-half of staff time. We believe that in addition to meeting generally accepted auditing and reporting standards, officials responsible for independent evaluation systems must bear in mind their responsibility for informing member governments of actions which should be taken to improve Bank programs and those actions which have been taken.

Recommendations would enhance the usefulness of individual project audits

The independent evaluation system has responsibility for directing the Bank toward needed changes. A principal function of the system is to conduct individual project audits and special studies, including operational policy reviews, with a view to identifying areas for improvement in Bank policies and procedures. The inclusion of recommendations in reports appears to be a standard part only of the operational policy reviews. Annual reviews of individual project audits include broad summary findings but no clearly designated recommendations. Individual project audits also do not normally include recommendations. Audits of individul projects are a significant proportion of the independent evaluation system's work. In the Bank fiscal year 1978, 56.5 percent of staff resources, including consultant years, was devoted to audits of individual projects. In fiscal year 1979, that figure was 34.3 percent. The estimated proportions for fiscal years 1980 and 1981 are 47 and 50.7 percent, respectively.

The Director-General of Operations Evaluation acknowledged that recommendations are not normally included in audits of individual projects. Officials in the independent evaluation system and in Bank operations consistently stated that recommendations are not included in individual project audits due to their belief that review of one project is not sufficient basis for recommending changes which would be generally applicable to Bank policies and procedures. These officials believed that problems identified in one project were likely to be relevant only to that project. The Director-General agreed, though, that if the origin of a problem cited in an audit of an individual project involved a Bank procedure, or if the problem could be solved by Bank changes, then a recommendation would be appropriate.

As pointed out later in this section, we believe recommendations should be a viable part of individual project reviews. To enable an independent evaluation system to fulfill its responsibilities, we believe recommendations should be emphasized as the culmination of the review process. We believe that the World Bank evaluation system would particularly enhance its effectiveness if it emphasized the formulation of recommendations as an integral part of individual project evaluations. This policy would result in more frequent and timely identification of, and response to, needed improvements in Bank policies and procedures.

The Comptroller General's auditing and reporting standards state that the primary emphasis of the evaluation function should be on improvement. An effective way to help management utilize

the information presented in an evaluation is to lay out alternatives in the form of recommendations for their consideration in order to stimulate timely response to identified problems. The inclusion of lessons learned instead of recommendations in World Bank reports on audits of individual projects indicates only that there is something particular which management should recognize for either its positive or negative impact on Bank lending. We believe any issue worth noting as a lesson learned, by its very nature should require timely and responsive action. We believe that as a matter of policy recommendations for action should, therefore, be included in audits of individual projects in order to increase the effectiveness of similar lending operations.

Use of recommendations by the other multilateral banks

Both IDB and ADB have demonstrated that recommendations are a viable part of individual project reviews. They include recommendations in their reviews of individual projects as a matter of policy. The IDB operations policy manual states that recommendations are made on each project studied in order to apply past experience to improving the quality of future loans. Recommendations are addressed to the operating departments of the Bank, and, as appropriate, to borrowers and/or executing agencies in the borrowing country. In the preface to its status report on the implementation of recommendations made in 1979, ADB noted that recommendations are formulated in reports on individual projects for the consideration of both the Bank and the borrower.

Our review of individual project audit reports by the two Banks showed that pertinent recommendations were made for improvements in Bank programs. The recommendations were directed toward action by the Banks and/or the executing agency in the borrowing country.

World Bank annual reviews of project performance audit results

At the very least, we believe the independent evaluation system should include clearly delineated recommendations in its annual reviews of audits of individual projects. Clearly delineated recommendations in this report would

--focus attention where needed and in a more timely manner,

--present possible solutions, and

--provide a clear reference point for assessing management's response.

Including recommendations in this annual report would (1) preclude waiting for further reviews in separate studies to support recommendations and (2) meet the Director-General's current preference for basing recommendations on review of a group of projects rather than on individual projects. For example, 20 projects in the public utilities sector were reviewed in the 1978 annual report. One summary finding noted that demand forecasting was a problem because there had been consistent underestimation of demand in telecommunications and overestimation in electric power. Although the report noted that demand forecasting is difficult, it reiterated, without recommendations, the conclusion of the previous year's report that some improvement seemed possible and should be sought. We also believe this procedure would eliminate weaknesses of the annual reporting system which include difficulties in identifying suggestions for improvements and the party responsible for responding to the suggestions.

