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Folder Title: Operations Evaluation - Operations and the impact of the Bank's evaluation system - Volume 2

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Dates: 10/01/1975 - 11/30/1975

Fonds: Records of the Office of Operations Evaluation

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THE WORLD BANK

Washington, D.C.

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The World Bank

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Washington DC 20433

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Operations Evaluation -
Operation and the Impact of
the Bank's Evaluation System (6-7) Vol. 2
October 1975 - November 1975

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Archives



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Operations Evaluation - Operations and the impact of the Bank's evaluation system -
Volume 2

*File Shoaib Memo
to EDS*

November 13, 1975

To: Mr. Robert S. McNamara
From: Mervyn L. Weiner
Subject: Brief Statement to the Board

I believe Mr. Damry has already mentioned that I would be raising this matter with you.

I attach, for any comment you may have, a statement that will, I hope, clear the air of lingering questions in the minds of some Directors about follow up on their October 28 discussion of Mr. Shoaib's report on operations evaluation.

If you have no objections and agree to what is attributed to you in the third paragraph, the only question remaining is whether this statement should be made at the end of next Tuesday's regular agenda or after the conclusion of the formal meeting. I have no personal preference, but am inclined to suggest that a statement after the formal meeting has been adjourned would conform better with the Board's desire to keep discussions of operations evaluation work informal.

cc: Mr. Damry
Mr. Willoughby ✓

I understand that some Directors have been wondering whether anyone is following up on various suggestions made during the Board's recent discussion of Mr. Shoaib's report on Operations Evaluation.

A number of things were agreed at that meeting, the most immediate being to discuss informally early next year the two reports on Delays in Loan Effectiveness and in Project Preparation. However, nothing was agreed then on the modalities of continuing contact between the Board and the Operations Evaluation Work. In view of the general interest in this matter, I have asked the Chairman to arrange for me to tell you this morning what is being done by way of follow up.

I plan to have ready for your consideration early next year a draft paper which I will call, for the moment, "Operations Evaluation and Reporting Standards in the World Bank". The paper will, among other things, address the questions raised during the October 28 discussion, including the modalities of Board and management contact with the planning, implementation and follow-up of Operations Evaluation Work. The Chairman has agreed to convene an informal meeting of the Board to discuss the draft when it is ready. The final version of that paper would be circulated to the Directors and Bank staff. It would indicate clearly that it is the first edition of a Bank evaluation code and will be updated as evolving experience requires.

In the interim, I have told the Vice Chairman of the Joint Audit Committee that Mr. Willoughby and I stand ready to attend all meetings of the Joint Audit Committee to keep the Committee up to date on the evolution of the O.E.D. work program and the highlights of the most recent audit and evaluation reports.

Mr. Weir -

11/11/75
10:10

I am asking ~~Secretary~~
~~Secret~~
to send us enough copies of
our stuff, etc.

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EDS75-17

FROM: The Secretary

November 7, 1975

OPERATION AND IMPACT OF THE BANK'S EVALUATION SYSTEM

Attached hereto, as requested by Dr. Sen, is a copy of the statement made by him at the meeting of the Executive Directors held on October 28, 1975.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors and Department Heads, Bank and IFC



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File Title Operations Evaluation - Operations and the impact of the Bank's evaluation system - Volume 2		Barcode No. 1037879		
Document Date 28 October, 1975	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Statement of Dr. S. R. Sen on Operations and Impact of the Bank's Evaluation System 				
Exception(s) 				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Vlada Alekankina</td><td>Date 31-Aug-12</td></tr></table>	Withdrawn by Vlada Alekankina	Date 31-Aug-12
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Mr. Mervyn Weiner, Director General, Operations

November 4, 1975

P. N. Danry, Secretary

Evaluation

Follow-up on Board Meeting: Operations Evaluation

1. Mr. McNamara, responding to Mr. Reynolds during the Board meeting on October 28, requested you to clarify with Mr. Reynolds the suggestion which Mr. Sethness made on codification of the Bank's evaluation standards and procedures, and to consider what might be done.

2. Attached, for reference, is an excerpt from the transcript of the meeting.

cc: Mr. Willoughby ✓

CFO/abg

Attachment

NOV 5 1975

Mr. Willoughby

OFFICE MEMORANDUM

TO: Department Directors and Projects Advisory Staff in Central Projects Staff
FROM: A. Israel, Office of the V.P., Projects Staff *A/*
SUBJECT: Items of Interest at October 29 Meeting of Directors and Advisers

PRESENT: Messrs. Baum, van der Tak, Ballantine, Christoffersen, Jaycox, Kalmanoff, Kanagaratnam, Rovani, Tolbert, Carmignani, Finne, Israel, Lithgow, Raizen, Ray and Weiss

Operations Evaluation

Mr. Baum reported on the Board discussion of Operations Evaluation the day before. The discussion was based on a memorandum from Mr. Shoaib (of September 29, 1975) analyzing the operation and impact of the Bank's evaluation system, and on other reports prepared by OED, in particular the Project Performance Audit Review summarizing the lesson drawn from the 50 Audit Reports completed until end March 1975 and a report on delays in loan/credit effectiveness. The EDs had generally expressed a great deal of satisfaction about the way the evaluation work was being carried out, and about the quality of the reports produced by OED. They had stressed the need to ensure that all Bank staff study and seriously consider the operational implications of the OED reports, and that the borrowers' reactions to evaluation studies are secured and taken into account. The EDs had also indicated that they would like to take advantage of OED reports to establish a more extensive dialogue with management about policy and operational matters. Mr. McNamara had underscored the importance of having a fully operational system for the preparation of Project Completion Reports, which would greatly improve the quality and efficiency of the Project Performance Auditing System; Mr. Baum reminded the Directors that part of CPS' functional control is to ensure that the Project Completion Report system is adequate.

In summing up the discussion, Mr. Knapp (the acting Chairman) had stated that the Joint Audit Committee will continue to review the adequacy of the evaluation system; that OED will prepare an annual report of its activities for consideration by the Joint Audit Committee and then by the Board, and that occasional informal discussions by EDs (probably in the form of a Committee of the Whole) will be organized in the future, beginning early next year with a meeting on the two Management Policy Reviews dealing with project preparation and delays in loan effectiveness.

Mr. Baum commented that in his opinion the papers presented to the Board, and the ensuing discussion, reflected varying views as to the role of evaluation work at the Bank. In a sense, OED's role was simply to make recommendations and ensure that they were given careful consideration by management (c.f. Mr. Shoaib's statement p. 3);

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NOV 7 1975

Department Directors and Projects Advisory
Staff in Central Projects Staff

November 5, 1975

but if OED recommendations were not fully accepted by management, the question would arise of how differences should be dealt with having in mind the need to keep a balance between the roles of the Board, the Management and OED in the conduct of operations and the establishment of Bank policy. Similar issues arose with respect to OED's "follow up" of Bank action with respect to its recommendations. Mr. Baum concluded that a proper delineation of OED's role was important to CPS in view of its responsibilities for policy formulation and functional control in the fields covered by OED's studies.

During the following discussion several CPS directors highlighted the potential problems of a Board discussion, however informal, of policy and operational matters on the basis not of a document summarizing management's views on the matter but of an OED report. Several directors questioned whether the dual roles of Operations Evaluation as a management tool and as an independent auditor constitutionally separate from management were fully compatible. It was also pointed out that the EDs had emphasized the desirability of wide dissemination of the OED reports both in the Bank and in the member countries (the latter, some CPS directors felt, could, in some cases undercut the position of the operational staff) and the need not to overtax the "absorptive capacity" of Audit Reports and to explore the possibilities of having a selective rather than a full coverage of Bank operations (a suggestion also supported by several CPS directors).

DISTRIBUTION: Messrs. Ballantine, Fuchs, Jaycox, Kanagaratnam, Lejeune, Rovani, Tolbert, Yudelman, van der Tak, King, Carmignani, Israel, Lee, Lithgow, Raizen, Ray and Weiss.

cc: Messrs. Knapp, Baum, Bell, Chadenet, Chaufournier, W. Clark, Husain, Krieger, Stern, Wapenhans, Alter, Gabriel, Gordon, Kearns, Weiner, Willoughby, Burmester, Finne, Golladay, Koch-Weser, Overby, Tikhon.

