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Operations Evaluation -  
Preliminary Information (6-1)  
April 1970 - November 1970



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Operations Evaluation - Preliminary information



is appropriate, in my opinion,  
as long as in the final report  
you make it clear that some  
answers are more speculative  
than others.

4. I hope that the attached  
Comments by Manny

## OFFICE MEMORANDUM

TO: Mr. Christopher Willoughby through S. Reutlinger  
FROM: Richard C. Manning   
SUBJECT: Evaluation of Bank Group Operations in Colombia - Draft Proposal.

DATE: November 23, 1970

1. I have read the draft with interest and the comments which follow are intended to be suggestive of ways in which an overwhelming task might be brought within reasonable bounds. If all items in the draft make their way into the final report I fear that its main impacts will be a short paragraph in the Annual Report and a great deal of dust gathering.
2. Accepting the idea that it is useful to ask what impact the Bank operations had on Colombia as a whole leads very logically to recognition of the fungible nature of foreign assistance. I feel strongly that it would be instructive to quantify the means by which the process of resource transfer occurs within and between sectors of the economy so as to more nearly identify the areas of true marginal impact. Thus, any economic analysis of Bank operations should begin with a careful analysis of the national budget and public and private investment undertakings. At the same time attention should be paid to the characteristics of Bank funded investments in those cases when Bank initiative was important for their inclusion in the investment plan. In particular the gestation characteristics and associated output-capital ratios should be compared to those that would have prevailed (on average and at the margin) had the project not been undertaken. Such an approach would be necessary to meet the most fundamental criticisms of currently popular methods for evaluation of the demand for foreign resources.
3. The draft emphasizes the need to measure the role played by the Bank, through technical assistance and leverage, in achieving institutional changes in Colombia. The approach suggested seems good so far as it goes, but it fails to include the impact on the Central Bank and Ministry of Finance. I know nothing of the Colombian case, but from what I do know of other countries having as long an association with the Bank, I would guess that they have by now become well trained in serving up projects that meet the Bank's requirements as nearly as possible. Even if quantified, it may be hard to apply the right sign to this institutional change in the evaluation calculus though it has doubtless smoothed relations with all donor agencies.
4. Any evaluation using macroeconomic data over a twenty year period will need to guard against the built in tendency for the relevant data to be better collected, and with more complete coverage, over time. Not only does more output pass through the marketplace where it is readily measured, but statistical services develop to measure the residue that is distributed in other ways.
5. At least in the power and transport sectors it is proposed that alternative investment patterns be considered in judging the desirability of the one actually undertaken. This involves construction of a model capable of identifying the optimal mode, time pattern and location of investments necessary to satisfy a given level of demands for the resulting services. The draft rightly points out that knowing this demand pattern is the key to the problem and I fear that

the crucial importance of the assumptions made in this area will be swamped by the apparent elegance and precision of the proposed (linear) model. It is not only that Say's Law might operate (especially as between modes) but that since prices get lost in the wash, there is no market basis for reconciling divergences between ex-ante demand and supply. One boggles at the guesswork necessary to generate even this inadequate model in the time available, but the model's inadequacy should ensure that the guesswork is never undertaken.

6. In paragraph 2, I have suggested a treatment of the work at the macro and sector level. With respect to specific projects, I would like to suggest that a more econometric approach could be adopted with a data base arising from projects of a given nature over time and across countries. I would not wish to suggest that the methodological problems are any less serious when one takes this approach, but I do believe that economists have the tools, and experience in their use, to be able to distinguish any contribution that is uniquely attributable to the source of finance for such projects. It should even be possible to quantify some of the less tangible institutional aspects of IBRD work through responses on the part of indigenous agencies to unexpected eventualities.

7. Finally, I would encourage the independent development of some novel measures of interaction. Tradeoff tables, distributional density coefficients and output-labor ratios are a few that come to mind. The questions which have to be answered by the Operations Evaluation Unit are multi-dimensional and it seems likely that at least some of these dimensions will fall outside the scope of what we have been able to give as answers in the past.

RCManning:rlb

FORM NO. (2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP

Date

11/19/70

NAME

ROOM NO.

Mrs. Salomo Reutlinger

D 545

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's the first version of our Scope of Work, on which I would welcome your critical comments.