Recommendations provide effective focal point for followup

Recommendations are most useful as the focal point for action and followup. Recommendations are clear prescriptions for action to which designated officials or agencies must respond. As such, they are specific, effective vehicles for assessing the extent to which Bank management acts upon the results of investigations by the independent evaluation system.

In our 1978 report we stated that a followup system should periodically report to the Executive Directors on

--all findings and recommendations being tracked by the independent evaluation system,

--the status of specific actions taken in response to recommendations, and

--the adequacy and effectiveness of those actions.

The independent evaluation system has implemented a followup system that considerably meets those criteria with regard to recommendations included in its few operational policy reports. We believe the World Bank followup system for operational policy reviews represents a major strength of the total evaluation system. We also believe that the absence of a similar system for individual project reviews represents a major weakness in the total system. The independent evaluation system essentially relies on Bank operations to follow up on findings and lessons presented in audits of individual projects. This procedure does not have the built-in assurances for followup action established for operational policy reviews. This weakness is carried forward in the annual review of individual project audits by the independent evaluation system. The annual report provides

--no vehicle for assessing the response of Bank management in order to determine if all findings are responded to in any way, or if they are responded to in a timely manner, and

--no guarantee that a recurring problem will be the subject of a subsequent special evaluation study, or even if such a study is conducted, that recommendations for change will be included.

As an example of these weaknesses, the issue of user charges was raised in the context of 31 highway and railway projects reviewed in the 1978 annual report. Yet, no special studies on highway projects have since been conducted, nor are any planned as of the proposed fiscal year year 1981 work program for the independent evaluation system. Nor is there any systematic way to ascertain if Bank management has responded to this problem area. There were no references to the issue in the annex to later annual operations evaluation reports, which the system prepares and uses as a followup vehicle for presenting management responses to those recommendations which are included in a few special studies, such as the operational policy reviews. There was also no discernible reference to the issue in subsequent annual reports on individual project audits. Bank management may or may not have addressed the issue, but certainty is not built into the system. We believe this system is inadequate for informing member governments of improvements that are needed and those which have been made.

CONCLUSIONS AND RECOMMENDATIONS

The World Bank's continued efforts to develop an effective independent evaluation system have met with much success, especially in the evolution of its special studies program and its method of followup on recommendations. The independent evaluation system, however, could provide a more comprehensive program of evaluation services if it implemented certain changes, many of which would be consistent with our 1978 recommendations. We believe that, with some modifications to account for World Bank progress, those recommendations are still valid and necessary to more fully meet the stated purpose of independent evaluation.

We are primarily concerned with strengthening the review process through the inclusion of recommendations in project audit reports, as a matter of policy, and by utilizing recommendations as the focal point for a followup system which can fully track management's response to the entire array of evaluation reports. We believe these actions would better enable the evaluation process to provide member governments,

through the Bank's Board of Executive Directors, an independent and continuous program of selective reviews of all major programs and activities.

We recommend that the Secretary of the Treasury instruct the U.S. Executive Director to the World Bank to suggest that the independent evaluation system include, as a matter of policy, recommendations in evaluation reports as (1) the culmination of reviews and (2) a focal point for improving its followup system.

We also believe that the evaluation system would ensure effective independent evaluations by making certain changes in the way it executes its responsibilities. We recommend that the Secretary of the Treasury instruct the U.S. Executive Director to the World Bank to suggest that the Executive Directors support efforts to

--strengthen program coverage by the independent evaluation system through development of a time-phased plan for systematically reviewing all major Bank activities, including the internal evaluation activities of management; and

--establish a staffing program which includes seeking additional personnel from external sources and providing audit training.