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FROM: The Secretary

November 7, 1975

OPERATION AND IMPACT OF THE BANK'S EVALUATION SYSTEM

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File Title Operations Evaluation - Operations and the impact of the Bank's evaluation system - Volume 2		Barcode No. 1037879		
Document Date 28 October, 1975	Document Type Board Record			
Correspondents / Participants 				
Subject / Title IBRD ? IDA Joint Directors Meeting - October 28, 1975 Excerpt from Transcript of Meeting Operation and Impact of the Bank's Evaluation System				
Exception(s) 				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Vlada Alekankina</td><td>Date 31-Aug-12</td></tr></table>	Withdrawn by Vlada Alekankina	Date 31-Aug-12
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ROUTING SLIP

Date
24 Oct 75

OFFICE OF THE PRESIDENT

Name	Room No.
Mr McKamara	
10/24 Excellent	
Done	

To Handle	Note and File
Appropriate Disposition	Note and Return
Approval	Prepare Reply
Comment	Per Our Conversation
Full Report	Recommendation
Information	Signature
Initial	Send On

Remarks
Here is a draft of
the introductory remarks
by Mr Willoughby for
the Tuesday, Oct 28 meeting.
See Messrs. Wenner & Denny
From
Udair

Mr. Chairman, Members of the Board, I believe that Mr. Shoaib's memorandum which is before you speaks for ^{it}self, so that I want to make only very few introductory remarks, briefly reminding you of the main stages in the evolution of the Bank's evaluation system,

The evaluation unit was originally established by management in September 1970 as a final step in a three-pronged effort to improve internal controls, the other steps being establishment of the Joint Audit Committee by the Board of Directors and substantial strengthening of the then Office of the Internal Auditor. Its main purpose was as a tool of management for learning from the Bank's own past experience, but, to help achieve this purpose, it was from the start given a great degree of independence, and its reports were also all distributed to the Executive Directors for information, as soon as they began to appear early in 1972, and without any management interference with their content.

A year later, in 1973, it was decided that the instrument was sufficiently developed ~~so~~ that its independence could be formalized and its utility to the Bank further increased by giving it a stronger link with the Board of Directors and the member countries. Together with the Internal Audit Department, the unit was placed under the sole charge of Vice President Shoaib in July 1973 and later that same year the terms of reference of the Joint Audit Committee were extended to include responsibility for assessing the adequacy and efficiency of the evaluation work.

The U.S. Foreign Assistance Act ^{as amended in} of December 1973 required the U.S. Executive Director of the World Bank, like the American representatives to certain other multilateral institutions, to promote the establishment of what the U.S. authorities considered a fully independent review and evaluation

system. Through negotiations over a prolonged period, the Bank management reached the arrangements, approved by you last October, to enable the existing evaluation unit to meet the requirements of the legislation, without sacrificing the crucial advantages for staffing, planning, ~~and~~ ^{and operating} budgeting purposes of full integration into the Bank Group; the unit would be under the charge of a Director-General, to which post you elected Mr. Weiner in July 1975, and it would be responsible to the Executive Directors, with an administrative link to the President.

Through these changes, and particularly thanks to the efforts of the Joint Audit Committee and of Mr. Shoaib, as well as through accumulating internal experience, the work of the unit has developed and diversified, and, I think, improved - and I am sure that our new Director-General will bring substantial further improvement. The unit has always been entirely free to deal with whatever issues arise - whether of policy, procedure or practice - in its work on Bank operations and activities, and it has always been free to present whatever findings it reached.

Beyond this vital element of independence and freedom of reporting, the operating effectiveness of the evaluation unit depends most crucially on the closest interaction with the management and staff of the Bank at all stages of work - from initial conception and design of studies, where it is the admixture of the unit's problem-solving focus with the Bank's experience and knowledge of the problems that arise which results in the most incisive studies, through the stage of follow-up to conclusions and suggestions reached, when the unit's periodic return to points that have emerged in earlier studies can perhaps do most to help ^{in promoting} ~~build a real conviction of the need for action at~~ an operational level. What success the work has had to date has depended not

only on the forbearance, understanding and openness of the Bank management and staff, but also importantly on their ideas, as well as those of the borrowers, as to topics of study, methods and suggestions for improvement in Bank operations. Mr. Shoaib notes in his memorandum a number of ways in which interaction between the Bank staff and the evaluation unit can be further usefully increased - particularly on the Project Completion Report component of the Bank's evaluation system and on help to member countries in the development of their own evaluation systems and agencies - as well as in securing the best dissemination of the reports and ideas developed so that they may contribute most effectively to future Bank operations. He also notes that the Bank management has already reacted favorably to the large majority of the suggestions made in the very recently published report on Delays in Loan and Credit Effectiveness; action is now underway to prepare the necessary revisions in Bank operating instructions, and we do hope that a quiet pursuit of some of the operational suggestions which have so far proved less acceptable will also uncover solutions that can draw more general support. Certainly this has generally been the experience with the recommendations and suggestions contained in the earliest evaluation reports which we did, as recorded in the Closing Reports which we have circulated in the last months: policy questions raised have been appropriately treated in management's policy papers and the much more numerous operational issues have, for the most part, equally received appropriate consideration and action in one way or another.

The reports that emanate from the evaluation system have to be seen then as tools for both the Executive Directors and for the management, but in rather different ways. For the Executive Directors, the reports, and more particularly the cumulative summaries and ^{the} assessments of action on suggestions

made, are an additional window for assessing the overall effectiveness of ^{the} Bank ~~management~~ and one particular source for indicating points that may need to be given more consideration in Bank operations. For the management, all the reports provide a running assessment of the effectiveness of the Bank's operations and one among many sources of ideas for their improvement, mainly at a quite detailed non-policy level. I believe that to maintain the effectiveness of the evaluation system, it is important to remember that the resultant reports are contributions to the broader debate from a particular vantage point, assessment of the past, whether recent or distant - I have always considered that, at the margin, our role is rather to try to generate stimulating lessons and suggestions ^{more} rather than to attain a perfect comprehensiveness and full balance that will anyway be provided by management before acting on our suggestions - and to recognize the differences I have described among the purposes which the reports serve for their two principal addressees within the Bank. // Before ending I would like to take the opportunity of thanking the many Executive Directors who have helped us to develop the evaluation system to its present stage and to secure the support of member countries in its day-to-day operation. We particularly value the link that we have had with the Joint Audit Committee and the opportunity this has provided to secure an outside view on the adequacy of our programs, studies and methods and ways to improve them. It is our ardent effort and hope to repay the trust that is reposed in us with a useful contribution to our member countries' development efforts.

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File Title Operations Evaluation - Operations and the impact of the Bank's evaluation system - Volume 2		Barcode No. 1037879		
Document Date 23 October, 1975	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Notice of Meeting A meeting of the Executive Directors of the Bank and IDA will be held on Tuesday, October 28, 1975 at 10:00 a.m. in the Board Room. The agenda is as follows : Operation and Impact of the Bank's Evaluation System				
Exception(s) 				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Vlada Alekankina</td><td>Date 31-Aug-12</td></tr></table>	Withdrawn by Vlada Alekankina	Date 31-Aug-12
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Subject / Title Notice of Meeting Additional Items				
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OFFICE MEMORANDUM

TO: Mr. Shoaib

DATE: October 24, 1975

FROM: P. N. Damry *P. N. Damry*SUBJECT: Evolution of Operations Evaluation

1. For ready reference please see the top page below, the chronology of principal developments. Supporting excerpts from Board discussions follow, as well as

- a) The circular setting up the OE unit,
- b) Willoughby's statement at Board Meeting February 1971 on the first phase of his work,
- c) President's memorandum July 1972 on the work program,
- d) President's memorandum April 1973 on the introduction of PPA,
- e) President's memorandum September 1974 on establishment of DG's position and links with Executive Directors and President, and
- f) Mr. Sethness' memorandum of October 9 on the independence of OED (you will recollect that a change was made at the Board Meeting of October 1974 regarding the responsibilities of the OE Department to the Board with an administrative link with the President).

2. Mr. McNamara mentioned a law of Congress. The appended statement of the Comptroller General of the U.S. refers to it. The 1961 foreign assistance act was amended by Public Law 93-189 in December 1973 to provide that in the case of the IBRD and ADB the President of the U.S. should, acting through the U.S. Executive Director, "propose and actively seek the establishment by the governing authorities" of the two Banks, groups of professionals for providing an independent and continuous program "of selective examination, review and evaluation of the programs and activities of such organizations". The same amendment also provided that the terms of reference should be prescribed by the governing authorities and the reports of such groups should be submitted directly to such governing authorities for transmittal to the member countries. The same law also provided that the U.S. Executive Director should have the groups' report transmitted to the U.S. Government for onward transmittal to Congress and the Comptroller General, who would eventually report simultaneously to the Congress and the President. Any suggestion he might deem appropriate concerning auditing and reporting standards followed by such groups and its recommendation and the action taken thereon.