From

Christina Willoughby

## 1.1. Evaluation of Operations.

- Broad purposes:
- (i) to show that funds invested by us have yielded rather high returns to countries borrowing
  - (ii) to generate information, based on actual cases where we have been involved, to appraise the validity of the increasing amount of criticism, to be heard from left as well as right part of political spectrum, of foreign aid
  - (iii) to see what lessons there are to be learned for future policy making from our own past experience

The 'public relations' and 'policy improvement' tasks could of course be in conflict, & no doubt would be in some cases. However it is probable that the majority of projects for which we have provided funds have yielded sizeable returns even if those returns could have been even greater with a project better composed or in a different location in country or sector. (cf. San Lorenzo).

Proposal: Systematic evaluation of all the projects which we have undertaken in the developing countries. - over a period of time.

First stage: take a country with which we are familiar & where we have been involved in several sectors for some time, so that some projects in operation for a couple of years or more.

Potential countries: Colombia Tunisia  
E. Africa  
Pakistan

## Aspects to be considered:

i. Rate of return on completed projects, recalculated to extent possible, where it was originally calculated.

a. Agriculture: actual yields x area planted x price obtained in years of project operation related to actual disbursements ~~of~~ and investment expenditures, x operating expenditures cfd. with what would likely have been the case w/o the investment provided.

b. Highways: actual investment  
actual traffic growth — try to divide between normal x generated or induced. Road-user savings, same as anticipated or clearly off?

c. Railways, Telephones, Power — financial rate of return; any possibility of incremental financial.

d. Education

e. DFCs: do they have econ. return?

f. Water Supply — financial

Will it be worth estimating return in retrospect ~~to~~ <sup>where</sup> ~~now~~ where now was originally calculated? definitely useful, yes, if possible.

ii. In retrospect, & especially in light of subsequent developments in world markets & the economy itself, do the sectors seem to have been the right ones?

iii. Were the details of the project — the admin set up, consultants, conditions of loan, procurement arrangements, disbursement rate, etc. satisfactory?

## Things to be done.

1. Look at selected possible countries, from point of view of diversified set of fully disbursed projects — <sup>ie</sup> dropped out of active supervision
2. Compile a list of criticisms of Bank operations as an Annex, as a useful background for general purposes & for specific assignment
3. Look at appraisal reports of different sectors, to see different & return techniques & likely difficulties of re-estimation.
4. Should there be questionnaires?
5. Should there be special studies — by Research Groups, or by particular people from Projects Depts.

IHA

1. Cf. projected cost-benefit w actual turn-out.

Causes - what different?

2. Evaluate institutional aspects: e.g. has indep. Post Audit worked?

3. Kirshman type - to look for unexpected costs & benefits -  
ruined the handicraft ind: Govt. going broke ∴  
expenditure on intec.

Econs Dept doing (1) but 2½ project/year. We ought to do  
2½ projects/month. Gaining of important lessons - especially  
w. regard to methodology. They are doing autopsy.

Disbursement - constant misadvice - Pricing or Realistic, &  
effect on rate of return calculation.

4. Should we have financed the project at all? even if r/return  
is 10%.

How imp are macroeconomic conditions for success of project.

## Ex-Post Evaluation of Operations

Studies as well as Projects.

Costs in staff-time as well as capital costs of construction.

~~What~~ Was it a good investment from point of view of country?

Was it a good " " from point of view of B.G.?

Different from supervision role which is mainly technical assistance & advice, both on construction & on operation.

For this latter it is generally better to have ~~some~~ some of the same people involved as originally or at least some of them?

Whereas this is to teach ourselves, & not so much technically about method as about overall allocations of effort.

Narrowly - has construction & development of the project (load-growth, earnings, net expenditure, yields, traffic growth etc.) been as expected, more or less rapid.

conditions - macro & sector

Broadly - does the project in retrospect seem to be one of the highest priorities.

Was it at expense of ~~the~~ unbalanced dev. elsewhere: undue concentration of domestic savings available.

has it had external diseconomies.

Progress Reports may be improvable to do more on individual economic & benefit aspects, rather than narrowly construction.

Best to take one particular country of heavy past involvement, as a first sample? — of one particular type of operation  
What have been the best types of project we have done.

Shd it do 'audit' — do you need accountant?

Best procedure — to start with a group of 2 people or  
so:

to gather all info about projects in a country: past &  
projected in reports, & actual. Talk to Area/Projects.  
to visit the projects.

Have to look at all sides looked at in appraisal report —

Financial

Economic

Technical

Commercial

Managerial

Training - Personnel.

AND the MACRO.