CHAPTER 4

SCOPE AND EFFECTIVENESS OF THE ASIAN DEVELOPMENT BANK SYSTEM COULD BE ENHANCED

ADB supports efforts to improve its independent review and evaluation program. Changes have been made in organizational structure providing more involvement of the evaluation function with the Board of Directors. Proposals have been made for broadening the scope of the evaluation program beyond project evaluations. Also, improvements have been made in staffing and procedures for followup on report recommendations. We believe the effectiveness of the evaluation system could be enhanced by further broadening the scope of reviews to include all major lending activities, increasing management's participation in the followup system on report recommendations, and easing the Bank's two-tier requirement which limits the selection of projects for review.

AREAS FOR IMPROVEMENT IDENTIFIED IN PRIOR REPORTS

In late 1977 the President of the Asian Development Bank announced that a reorganization was under consideration in order to increase the institution's effectiveness because of expected expansion in the Bank's lending activities. At the time of our 1978 report the reorganization was still under study. One aspect under consideration was the degree of independence and scope of the review and evaluation function.

We believed that there was a need for the ADB to have a truly independent and broader approach to the review and evaluation of Bank activities, beyond the scope of evaluating only completed projects. This planned reorganization provided a timely opportunity for changes which we believed would bring the review and evaluation system more in line with the auditing and reporting standards of the Comptroller General. This we believed would also contribute to meeting the increased requirements for review and evaluation of Bank activities in the years ahead. In 1978, responsibility for independent evaluations was placed with the Post-Evaluation Office.

Our 1978 report 1/ identified opportunities to increase the efficiency and effectiveness of the ADB independent review and evaluation system. Our report noted that the Bank had made progress toward developing an effective post-evaluation group. We made a number of recommendations for improvement, including

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1/"Independent Review and Evaluation at the Asian Development Bank," (ID-78-49, Oct. 18, 1978.)

--establishing a timetable for the formulation of a truly independent evaluation group;

--broadening the approach of the review and evaluation function;

--strengthening followup procedures on report recommendations;

--adopting a more simplified form of report; and

--developing a plan to increase the evaluation function to keep pace with the increase in Bank lending.

INCREASED INDEPENDENCE OF THE POST-EVALUATION UNIT

ADB has gradually increased the independence of its evaluation unit consistent with our previous recommendation, which stated that until a truly independent group:

> "* * * can be formed and placed under the Board of Directors, interim measures should be taken to have the group placed for administrative purposes under the President of ADB or under the Vice President in charge of the non-operational departments."

To be most effective, an evaluation unit should be totally independent to conduct its reviews objectively and report the conclusions without fear of censureship. The Comptroller General in his Statement of Auditing and Reporting Standards suggested that the ADB's evaluation unit be divorced from management and responsible to the Board of Directors and ultimately to the Board of Governors. Also, an effective evaluation system should include a definitive role for the Board in the review and approval of reports, recommendations, and work plans. Recognizing these principles, ADB has decreased management's association and increased the Board's involvement in the post-evaluation function.

Decreased management involvement

From 1973 to 1978, evaluations were conducted by the Economic Office which was not directly responsible to the Board of Directors nor independent of management. The post-evaluation function was removed from the Economic Office and placed in a separate unit entitled the Post-Evaluation Office. Presently, the Chief of this Office reports directly to the Bank President. The President reviews and approves all audit plans and reports before they are submitted to the Board of Directors. While this gives the appearance of limiting independence, Bank officials have told us that the President has maintained a policy of non-interference in the evaluation program and respected independence of the Office. Also, the President told us that he feels this

review is within his authority as the Chairman of the Board and he is acting as a representative of the Board.

The principal responsibilities of the newly formed Post Evaluation Office are to:

--Conduct independent post-evaluation of Bank-financed projects, sectors or sub-sectors, with a view to (1) improving the methodology of project appraisal, (2) providing objective assessment of the overall effectivenss of such projects, and (3) evaluating the development impact of the Bank.

--Follow up and to assess action taken on the implementation of recommendations made in post-evaluations already completed, and report thereon to the President.

--Assist in the preparation of Project Completion Reports in order that such reports may be available for post-evaluations.

--Disseminate within the Bank important findings and lessons learned for application in future operations.