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File Title Operations Evaluation - Operations and the impact of the Bank's evaluation system - Volume 2		Barcode No. 1037879		
Document Date 25 February, 1969	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Bank / IDA Executive Session of February 25, 1969 Mr. McNamara announced the search for a Controller to take over functions previously performed by the Treasurer, and the need for assuring the integrity of the Bank's accounts				
Exception(s) 				
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Document Date 10 February, 1970	Document Type Board Record			
Correspondents / Participants 				
Subject / Title IBRD / IDA Directors' Meeting - February 10, 1970 Statement on Bank Audit Organization				
Exception(s) 				
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Document Date 09 June, 1970	Document Type Board Record			
Correspondents / Participants 				
Subject / Title IBRD / IDA Directors' Meeting - June 9, 1970 Remarks Concerning Operation Evaluation (FY1971 IBRD/IDA Budget Discussion) Excerpts from Transcript of Proceedings				
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Document Date 05 November, 1974	Document Type Board Record			
Correspondents / Participants 				
Subject / Title IBRD / IDA Directors' Meeting - November 5, 1974 Remarks on Origins of Operations Evaluation During Discussion of Loan to PDCP (Philippines)				
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Document Date 04 April, 1972	Document Type Board Record			
Correspondents / Participants 				
Subject / Title IBRD / IDA Directors' Meeting - April 4, 1972 Statement of Mr. McNamara at Close of Discussion on Operations Evaluation Division Report on Electric Power				
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Document Date 22 October, 1974	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Salient Points of Discussion in Executive Session of October 22, 1974 Discussion of Mr. Sethness' Memorandum on the Independence of OED				
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Correspondents / Participants 				
Subject / Title Directors' Executive Session - October 22, 1974 Remarks Concerning Operation Evaluation in Bank Group Mr. Willoughby's Introductory Statement Excerpts from Transcript of Proceedings				
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ADMINISTRATIVE CIRCULAR

September 2, 1970

ESTABLISHMENT OF AN OPERATIONS EVALUATION UNIT

Effective audit and control procedures have always been matters of major concern to the World Bank Group. Two of the most important innovations introduced by the World Bank in its early years were the procedures developed for supervision of loan disbursements and of the execution of the projects (end-use supervision). Over the years these procedures have been continuously strengthened and adjusted in the light of changing circumstances.

This process continues. In addition, in the last two years, budgetary controls have been strengthened by the creation of the Programming and Budgeting Department. Financial controls have been improved by the establishment of the Audit Committee of the Executive Directors and by the strengthening of the Office of the Internal Auditor.


I feel that, with the growth of the Bank Group, the time has come to carry our systematic auditing procedures a stage further - to cover the contribution of our operations to development. Some review of our operations from this point of view has of course always been carried out in the course of Economic and Sector Missions, but these have other overriding responsibilities. As regards projects which we have helped to finance, end-use supervision generally stops with the completion of construction, but the results of many of them have been reviewed by the Projects Departments in the course of appraising further loans or credits to the same entity or sector. Here again, however, the review of past operations is only a subsidiary issue and time seldom suffices to carry it very far. A number of thorough reviews have been carried out by the Sector and Projects Division of the Economics Department in connection with their responsibility for helping to improve the methodology of project appraisal, but the number of projects covered in depth is small and the focus is generally more on methodological improvements than on re-evaluation of costs and benefits as such. Evaluation of the impact on development of our operations is thus at present limited. I believe that the growth in the funds that we are responsible for channelling into development and in the number of countries with which we are actively involved makes it important for us to develop a more systematic approach.

I have therefore decided to establish, in the Programming and Budgeting Department, a unit whose sole responsibility will be to evaluate the contribution of our operations to the development of member countries. The principal task of the unit will be to review past lending operations with the central objective of establishing whether the actual benefits of the completed projects are in accordance with those expected at the time of appraisal and, in case

of divergence, the reasons. Our methods of project appraisal have developed and improved over the years. Our quantification is sounder now than in the past, our view of development more comprehensive and our analyses of projects and sectors deeper. Naturally, our current techniques and methods will be used in evaluation of past operations, but in comparing results achieved with original forecasts due attention will be paid to the cost and benefit concepts prevailing at the time these operations were appraised.

Since this type of work has not been carried out to any extent before in the Bank I envisage the new unit starting with a modest staff complement of three and a workload of some five projects in several different sectors. Especially in the beginning, the staff of the unit will need to draw heavily on the advice and knowledge of those in other Departments of the Bank Group who have been concerned with the projects selected.

I believe that this initiative will have two principal benefits. It will contribute to the formulation of policy and procedures by enabling us to learn more from our past experience. And it will give us a degree of conviction about the impact of what we are doing which we could obtain in no other way.

A handwritten signature in dark ink, reading "Robert S. McNamara". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert S. McNamara
President

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SecM71-85

FROM: The Deputy Secretary

February 11, 1971

Operations Evaluation Unit

Attached for information is a copy of the statement by Mr. Christopher Willoughby at the meeting of the Executive Directors on February 9, 1971, on the first phase of the work of the Operations Evaluation Unit of the Program and Budgeting Department.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC



Record Removal Notice

File Title Operations Evaluation - Operations and the impact of the Bank's evaluation system - Volume 2		Barcode No. 1037879		
Document Date 09 February, 1971	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Meeting of Executive Directors, February 9, 1971 Statement by Mr. Christopher R. Willoughby to the Executive Directors on the Program of the New Operations Evaluation Unit				
Exception(s) 				
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FROM: The Secretary

July 20, 1972

OPERATIONS EVALUATION FOLLOW-UP AND WORK PROGRAM

Attached is a memorandum dated July 20, 1972 from the President on the future work program in Operations Evaluation. It outlines, for your information, (a) the planned FY 1973 Work Program of the Operations Evaluation Division and (b) the procedures we propose to adopt in follow-up of evaluation reports.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC



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July 20, 1972

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Future Work Program in Operations Evaluation

1. The Operations Evaluation Unit was established in the Programming & Budgeting Department late in 1970 and converted into a Division of that Department in the middle of 1971. In view of the novelty of the work to be undertaken, it started with a pilot phase. The main results of this pilot phase were distributed to the Executive Directors earlier this year: "Operations Evaluation Report: Electric Power" (IBRD Report No. Z-17, dated March 10, 1972) and "Bank Operations in Colombia - An Evaluation" (IBRD Report No. Z-18, dated May 25, 1972)*. These reports were discussed at meetings of the Executive Directors on April 4 and July 11, respectively.
2. As could be expected, the pilot phase of the Operations Evaluation Division's work has not produced sound procedures for evaluating the Bank's operations which now need only to be applied on a standardized basis. In some respects the reports have raised more questions than they have been able to answer. Nonetheless experience has been gained in the difficult methodological problems of evaluation, and the time has come to move into a second phase of work, still experimental, but initiating more systematic coverage of Bank projects. The second phase must also include the introduction of procedures for follow-up to the recommendations and suggestions which emerged in the studies undertaken in the first phase.
3. A distinction may usefully be drawn between 'Audit' and 'Evaluation'. In the work of the Operations Evaluation Division 'Audit' has come to mean comparison between the targets and projections contained in the project appraisal reports on the one hand and actual developments on the other, in order to see whether or not appraisal objectives were attained; if not, why not and if so, was it due to the project? 'Evaluation', on the other hand, has come to mean a deeper analysis of the contribution to development made by the project and by the Bank in its support of the project, with a view to seeing not only whether the project met its assigned objectives but also whether these objectives were themselves correct in retrospect and whether they might have been improved

* R72-55 and R72-131 respectively

in any way. Of the studies undertaken to date, the review of past power projects was mainly in the nature of an Audit, although it ran over to some extent into an Evaluation, while the review of Bank operations in Colombia was mainly an Evaluation. It can be argued that all Bank projects should be audited, but since even audit is quite costly it may be preferable to cover a sample in this way, while other projects, selected for the potential lessons they may yield, are subjected to evaluation.

4. The intended work program of the Operations Evaluation Division for FY73, to be carried out by a professional staff of eight professionals together with consultants, includes audits, evaluations and follow-up studies. It is summarized in Annex I. It is envisaged that roughly 65% of total effort will be devoted to evaluations, 25% to audits and 10% to follow-up work.

5. As regards audits, a start is being made toward systematic coverage of all Bank projects. Two trial principles have been established for selecting projects for audit: (a) projects will be audited approximately five years after completion of loan disbursements and (b) where projects so selected belong to series of projects financed by the Bank (e.g. a third loan to a power company, port authority or Government highway department) then the opportunity will be taken at the same time to audit earlier projects in the series and, in some cases, later ones too; hence, the distinction drawn in Annex I between Audits of Individual Projects and Audits of Series of Projects. The further distinction between Summary and Detailed Audits rests on the fact that some projects are simpler and raise less problems than others. Projects have been selected for audit in FY73, from among those for which loans were fully disbursed in 1968, considering feasibility of undertaking brief studies, availability of technically qualified staff in the Operations Evaluation Division, and the need for increased emphasis on transportation projects in view of the large amount of time devoted last year to electric power, the other main traditional field of Bank activity. It has not yet been decided whether it will be worth distributing small (2-5 page) reports summarizing the conclusions and recommendations, if any, emerging from each of these audit studies, estimated to take between two and three professional man-months, or whether it would be preferable to distribute all these brief reports in a package once or twice during the year.