--Assist countries in developing and strengthening their own evaluation capabilities.

A total of eight post-evaluation reports were issued in 1979, covering two fisheries projects and one project in each of the following sectors: development banks, power, ports, roads, industry and livestock. The projects were located in Bangladesh, Pakistan, Sri Lanka, Western Samoa, Korea and Indonesia. From January to July of 1980, an additional six post-evaluation reports were issued, covering such projects as the

--Penang Airport Development Project in Malaysia,

--Communications Satellite Earth Station Project in Sri Lanka, and

--Sea Water Desalting Project in Hong Kong.

Increased Board involvement

The Board of Directors has gradually increased involvement in the post-evaluation function through an Audit Committee, which is composed of three directors. Responsibilities of the Committee include satisfying itself that internal audit and post-evaluation activities are adequate and efficient. At the time of our 1978 review, the Committee was still formulating its role and was not yet prepared to assume control of the post-evaluation

unit. Presently, the Committee's involvement is much greater and includes, among other things,

--suggesting projects for review,

--reviewing completed reports and the status of recommendations,

--recommending staffing and recruitment procedures, and

--making changes in Post-Evaluation Office reports.

Although we believe the Audit Committee's increased involvement is a major step toward achieving a more independent post-evaluation group, we believe that the Committee's effectiveness would be enhanced if it avoided becoming too embroiled in review methodology and editorial review of individual reports. For example, the Committee has questioned the necessity of evaluation missions' visits to project sites. We believe that such actions may unduly expand responsibilities of the Committee and that Committee time could be more efficiently spent on establishing general guidance rather than explicit direction of the post-evaluation function.

PROPOSED BROADENING OF THE POST-EVALUATION FUNCTION

For more comprehensive assurance that Bank activities are economical and efficient, the Post-Evaluation Office has proposed doing broader based reviews in 1981 including sector studies and reviews of operational or functional areas. This is a major step toward increasing the effectiveness of the evaluation function and is consistent with our 1978 recommendation, which suggested that the post-evaluation group should perform selective reviews of all major programs and activities of the Bank.

Our recommendation was based on Comptroller General-suggested standards which state that an independent review system should provide the Board of Directors with a program of selective reviews of all major programs and activities of the Bank. The post-evaluation group has devoted resources to conducting post-evaluation studies which focus only on completed projects.

Members of the post-evaluation staff have told us that the proposed 1981 evaluation program includes

--three operational reviews;

--three sectoral reviews which would include projects in the implementation phase; and

--twenty four loan projects for post-evaluation.

This mixture of reviews, in our opinion, will give added assurance to the Board that the Bank programs and functions are being operated in an economical and efficient manner and that they are being effectively monitored.

We believe, however, that ADB should systematically subject all its major programs and operations to independent review. Until this is accomplished, the effectiveness of the independent evaluation function remains limited.

IMPROVED FOLLOWUP ON REPORT RECOMMENDATIONS

The Post Evaluation Office and the Audit Committee have strengthened Bank followup procedures on report recommendations and have expressed interest in institutionalizing management's role. The Bank action recognizes our previous concern that followup procedures were not thorough. The system

--formally and periodically identifies all the findings and recommendations which it is tracking;

--identifies the status of the specific actions taken; and

--assesses the adequacy and effectiveness of these actions.

The Bank has gradually improved the effectiveness of its followup system by increased Audit Committee and Post-Evaluation Office involvement. The Audit Committee has devoted sessions for reviewing completed post-evaluation reports. During these sessions, the status of recommendations and lessons learned were discussed in detail with evaluation and operations staff. Additionally, the Post Evaluation Office has increased its reporting of the status of earlier recommendations. The office issued its "First Review of Post-Evaluation Reports" in March 1980. The First Review presents and assesses the findings and recommendations of the 19 post-evaluation reports completed prior to 1979. The Office issued its "Second Review of Post-Evaluation Reports" and a report on status of recommendations in October 1980. These documents discuss the eight post-evaluation reports issued during 1979.