6. In the area of evaluation, two major studies and one minor one are being planned. Completed highway projects in four different countries, located in different continents, have been selected for evaluation in a study which will focus particularly on the developmental impact of highway improvements on the region traversed, the degree to which this impact was affected by the competitive structure of the transport industry in the area, and other factors constraining or increasing positive developmental impact; the purpose is to identify possible ways of maximizing such impact. The second major study would be a review of the Bank's work with Development Finance Companies around the world, based mainly on study of selected companies with which the Bank began working at different periods and designed to identify suggestions for possible improvement in Bank policies, practices and procedures in this important

field of lending. Thirdly, in order to make a start in the field of education lending, a thorough evaluation would be made of one of the three secondary school projects for which loan disbursements were completed before the end of 1971; this study would include a survey of students' education achievements and of graduates' contribution to meeting manpower needs. Reports on these three studies, which would be considerably shorter than the evaluation reports so far distributed and would confine themselves mainly to presentations of conclusions and recommendations with supporting analysis, are targeted for completion during the next 12-14 months.

7. The last part of the program consists of follow-up work on the recommendations and suggestions put forward for examination in evaluation reports. A few of the recommendations emerging from the studies may raise issues of such character as to require the preparation of Policy Papers for consideration by the Executive Directors. Most of the recommendations however will relate to the application of policies already in existence and to the Bank's day-to-day practices and procedures in selection, preparation, appraisal and supervision of projects and in the preparation of reports. These recommendations will be referred to the various operating departments responsible for considering them and the Operations Evaluation Division will monitor the progress being made in their implementation.

Robert S. M. Numan

Attachment

OPERATIONS EVALUATION DIVISION: WORK PROGRAM FY73

<u>Loan/Cr. No.</u> ^{a/}	<u>Name of Project</u>	<u>Disbursement Period</u>	<u>Amount (\$m)</u> ^{b/}
<u>I. Audits of Individual Projects Against Appraisal Objectives</u>			
(a) <u>Summary</u>			
299/Cr. 4	Costa Rica Highways	1961-69	11.0
293	Trinidad & Tobago Power	1961-68	23.5
(b) <u>Detailed</u>			
306	Venezuela Expressway	1961-68	45.0
Cr. 63	Botswana Highways	1964-68	3.6
<u>II. Audits of Series of Projects Against Appraisal Objectives</u>			
276/346	Costa Rica Power/Telecom.	1961-68	30.8
198/294	India - Calcutta Port	1958-68	50.0
<u>III. Evaluation of the Developmental Contribution of Projects</u>			
(a) <u>Education</u>			
Cr. 93	Kenya - Education I	1966-70	7.0
(b) <u>Selected Highways</u> (Developmental Impact & Transport Industry Structure)			
166	Ethiopia - Highways II	1957-63	15.0
135/195/Cr. 1	Honduras - Highways	1955-67	18.7
341	Thailand - Highways I	1963-69	35.0
344	Yugoslavia - Highways I	1963-66	35.0
(c) <u>Development Finance Companies</u>			
A broad review of Bank activity in support of Development Finance Companies, with special emphasis on:			
240/422/459	Iran - IMDBI	1959-69	40.2
-	Korea - KDPC	1968-	-
449	Tunisia - SNI	1966-71	5.0

a/ Shows only loans and credits already fully disbursed.

b/ Original amount of loans already fully disbursed.

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FROM: The Secretary

April 13, 1973

OPERATIONS EVALUATION AND PROJECT PERFORMANCE AUDITS

Attached is a memorandum dated April 13, 1973 from the President on the introduction of Project Performance Audits and the future work program in Operations Evaluation.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Vice Presidents, Bank, and Officers of IFC
Directors and Department Heads, Bank and IFC



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April 13, 1973

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Operations Evaluation and Project Performance Audits

1. Evaluation reports on past Bank operations in Colombia and in the electric power sector were distributed to the Executive Directors and discussed in the middle of last year. In a memorandum of July 20, 1972 (Sec M72-388) I outlined to you an operational evaluation and audit program for FY1973, dealing mainly with projects for which loan/credit disbursements were completed some five years ago. The Operations Evaluation Division has been carrying out this program, and audit reports on a number of projects have been distributed in the last few months; further audit and evaluation reports are due for completion in the next five months.
2. With the exception of these reports, the Executive Directors have not been receiving an independent accounting, on a systematic and comprehensive basis, of the extent to which projects supported by the Bank and IDA have fulfilled the objectives on the basis of which loans and credits were approved. This is a gap which needs to be filled to give us a more complete and timely idea of our own performance as an institution trying to assist development. I therefore propose to introduce a system of Project Performance Audits, covering all projects financed with Bank/IDA assistance, and to add responsibility for their preparation to the existing functions of the Operations Evaluation Division.
3. Project Performance Audits will be prepared on all projects in developing countries about one year after completion of loan/credit disbursement (i.e. typically 4 to 8 years after approval by the Board of Directors). Their purpose will be to analyze the extent to which objectives stated in loan documents have been, or show promise of being, achieved and the reasons for deviations. The feasible sophistication of

this enquiry, one year after completion of Bank/IDA disbursements, will vary considerably among projects, depending on the nature of the objectives sought, the sector to which the project belongs and the duration of disbursements. But the aim will be to match the scope of the appraisal report, on the basis of which Bank/IDA support was approved, and to cover economic and institutional objectives to the extent possible as well as physical and financial ones. We believe that even at this stage it should usually be possible to identify the pattern of incipient benefits — which of course weigh heavily in investment analysis.

4. In the preparation of the reports maximum use will be made, as in any audit, of existing information, without, however, in any way violating the crucial principle of independence.

5. Preparation of Project Performance Audits will fit well with the other, more evaluative work of the Operations Evaluation Division, assisting it to identify topics of greatest relevance to the ongoing operations of the Bank. In some cases an important conclusion of a Project Performance Audit will likely be that the project should be subjected to a deeper evaluation a certain number of years later when results are more fully visible.

6. The new scheme will be introduced for all projects on which loan/credit disbursements ended after July 1, 1972. A major part of the work program of the Operations Evaluation Division for FY1974 will consist of steps to get the system underway and preparation of Performance Audits on each of the 25 projects for which loan/credit disbursements were completed in the first half of FY1973. The other part of the work program for that year will consist of a major evaluation study on past Bank lending for agricultural credit and the first phase of a study investigating, on the basis of an appropriate sample of past projects, the spread of administrative, managerial and technical innovations from Bank-assisted projects, and designed to establish the efficacy of this frequently expected phenomenon and how it could usefully be strengthened.

Robert S. M. Naman

Board Meeting
Oct 28 '75

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A. Lee.

asked on June 24 for info

Fear that excellent work of OED not had sufficient
attention of Board. Excellent work by Shoaib of memo.

Also show good papers circulated by OED recently:

871 - First Ann Rpt of PPTs.

879 - Listing - incl. valuation Concordance

813 - First MPR

690/853 - 2 v. valuable Cloning Reports

These reports constitute valuable documentation.

Setting up of OED is one of RSM innovations, but did not
appear to many to be v. imp., but I feel this may be one of
most imp. innovations. At first doubts re usefulness.

I feel way functioned, reports produced, helped remove doubt.
Many directors v. appreciative — a also Sr. Offs of Bank.

But I cannot help mentioning that I discern at op level
considerable misunderstanding, a apathy. Some have told me
freely not said "nothing new. Others — aren't the missions
a nuisance for Govts, damage BIC image. I have said wrong.

Sr. Offs of Govts I represent value the work. Perhaps at
lwr. level feeling of undue exposure. — but not aiming at
individuals.

As regards exposure BIC unique among UN organizations. BIC
always out to improve itself; not a make up point, but positive.

Report drafted in constructive manner

I agree w. Shoaib — promote self-evaluation in Bank.

Keep the 2000 professionals do self eval; that is a measure

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of success of the CED.

PCRs will be large in number — not intended that
Eds & Mgt will go through all. — value them as a
system.

Rev shd be an annual thing — then + Concordance will
help Eds to keep contact.

MPR v. useful — Policy question often arise from study of
practice & procedure

Keep in mind guidance — para 4.2 of MPR.

What shd be follow-up?

The message must be given due consideration at mgt & at
operational level: they must study the reports & consider
them. What kind of steps to get this?

1. Bd & Mgt shd take every opportunity to emphasize
importance of this work. We are doing it today & shd in future
too.

2. When CED report published, Dir Cnfrs shd discuss
w. their staff & send a record of discussion to VP &
DG

3. JAC shd discuss Ann Rpt of IBA, MPRs, Evaluation, &
submit an annual report to Bd. — with an
appendix line audit paras. of the reports used —
some member countries

4. Such reports as are considered by JAC to be
impr shd be considered by whole Bd, esp. in Context of the Whole

5. Lessons included in Op manual shd be done
expeditiously & reported to JAC.

There have been instances in the past ... some

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amendments not adequately followed — esp. in 1969
point about Consultants — Many guidelines replicated.
And correct guideline reproduced — 74. But even
after that I found some projects negotiated recently
old guidelines followed.

MPR (813) refers to this — para 3.12 —

I think this report is a v. valuable report. —
x that it, together w. one on Proj. Process, should be
considered together at Board on some later date, say
Jan or Feb. But to discuss one report in isolation.
I hope you will do this: esp. Cmt of Whose of Board.

And also take what happens effectiveness — Disbursement
and be subject of MPR.

I understand OED has undertaken study of Bad Jobs —
but I wd suggest also study Appl of Role of Consultants.]*

This eval'n work will bring up problems or require
some research, we may be imposs. for OED or its Staff —
then send it to research staff of the Bank. Get such a
procedure, to have the research promptly done.

Barrios — apprec for the effort. — Performance v.
encouraging. However room for improvement.

2 general principles — independence of system.
But there are 2 qualifications: OED has to be indep but
compatible w. not erode mgt responsibilities.

Board shd have a role in this process — cannot delegate
to Mgt or OED

So some suggestion —

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Bd must discuss once a year reports —
MPR & Evaluations

& lists of discrepancies not poss. to resolve between
OED & Mgt.

Then discussion in informal mtgs.

Also dialogue w. member countries OK; but
have Bd fully informed — annex in any of the
reports prepared by OED: country comments.

Drake

approach to Moads & staff.

now appr of DB gives base for reassessment.

show a conscience in existence
machinery for eval'n — mgt
objective overview of Mpr's — Bd } 3 function

& Moads means useful — dialogues w. borrower &
Bk staff.

So 3rd link in chain: Board Dialogue

JAC at present. At present only review of
procedures & reporting standards.

All OED reports circulated to Directors — an
unstructured sit'n.

Is there effective dialogue Mgt - Board?

Dialogue w Bd must be strengthened w/o impairing
mgt responsibility

Proper balance to be struck: discharge board

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responsibilities - but reinforce mgmt powers.

So have 3-part arrangement:

1. JAC should continue review efficiency JOED system & standards.
2. JAC should do prelim. screening JOED reports to say as or discussed by Informal Bd meeting.
3. Informal Board mtg:
4. Formal Board mtg. on suggestions made & action taken.

DB out report in 3 months' time as to how to proceed.

Wahl

Great apprecn to Shoabs.

V. interesting paper: I strongly support the 3 major measures in last pages.

Can the objectives stated in the report be met with manpower of Depr?

Later more MPR — & also assessment of follow-up.

CLW state want staff 14. + 2/3 p.a.

RSM Not go too far: have some absorption problem
Present staff above optimum in relation to absorption of benefits.

Distribute conclusions throughout staff. Essential to

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continue PPA on every project.

Pchs - we are v. behind - will not
be such an absorption problem. -

When 5 or 6 yrs from now we have 200.

Input size of unit difficult to face - no other
inst has anything similar.

We don't want to spend money on beyond
what to Bank.

2/3 new Projs or RAs p.a. for next 2-4 yrs
about right.

Caridia

Good memo

As member of JAC I have read. Commend
efficiency & frankness of reports.

Will be v. useful.

Also special attn to 2 joint MRs - does J
think importance that deserve wide circulation.

In my opinion OED - adequate & efficient.

But improve by more attn to projects aiming
more problem - particularly those more social-
oriented: more support from borrowing countries, especially
for self-aid.

OED cd help in a way inform countries of most
impt admin deficiencies.

Send all reports go to Countries as well as staff.

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Draft reports to Govts. Good.

Help get more accurate reports. —

Ensure that reports are explicit: many recommendations already accepted by IBG

Thanks to Shoab & staff for excellent work.

Green

Concept of internal eval'n dept: derive & learn from experience & make self-criticism v. good.

OEI added to prestige of Bank. Congrat'n to Shoab.

As OEI operates - v. sound - inevitable some edginess between Ops staff & eval'n staff. One gets impression that work in OE dept seen as step into work in Ops Dept, but more scope for opp'n — trained & skilled staff from other depts. |||

Separate from rest of Bk: but have integration, not isolation. Shd be seen as avenue of normal line promotion.

Way dept looks at projects: danger of projects being too historical — need to look at work now going on.

Maybe not taking full advantage of limited staff.

Who sees how recommendations carried out?

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Unit says not its responsibility.

I believe Board has imp't job to do. — Board must have satisfactory machinery —

Mem. & ledger kept, you have said.

I think the recommendation sd so to Board: not mkt: but accountability.

So I come down for Unit of Board to get report & to provide oversight on ~~uncheck~~ steps carried out.

Board already accepted that OED not same as Internal Audit Dept: so shd not be JAC.

JAC, in membership, is too narrow: 2 possibilities: appt a new subcommittee - of the Whom or JAC hold special sessions: expand formal membership to any Ex who wants to participate.

There shd be Unit of Whom Board — keep eyes on translation of OED results into Policies of Bank.

Unit of Whom shd meet infrequently — not more than quarterly, but intensively then. ||

Leave to Mr. Weiner the decision a proposal.

Liquidation

Performance of Unit & indep position v. imp't.

PPA documentation unnecessarily extensive for Board — Conclusions & essential data adequate. ||

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Personally, I feel confident re quality of work, so
extensive background not needed. Reporting for
like of explaining what was done properly, and be
avoided.

Evalu activity brings out

Occasionally like to get candid view as borrower
sees them, the projects.

I agree w. Barrios on this point.

4 Broad lessons from Eval'n system I accept.

In Mexico a mortar project OK. — but in
man-to-man 5 year less effective. To be expected.

Continuous feedback from OED impt.

So orientation to future, as W. Humphrey said,
is right, & I support.

Regards

I pay tribute to Shorob: much ~~indeed~~
value of eval'n & audit. Useful
now have generally satisfactory

Respective roles of Bd & Mgt not 100% clear:
perhaps cannot be.

Evalu is basically a tool of mgt.

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Work done by JAC v. helpful & valuable —

I have somewhat feeling that role of Bd too much limited to past & future work programme — may be should be more in substance —

cf. Jaber's idea of informal Bd meetings — avoid excessive rigidity — not infringe on proper role of mgmt.

Auditing of individual projects v. sound idea, & glad to hear plan continue. Review of PAs is good & I accept conclusions. MPR is sound innovation, give credit a direct relevance to current operations.

MPR is important doc wh. shd be discussed in some meaningful way: I may not agree with all analysis & all recommendations.

Must also take hard look at performance of borrowers: avoid too exclusive emphasis on performance of Bank itself

Lettenen urged a year ago — develop — systematic codification of standards & procedures — I wd urge produce such a doc at a reasonably early date: just Ede's fairly soon.

Tribute to Shoaib.

Met instructs Werner talk to Reynolds

Franco

Support to Shoaib & Wilensky. v. useful.

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Basis is now Pkrs.

function of OED: look a little more objectively & draw
general conclusions.

One of the main concerns not be to strengthen
Pkrs.

Does evaln affect bank's regular lending ops: a
burden on the staff.

How can relation OED/Bk Staff be fixed?

Good that recommendations accepted: operational
impact not fully visible - probably a matter of time.
It will be assisted by more effective dissemination

paras 11, 12, 13 good: Shows means - particularly
if focussed on strengthening the integration of the work.

I favor TA on monitoring system: but cautious
in carrying this out: shortage of qualified personnel in
many countries: not divert from paper & implementation.

MFR not be much praised: I hope differences
will be resolved soon. Closing Report will no doubt be
prepared.

Bd not have a voice - but I think Green
suggestions should be carefully considered.

How Appreciate Shoaib for guidance given. W/o it

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(the IED) not have had v. difficult course.

Also appreciate Isbister

& I hope that Bk continues to be an inst. where it can keep these same quality of personality, w. maturity & guidance & insight into complex factors - & much experience.

For future I share your concern re

Studies shd be more selective - particular projects or admin or policy or tech pt of view.

Studies shd sometimes be made up of new sectors & also w. projects wh have been finished long time ago: not necessarily too recently completed.

I understand this is intention of Shoaib & also Weiner

Jepf is not an instrument of criticism itself -
Constructive achievement & coopn w. Bank.