Although positive steps have been taken in reporting on recommendations, there is no formal structure for management and Post Evaluation Office interaction on the implementation of recommendations. The Chairman of the Audit Committee has stated that management involvement tends to proceed in an "ad hoc" fashion and that it might be desirable for management to assess and bridge differences of opinion between the Evaluation Office and operating units. The Audit Committee has recognized that

management's followup on report recommendations should be strengthened and has suggested forming a more effective mechanism for applying evaluation findings to relevant Bank operations.

Improved simplified report format

The Post-Evaluation Office has improved and simplified its reporting format since our last review. At that time we found that in many reports it was difficult to interrelate conclusions, findings, and recommendations and we recommended that the post-evaluation unit adopt a more simplified report format. ADB agreed with the recommendation and has taken effective action to implement it.

INCREASED CAPABILITIES OF THE POST-EVALUATION OFFICE

The Bank has gradually increased the capabilities and staffing of the Post-Evaluation Office in an effort to keep pace with increasing loan activities and project completions. This partially complies with the intent of our previous recommendation for ADB to develop "* * * a time-phased plan relating review and evaluation plans to the goals and composition of Bank lending activities."

As part of the recommendation, we concluded:

--The productivity of the post-evaluation unit would be determined by how well the size and composition of the staff keep pace with the Bank's growing activities.

--As the number of completed projects increase, it would become more difficult to continue conducting intensive post-evaluation studies.

--The value of single-country studies and sectoral reviews should be considered in keeping pace with the Bank's activities.

Staffing of the Post Evaluation Office has increased from four positions in 1978 to an authorized strength of a Chief and 10 professionals in 1980. There has been an increase in the percentage of completed loan projects which have been evaluated.

Changed emphasis in post-evaluations

In 1979, the first full year of operation for the Office, there was a transition in the post-evaluation activities. The emphasis shifted from the earlier concentration on intensive post-evaluation studies to the newly adopted sequence of Project Performance Audit Reports based on previously issued Project Completion Reports.

The purpose of a completion report is to present a self-evaluation of the entire project cycle based on a comprehensive review of appraisals, negotiations, loan agreements, Board discussions, and the status of the completed project. The primary purpose of an audit report is to examine the soundness and consistency of completion report findings and conclusions and to identify lessons learned which can be used as guidance in future projects. The audit is based on an analysis of the completion report; reviews of relevant documents; discussions with Bank, executing agency, and government officials concerned; and observations obtained during visits to the project site.

There are major weaknesses in this two-tier review system. For example, the post-evaluation unit is limited to doing reviews of only the projects with completion reports. Although such reports are ultimately projected for all projects, Bank staff have not been able to meet this goal due to staffing limitations. As of June 30, 1980, ADB listed 158 loans closed for projects in 11 sectors. However, it was estimated that in 1980 only about one-third of the projects eligible for post-evaluation had been studied. In 1978, only 26 percent of the eligible projects had been evaluated.

As previously mentioned, the Audit Committee and the Post Evaluation Office are examining the merits of doing reviews which would include a number of projects of a similar type in a region or a number of dissimilar projects in one country.

OTHER CHANGES IN THE POST-EVALUATION FUNCTION

ADB has made or plans to make other changes in the post-evaluation function, including a proposed change in selection criteria; a change in the use of consultants for evaluations; a change in mission reviews; and a proposed concordance of reports.

Proposed change in selection criteria

In October 1980, the Post Evaluation Office submitted to the Audit Committee a revised set of criteria for selecting projects for evaluation during 1981. Under the proposed criteria, consideration should be given to projects which had time or cost overruns of more than 25 percent; reductions of 25 percent or more in projected rates of return; substantial changes in scope; or supplementary loans.

Consideration should also be given to projects where

--past evaluations highlighted specific shortcomings in similar projects;

--no similar project was previously evaluated;

--particular relevance to ongoing Bank operations is evident;

--similar projects are expected to increase;

--repeat loans to the same executing agencies are likely;

--co-lending was employed; and

--the Bank provided extensive local cost financing.

Consideration should also be given to projects which are multipurpose in nature.