V. essential to be able to recruit competent people & guarantee them future in Bank. For this purpose need to have particular attr to this point.

Jantzen

V. grateful to Shoaib

2 comments -

Evalu of Evalu by Board

Regardless on system, Bd shd have opportunity of assessing

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Results achieved - eg. Subacute of Water. (Drain)
but I draw near him right - Board

This assessment should not be limited only to
projects in micro-terms.

Like Franco I feel ICBs will be the additional
workload on staff, & we have to weigh relevant benefits.

Can we draw lessons, so many, from each & every
project? Perhaps better to restrict to a number of
projects.

Khelat. L'intérêt de l'

IFCs & delays in Eff. - good
& Swartz & Whanghy helpful

but not sure OECD could lead to decision improvements.

But not fully understood - at IAC - & docs.
provided.

be more preoccupied by development
& some by creditor

Reynolds said - evaln' of borrowers during life of
project is most impk.

But what can unit contribute to Bank?

If you have too great integration - lose

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some flexibility.

the methods proposed, & auto-evalu-
work effective?

but perhaps better lead op. staff to

the Dept.

Member countries must help choose subjects,
as Shoaib says. IDB should be told of what happens
at Loan Mts: the problems we arise. — guide to
subject mpts for study

An echelon additional needed to show
Govts value of their depts assess studies, recommendations

Perhaps explore more application of
recommendations.

Wd it not be poss. to ask study of 2

points for future: -

① work. aspects of difficult projects: after 30
yrs. of Bk.

② Centralization: is it not time to examine
the system we exist now? Wd more decentralization
not be preferable.

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Ryrie: I detect much agreement on Board

We are in no doubt on importance of evaluation.

Also certain dangers: -

1 is to make machinery too cumbersome, & the other is to allow too much involved w. current projects

Reassured by Wilkings State - fairly small. Agree not let it grow overlarge

It seems to us - concentrate on relatively small number of studies in some depth. What are Wiener's views! What % of projects to do?

Second danger is fatigue w. effort of 2 projects, taking fire out of oven too often. Not constantly jogg the arm of the clock.

Carrying out recommendations: applying lessons, not surveillance in course of project.

If use of lessons then maybe periodic outgo to consider the results; perhaps at a later stage.

Reynolds said doc about technique of eval. - but be useful to have this. Possibly a seminar w. State aid agencies: we wd be instructed to take fair.

Wiener: keep unit small.

Distribute work so as not to fatigue w. of depth.

Don't know how many projects, studies, yet to do

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Knappp. We wd like to maintain that
every project shd be covered by PCR
& every PCR shd be covered by OED.

This is our present position & we wd like
to maintain.

Insisting not need much further discussion of
the lessons from PPA.

Chis / Agree to Shorick & OED. & Warner as 12/36.

Warner said he had seen in PCR a significant
conclusion coming out of PPA. Fully agree.

Enlarged JAC
Full Bd. informal.
new Charter of Bd.

JAC is J. def wd have to be enlarged if consider substance of
reports. No pref for particular form, but any
procedure shd avoid mgmt and admin details.

There shd be periodic reports by ~~the~~ OED on
mgmt response to recommendations & why not accepted]

At Attach. Thank RSM for establishing. & JAC &
Mr Shorick. Wiloughby, With Warner success.

Any element - the practice we does not
contribute to fin. soundness of Bd shd be eliminated.
Interested - follow-up procedure, - what

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happen after be approved by Bd. — so long sometimes
And Disb procedure sometimes too long.]]

Structure may affect relations country Bank :
slow Disb.

∴ M&R v. impractical & unhelpful.

satisfied not accepted not suggest of M&R paper.

What will be follow-up of coal unit: We want
recommendations, if accepted, implemented to enhance
role of BR

M&R too slow: so go to Executive Committee.

Be insistent on pre-approving staff: better just tell them
what are main qualifications — not prior approval.

Agree w. Ben Jubeir — Board needs an informal
mechanism to meet & discuss reports of Evaln Reports after
hearing views of Mgt.

Merkei / Lgc welcome opportunity to review. Sec of evaln vital in

See para 38 of JAC report.

Need tactful approach — Shorick/Werner

Will have to be ~~self~~ selective.

Agree P&S on all
PPAs on some }

∴ some depth studies.

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Followup raises fundamental issues of Rd vs Mgt.

Typology of road econ rejected w/o giving Rd chance to counter:

better to consider policy issues at time of
Policy Paper -

Rate of review: exchange views.
(once or twice a year)

IMR - useful suggestion as glad not accepted.

Urge OED to carry out study in all critical stages
of project cycle, how to shorten.

Para. 11-13: effective dialogue w. borrowers:
essential, if OED to be useful to borrowers.

Mgt and pay atten to Mr Shoaib's comments on
strengthened Pchrs.

Bd not renew 1 or 2 x a year findings -
publication of OED reports

Krieger We appreciate role of Shoaib.

We are aware of impact of OE on performance of
Bk in future years.

So we think Bd should be involved a little more.

Greatest impact: general attitudes, opinions of borrowing
commitment should be made available to us. The committee

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can make best judgment of final effect & value.

Agree stimulate dialogue w. member countries & help
develop our evaluation services.

Para 12 & 13: specially agree

BR.

✓ thank for support for what done, &
especially Shouib & W. & Weber.

JAC to - of ref say "adequate & efficient" —
reviewing the system, & to right purposes.

All agree there shd be annual reports, passed
through JAC, w. their annual reports & comments
of JAC.

Also talk re suggesting a recommendations — mainly arise
in MPR, & there shd be opportunity for Bd & MPR to
exchange views on how they think there shd be
handled. One or 2 directors said a danger of Bd getting
more into op decisions than justified — But
Cmt of Whose to discuss

I think do that: Cmt of Whose — to cover the
MPR on Proj. Repn + ~~Control~~ Lc Effect. Condition.

Do this in First part of Feb. Exchange views in
relaxed atmosphere of Cmt of Whose.

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Information to staff we do have is v.
impt indeed: trying to do much to get full
distribution & effect.

Here to feel our way along.

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FOR
EXECUTIVE
DIRECTORS'
MEETING

For consideration on
October ~~18~~, 1974
22

R74-197

September 27, 1974

FROM: The Secretary

OPERATIONS EVALUATION

Attached is a copy of a memorandum entitled "Operations Evaluation
Work in the Bank Group", dated September 27, 1974 from the President.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Director, Operations Evaluation Department



OFFICE OF THE PRESIDENT

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

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September 27, 1974

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Operations Evaluation Work in the Bank Group

Over the past months we have had some discussions with the Executive Director for the United States, relating to legislation enacted by the U.S. Congress in December 1973, about our operations evaluation work and its place in the Bank Group.

The Executive Directors will recall that this activity, to which I have attributed very high priority ever since launching it in September 1970, has undergone a rapid evolution - in formerly uncharted areas of work - to the point that we now have emerging a tested instrument for objective reporting on the results of the Bank Group's activities, especially their impact on development, and for critical analysis of their efficiency and effectiveness to see where improvements can be made. In essence we have expanded the Bank Group's traditional 'project cycle' by addition of three significant steps - preparation of a project performance audit report for each and every project assisted by the Bank and IDA within about a year of completion of loan/credit disbursements, deeper evaluation and review on a more selective basis of particular policies and activities of the Bank Group, and systematic follow-up of Bank Group action in response to recommendations and suggestions emerging from such audit, evaluation and review work. We are attaching top priority at present to completing the establishment of systems for producing thorough project performance audits on all completed projects, so that, with this solid and comprehensive basis, a greater share of effort can again be devoted, starting next fiscal year, to evaluation and review studies.

The unit responsible for this work has always had a high degree of independence from management, and as it has grown in stature and experience its independence has been increasingly formalized, most recently by making it a separate Department in July 1973 under a Vice President without other direct operating responsibilities and by giving it a formal link with the Joint Audit Committee of the Executive Directors in November 1973.^{1/} The Committee reviews its annual work program and budget, its procedures and standards, samples of its reports and the progress of its work, and reports to the Executive Directors on the results of its review. Several components

^{1/} Report of the Joint Audit Committee for 1973, October 25, 1973, Document R73-243/1; and Terms of Reference of Joint Audit Committee, November 21, 1973, Document SecM73-704.

and emphases in the current work program result directly from the Committee's suggestions. Standards applied in audit and evaluation work, which are basically those generally accepted worldwide for this type of work, have been given special attention by the Committee and their actual use examined in review of sample reports, as discussed in the Committee's forthcoming annual report for 1974.

I think that the time has now come for the growing link between the Executive Directors and the Operations Evaluation unit to be recognized formally by drawing lines on our Organization Chart directly linking the unit, and the Vice President in charge of it, to the Executive Directors as well as to the President. I also propose that, following the retirement in 1975 of the Vice President presently responsible, and in any case not later than December 31, 1975, a title of Director-General, more indicative of independence from the normal operations of the Bank, should be instituted for the manager of this function. Appointees to this post, which would have rank equivalent to that of a Vice President, would be selected by the Executive Directors from one or more names put forward by the President of the Bank, after informal consultations with the Executive Directors, from among persons then working inside or outside the Bank Group, but normally drawn from the senior staff of the Bank Group so as to ensure familiarity with the problems of development and the operations of the Group. Appointees would hold office for renewable terms of five years, be removable only by the Executive Directors and be ineligible for subsequent appointment or reappointment to the Bank Group staff except in unusual circumstances.

The basic work program of the unit would be reviewed and approved periodically by the Executive Directors and all the reports of the Operations Evaluation unit would be sent simultaneously to the Executive Directors and to the President, without any interference by the latter with their content. However, I do believe that the head of the Bank Group should continue to play a role in ensuring the excellence of the staff and shaping the work program, in the light of other on-going work and plans of the institution. It is for this reason that I would make the unit responsible ~~both~~ ^{with an administrative link} to the Executive Directors and to the President of the Bank Group. Appointment, termination, promotion and compensation decisions for the staff of the unit, to be drawn from inside or outside the Bank Group, should be at the discretion of the Director-General within the normal policies and procedures governing all Bank Group personnel, and the staff of the unit would be considered as regular employees of the Bank Group.] x

At present the Internal Auditing Department also reports to the Vice President responsible for Operations Evaluation. This Department, which has also grown significantly since 1970, is carrying out independent, systematic and objective audits and appraisals of the Bank Group's financial, administrative, accounting and other activities, with particular emphasis

on internal controls and related systems and procedures. I believe that the essentially management-oriented functions of this department make it desirable, as a matter of principle in connection with the proposed changes, to separate it by December 31, 1975 from the rather special operations evaluation responsibilities by leaving it under the supervision of one of the Vice Presidents. [While the existing relationship between the Joint Audit Committee and the Internal Auditing Department would in any case be maintained, it will then be a question for consideration by the Executive Directors whether a separate standing Committee should be established as liaison between them and the Director-General's unit.]

Adoption of the specific changes outlined above will, I believe, help to assure us a fully effective independent review and evaluation system, an objective to which I attach the greatest importance.

Robert S. M. Naman

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SecM74--698

FROM: The Secretary

October 9, 1974

OPERATIONS EVALUATION

At the request of Mr. Sethness in his memorandum of October 4 (copy attached) the President has agreed to distribute the memorandum together with its enclosures for information.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors, Operations Evaluation Department

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Charles O. Sethness *C.O. Sethness*

SUBJECT: Your Proposals for Operations Evaluation Work
in the Bank Group

DATE: October 4, 1974

I would appreciate it if you would arrange early distribution of copies of this memorandum to the other Executive Directors and Alternates in advance of the Board Meeting at which your timely and welcome paper on this subject will be discussed.

1. Issue of Independence

My authorities and I appreciate the excellent work done to date by the Operations Evaluation unit, and are very pleased to note the direction indicated in your proposals to formalize the unit's position. We feel it important, however, to urge some revision of your proposals. I believe that we share with you in principle the goal of creating a performance audit and appraisal mechanism that both is, and is recognized to be, effectively independent.

The primary point which we feel should be changed is that by the end of 1975, the responsibility relationship of the unit should be to the Board of Executive Directors rather than divided. With this change, your very commendable proposals would adequately reflect the necessary independence from operating management. (This would not interfere with the proposal in your memorandum to continue the present practice of sending the unit's reports simultaneously to the Executive Directors and the President.) In addition, the staffing and shaping of the work program should be the responsibility of the Director-General, subject to the review and approval of the Board, on which, as Chairman, you have a very significant role. There is no question that in this process your views would be given full weight.

The reasoning behind this amendment to your proposal is, I think, fairly clear and persuasive. It would be very difficult to argue that effective, much less "optical", independence of management (an essential prerequisite for independent evaluation) is adequately represented by a unit which is responsible to the President of the Bank (as well as the Board), whose work program is in part shaped by the President, who also is playing a role in staffing the unit -- and whose head is, in any event, a man proposed by the President, normally from among senior Bank Group staff.

2. Auditing and Reporting Standards

We are very interested in and appreciative of the work and special attention already given by the Joint Audit Committee on the terms of reference and auditing and reporting standards of the Operations Evaluation unit. I understand that thought and work has been directed to further codification and formalization of both of these items. To assist in the Committee's work, I am attaching a statement of auditing and reporting standards prepared by the Comptroller General of the United States, who has long experience in my country in these matters. We propose the incorporation or full reflection of the attached standards in the materials prepared, so that they may become an integral part of the guidance for the independent Operations Evaluation unit.

Attachment



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

B-161470
B-175281

JUN 24 1974

The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

Pursuant to the provisions of Public Law 93-189, approved December 17, 1973, we have prepared the enclosed statement of auditing and reporting standards for use by the U.S. Executive Director of the World Bank Group in proposing the establishment of an independent review and evaluation system for the Bank Group and for consideration by the Boards of Directors in formulating the terms of reference for an independent review system.

We are also enclosing a copy of GAO's Standards for Audit of Governmental Organizations, Programs, Activities & Functions, which describes the scope and standards for evaluation reviews which our office considers appropriate for all U.S. Government programs. This booklet contains additional details on the standards included in our statement and should assist the U.S. Executive Director in pursuing the establishment of an independent review system in the Bank Group.

Subsequent to the establishment of the independent review organization, our office will be making periodic reviews of the reports issued by the organization in accordance with the above cited legislation. During these reviews, we plan to consider the adequacy of the auditing and reporting standards being followed and to make appropriate recommendations for any revisions considered necessary.

B-161470
B-175281

We appreciate the excellent cooperation and assistance of your staff during discussions on this matter prior to preparation of the enclosed statement of auditing and reporting standards.

Sincerely yours,

Comptroller General
of the United States

Enclosures - 2

STATEMENT BY THE
COMPTROLLER GENERAL OF THE UNITED STATES
OF AUDITING AND REPORTING STANDARDS
FOR USE BY THE U.S. EXECUTIVE DIRECTOR OF
THE WORLD BANK GROUP
IN PROPOSING THE ESTABLISHMENT OF AN INDEPENDENT
REVIEW AND EVALUATION SYSTEM FOR THE BANK GROUP

Public Law 93-189 (see p. 10) required that the President, acting through the U.S. representative to the International Bank for Reconstruction and Development, propose and actively seek the establishment of an independent review and evaluation system for the Bank by its governing body. The law also required that a statement of auditing and reporting standards be prepared by the Comptroller General of the United States and presented for the consideration of the governing body to assist in formulating terms of reference for this independent review system.

This statement sets forth the auditing and reporting standards prepared by the Comptroller General for use by the U.S. representative to the World Bank Group in proposing the establishment of an independent review and evaluation system. For purposes of this statement, the World Bank Group includes the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation.

In considering these standards, the term "audit" may be used to describe not only work done by accountants in examining financial reports but also work done in reviewing (1) compliance with the articles of agreement and applicable rules and regulations of the Bank Group, (2) efficiency and economy of operations, and (3) effectiveness in achieving program results.

The work contemplated by the proposed independent review and evaluation system is beyond the scope and standards

applicable in the expression of an opinion by an independent public accountant on financial statements. However, the independent public accountant's work should be given full consideration but not duplicated in performing the management-type reviews envisioned in this statement.

Although it is recognized that, to a degree, similar standards may be applicable to both, distinct differences exist between financial auditing and management or operational auditing. The latter focuses on the auditors' role in analyzing situations and developing recommendations for operational, managerial, and administrative performance. Hence such management reviews concern identifying opportunities for increased efficiency, economy, and effectiveness in achieving Bank Group objectives for its programs and activities. The management auditor, therefore, contributes more input into the management decisionmaking process than traditionally has been done in the past.

AUDITING STANDARDS

Auditing standards are general measures of the quality and adequacy of the work performed. Auditing procedures, on the other hand, represent the specific procedures followed in achieving the objectives of an audit.

The distinction drawn is not always a sharp one. General measures of quality and adequacy of work performed should not vary, whereas specific audit procedures will vary between assignments. At the same time, however, some procedures are so basic to the performance of a satisfactory audit that they may be considered as standards relating to adequacy of work performed.