It was also suggested that the selection should provide for the coverage of more development sectors; coverage comparable to sector share in ongoing operations; and coverage of sectors projected to predominate in the future. Other criteria suggested in this area included

--coverage of sectors where little or no evaluation activity has been undertaken;

--a minimum number of reviews in each country;

--numerical coverage in proportion to each country's share of loans;

--numerical coverage proportionate to projected country shares in lending; and

--proportional coverage based on the number of approved loans in the country to a particular sector.

Change in the use of consultants for evaluations

The Bank has discontinued using consultants in post-evaluation studies. In our last report, we noted that external post-evaluation teams generally did not spend sufficient time becoming familiar with Bank procedures. Similar comments were made by Bank officials during this review. These and other considerations resulted in eliminating the use of outside consultants. However, the Audit Committee has suggested that the merits of assigning external consultants the responsibility for conducting sectoral reviews should be examined.

Change in review missions

The Bank has increased its reporting requirements for loan project review missions. The Bank staff conducts project missions to review the

--overall progress of implementation of the project;

--problems the project is encountering;

--status of expenditures;

--progress of disbursement; and

--compliance with the loan provisions.

Reports are issued for each mission and include findings and recommendations. These mission reports have been combined in the quarterly reports, which are submitted to the Board. The first "Quarterly Report on Findings and Recommendations of Review Missions" was issued by the Bank in April 1980. It covered the period ending December 31, 1979, and a second report has been issued for the quarter ending March 31, 1980.

Proposed concordance of reports

The value of a concordance, as a cross index and reference source of findings and recommendations, has been recognized. Until recently, Bank officials felt the post-evaluation unit had not issued enough reports to make a concordance beneficial. However, this opinion has shifted and, according to the Chief of the Post-Evaluation Office a concordance of reports will be issued in mid-1981 and updated annually.

CONCLUSIONS

Post-evaluation of completed projects at ADB has been given increased attention since 1978. Many of the opportunities identified in our 1978 report for increasing the efficiency and effectiveness of the post-evaluation system have been recognized. We believe the Board of Directors would be better informed with a mixture of operational, sectoral, and post-evaluation reviews. The proposed evaluation program for 1981 broadens audit coverage and gives the Board added assurance that Bank activities are efficient and effective. We endorse the purpose of the proposals, but add that we view them as only partial achievement of the goal to independently review all major programs and activities.

We also believe, as does the Audit Committee, that effectiveness would increase with greater management participation in the report followup system. As of yet, there is no formal structure for management and Post-Evaluation Office interaction on report findings and recommendations. Management should systematically increase its involvement in bridging the activities of the post-evaluation unit and the operating units, especially in the implementation of report recommendations.

We believe the two-tier project review system as currently implemented at ADB limits the effectiveness of the post-evaluation system. Generally, the Bank staff has not been able to comply with the project reporting requirements of the system, thus limiting the number of projects eligible for independent evaluation. Consequently, we believe consideration should be given to evaluating selected projects for which management has not performed project completion reports.

RECOMMENDATIONS

To increase the effectiveness of the evaluation system, we recommend that the Secretary of the Treasury instruct the U.S. Director to ADB to suggest that

--a more representative mixture of operational, sectoral, and post-evaluation reviews be conducted;

--management participation in the report recommendation followup system be increased; and

--projects for which management has not prepared project completion reports be reviewed.

PRIOR GAO REPORTS ON INDEPENDENT EVALUATIONS IN THE MULTILATERAL BANKS

Report Number	Title	Date
ID-78-49	Independent Review and Evaluation at the Asian Development Bank	October 18, 1978
ID-78-21	Independent Review and Evaluation System of the Inter-American Development Bank Needs Support	June 22, 1978
ID-78-14	Effectiveness of the World Bank's Independent Review and Evaluation System	June 5, 1978
B-175281	Establishment of Independent Review System for the World Bank Group and the Asian Development Bank	July 30, 1975
B-146937	Effectiveness of Independent and Comprehensive Audits of the Inter-American Development Bank	November 26, 1974
B-161470	Progress Made Toward Independent and Comprehensive Audits of the Inter-American Development Bank	July 20, 1971

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