SCOPE OF REVIEW SYSTEM

The review system should provide the Boards of Executive Directors and, ultimately, the Boards of Governors with an independent and continuous program of selective reviews of all major programs and activities of the Bank Group, including the administration and implementation of loans to both public and private borrowers and the granting of technical assistance. The review should be directed generally to examining whether Bank Group activities attain the intended financial and economic development objectives in an economical, efficient, and effective way. Within this general aim, the effectiveness of loan implementation and administration and the technical assistance activities of the Bank Group should be evaluated in the light of its articles of agreement and bylaws and the policies and directives of the Boards of Governors and Executive Directors. Recommendations should be made concerning ways those programs and activities can be improved, bearing in mind the international character of the institutions and their assigned roles in financing world development.

In reviewing Bank Group assistance to developing countries, determining its contribution to social and economic progress in the project area should be emphasized in order to help evaluate its effectiveness as a development institution.

These audit standards provide criteria for conducting reviews for efficiency, economy, and effectiveness. The review should also examine policies, procedures, practices, and internal controls applicable to any aspect of the activities

for which the auditor attempts to make judgements regarding whether existing practices can be made more efficient or economical. In determining effectiveness, the auditor should review those policies, procedures, practices, and controls having specific bearings on the attainment of the goals and objectives established for the program, activity, or function under review.

Internal review is an important part of internal control and consideration should be given to such work. The auditor should consider the extent of the internal review work and the extent to which that work can be relied on to insure that other aspects of internal control are functioning properly. The auditor should take full advantage of the products of the internal review in making his own review. Independent public accountants' work, performed at the request of the Boards of Governors for the purpose of expressing an opinion on Bank Group financial statements, should also be considered but not duplicated.

The effective discharge of these responsibilities requires the prompt reporting of the findings and related recommendations to the Boards of Executive Directors together with comments of the Bank Group management.

The procedures established should provide for systematic followup on the actions taken by Bank Group management to implement the recommendations. Periodic reports of such actions should be made available to the Boards of Executive Directors and, through them, to the Boards of Governors.

The provisions for a program of continuing reviews should not require that all Bank Group activities be examined in a single year. To provide systematically for the required coverage over a reasonable period of time and for the assignment of priorities in conducting the work, a time-phased audit plan should be prepared, and revised periodically, and given to the Boards of Executive Directors to consider and approve. These independent reviews should be coordinated with the internal reviews and the financial audits by the independent public accountants.

GENERAL STANDARDS AND PERSONAL QUALIFICATIONS

One of the primary considerations in establishing an effective review and evaluation system is to ensure that it is independent of the Bank Group's president and other management officials.

The organization should be headed by a highly qualified individual in the financial and administrative management area, and his staff should be built around a nucleus of seasoned accountants, economists, management analysts, and others experienced in international financial and/or developmental assistance programs and other appropriate areas.

The following standards should apply to all work.

1. Each review should be directed by persons having adequate technical training and proficiency.
2. An independent and objective attitude should be maintained.
3. Due professional care should be exercised.
4. The work should be adequately planned.
5. Assistants should be properly supervised.
6. Sufficient, competent, and relevant evidence should be obtained to afford a reasonable basis for expressing opinions, judgements, conclusions, and recommendations.

The organization established under these standards should be responsible to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors, which represent the member governments. Therefore, the staff should preserve an independent viewpoint in all its work so that the value of the examinations will not be impaired. Such independence requires objective consideration of facts and unbiased judgements in performing reviews and formulating conclusions.

Objectivity is an extremely important and basic requirement for the auditor. His goal in each case is to determine

the actual situation and to convey the most accurate knowledge possible to his report readers. He should develop all significant and pertinent information, pro and con, and give genuine consideration to all such information in reaching conclusions. Convincingness in reporting his findings and recommendations must be based primarily on portraying the situation that exists. Complete honesty and integrity are essential in carrying out his work and reporting on it.

In the exercise of due professional care the auditor must use good judgement in choosing and applying audit procedures and in preparing reports. All confidential information in Bank Group records should be appropriately protected.

The following basic audit procedures can be considered standards in the sense that they are standard requirements that should be observed and satisfied in making an audit.

1. The auditors should become fully familiar with the history of the Bank Group, its articles of agreement and bylaws, and with the policies adopted by the Boards with respect to the
 - a. purpose, scope, and objectives of the activities or functions being examined,
 - b. manner in which activities are to be conducted and financed, and
 - c. general nature and extent of Bank Group authority and responsibility.
2. The Bank Group's actual operating and administrative procedures and practices, reporting, internal review, and other elements of the system of internal management control should be reviewed and tested for effectiveness in achieving the aims and objectives outlined in the scope of review section of this statement.
3. Pertinent and significant information available to the Bank Group which is necessary to properly consider, support, and present any findings, conclusions, and recommendations should be fully explored and developed.

REPORTING STANDARDS

The effective discharge of review responsibilities requires the prompt reporting of findings and related recommendations to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors. Comments of Bank Group management on the findings and recommendations normally would be obtained and made available to the Boards at the time they consider the reports.

To insure complete and appropriate reports, the following standards should govern.

1. Written reports should be submitted to the Boards of Executive Directors and through them to the Boards of Governors and Bank Group management.

2. Reports should be issued on or before the dates specified by regulation or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management, the Boards, and member governments.

3. Each report should:

- a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
- b. Present factual matter accurately, completely, and fairly.
- c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
- d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
- j. Clearly explain the scope and objectives of the audit.
- k. Be issued without restriction. When there is a need to report confidential information, consideration should be given to preparing the confidential portion as a supplement so that the usefulness of the basic portion of the report is

not limited. When significant pertinent information is omitted because it is deemed privileged or confidential the nature of such information should be described and the authority under which it is withheld should be stated.

4. Followup reporting should be made to the Boards of Executive Directors and through them to the Boards of Governors on corrective actions taken by Bank Group management on all report recommendations.



Public Law 93-189
93rd Congress, S. 1443
December 17, 1973

An Act

87 STAT. 714

To amend the Foreign Assistance Act of 1961, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Foreign Assistance Act of 1973".

Foreign Assis-
tance Act of
1973.

87 STAT. 718

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

SEC. 9. Chapter 3 of part I of the Foreign Assistance Act of 1961 is amended as follows:

(1) At the end of section 301 add the following new subsection:

75 Stat. 433;
81 Stat. 453.
22 USC 2221.

"(e) (1) In the case of the United Nations and its affiliated organizations, including the International Atomic Energy Agency, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations a single professionally qualified group of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such group shall be established in accordance with such terms of reference as such governing authority may prescribe and that the reports of such group on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation group.

"(2) In the case of the International Bank for Reconstruction and Development and the Asian Development Bank, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations professionally qualified groups of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such groups shall be established in accordance with such terms of reference as such governing authorities may prescribe, and that the reports of such groups on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation groups.

"(3) Reports received by the United States representatives to these international organizations under this subsection and related information on actions taken as a result of recommendations made therein shall

Reports to
President,
transmittal
to Congress.

87 STAT. 719

be submitted promptly to the President for transmittal to the Congress and to the Comptroller General. The Comptroller General shall periodically review such reports and related information and shall report simultaneously to the Congress and to the President any suggestions the Comptroller General may deem appropriate concerning auditing and reporting standards followed by such groups, the recommendations made and actions taken as a result of such recommendations."

OED Files

October 8, 1975

C. R. Willoughby

Recent Discussion with Dr. Sen, Indian Executive Director

In delivering the 'advance copy' of the PPA Report on Indian Industrial Imports Credits to Dr. Sen on Wednesday October 1, I had a wide-ranging discussion with him about various current aspects of Operations Evaluation, particularly follow-up and the effect of the work on Bank operations, which gave rise to the following principal points:

1. The study on Effectiveness Delays and what the Bank was really going to do about the suggestions would, he thought, be one major focus of the October 28 Board discussion on Operations Evaluation.

2. Present discussions of PPA reports between Operations Evaluation and operating staff seemed to be much too largely confined to questions of fact or historical judgment, instead of going on to deal with what the operating departments were now doing about the lessons identified.

3. In illustration of his point at the recent JAC Meeting about the need for Management Policy Review really to cover substantive policy questions, not merely procedural issues, he added to the stress of various JAC members on the need for review of Bank's procedures on consultant appointment: he felt there were real questions to be asked not only about the Bank imposing its procedures on borrowers (the point touched on in the Loan Effectiveness Delays report) but also about the validity of the Bank's preferred procedures themselves, with the small place they give to price competition. He cited a recent case which had particularly concerned him, and led to a management consultant contract of over \$8 million, compared with about \$5 million originally estimated and \$11 million initially asked by preferred firm.

4. He was worried that Board discussion and emphasis on the Loan Effectiveness Delays report without the other parts of the trilogy (Project Preparation and Implementation) might lead to Bank reducing such delays only at the cost of building up delays in the period before loan signature; it was the whole cycle which needed to be compressed.

5. Project Appraisal Reports or President's Reports should include Project Start-up Schedules.

cc: Messrs. Shoaib ✓
Weiner

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