After such an intensive case study: —

2 months by

2 working days per project.

- field

need an Area man to guide & introduce, or familiarity with  
Country, personnel.

lower down S

distort comp of I & increase KO

frustrate emergence of indigenous  
enthusiasm  
inhibit int. reform

## OFFICE MEMORANDUM

TO: Mr. John Blaxall

DATE: April 10, 1970

FROM: Donald T. Brash

SUBJECT: Ex post Evaluation of Operations

Rather than attempting to refine your draft memo to Mr. McNamara, I have decided that I would be wiser at this stage to try to sort out my own thoughts on this subject.

I think it is important to have clearly in mind that there are two somewhat distinct reasons for the need to increase the Group's ex post evaluation of its operations. First, since our primary objective is development, it is of fundamental importance that we have a way of appraising our contribution to that goal. Secondly, even if we ourselves were confident that our operations were making the maximum possible contribution to development, we would still need a more explicit re-evaluation procedure because of the very strong pressures building up, particularly in the U.S. Congress, for tangible assurances that the taxpayer's dollar is being used to greatest effect. In other words, we not only have to use our resources to contribute to development but have to make this effective use apparent also.

As you know, I was particularly impressed with this latter point after doing some work on aid auditing procedures when on the staff of the Pearson Commission last year. As a result of congressional pressures, the U.S. General Accounting Office has already begun a series of "management audits" related to international organizations. GAO does not claim the right to audit these organizations directly, and indeed it is recognized that it would be highly undesirable if each member of an international organization were to assert such a right. So GAO contents itself with auditing U.S. participation in international organizations. But the distinction is a fine one: a GAO audit of U.S. participation in the W.H.O., released early in 1969, was designed to "determine how well the United States was able to exert a beneficial influence over (1) the make-up of the programs and budgets of W.H.O., and (2) the manner in which the programs were carried out". Since that report was released, the GAO has completed reports on FAO, OAS (classified), UNICEF, and UNDP.

This new interest of GAO in international organizations appears to reflect a congressional feeling that (1) some of these organizations are not well managed, and (2) that the authorities nominally controlling them do not get adequate information from their managements to make real decision-making possible. It was congressional pressure also which obliged the IDB to establish a special GAO-type auditing unit within its structure, a unit designed to assess the efficiency and effectiveness of IDB lending programs and to report that assessment not merely to IDB management but also directly to the IDB Board. (Congress had originally demanded that GAO itself should be responsible for the "management auditing" of the IDB.)

At the moment, project performance in the Bank Group is monitored in several ways. The most common of course is the project supervision conducted by the Projects Departments, both at headquarters and in the field, during the period until the loan or credit is fully disbursed. Another is the monitoring implicit in the fact that many of our loans go to operating entities which have received previous Group support: the appraisal report for the new loan in this situation normally includes an assessment of the use made of previous loans. This has been particularly important for loans made for electric power, railways, and ports. Thirdly, several in-depth studies of particular projects have been completed by the Economics Department (most notably one on Iranian roads and another on eight irrigation projects) and more are in progress.

The completed in-depth studies referred to were useful in highlighting some real weaknesses, in both appraisal and follow-up procedures. The Iranian road study, for example, revealed that, prior to the loan agreement there had been:

- (a) no analysis of the relative advantage of improving the existing rail link, as compared with improving the highway;
- (b) no systematic examination of alternative road routes (with the result that some of the roads financed showed a negative present worth when examined, and one was substantially by-passed by another road financed by a later Bank loan);
- (c) inadequate technical preparation (resulting in a cost overrun of 40%);
- (d) substantial over-estimation of ancillary "development benefits".

The study of eight irrigation projects drew attention to frequent under-estimation of costs and construction periods. It made no systematic attempt at all to assess the accuracy of predicted benefits because "the data presently available in files do not provide even a minimum foundation for reappraisal of benefits".

It is not fair to imply, however, that the conditions prevailing when the first Iranian road loan was signed in 1959 still prevail today. There have been some substantial improvements in appraisal procedures, and the consideration of alternative ways of achieving the same goal is now, at least formally, common practice. Pre-investment sector studies are now frequent.

But the systematic reappraisal of individual projects after the construction phase is over is still very rare (except where "repeater" loans to the same operating entity are involved).

April 10, 1970

Perhaps even more serious, we have at present no way of judging whether the projects we finance are being selected in an appropriate manner. Are economic reports devoting enough attention to highlighting "priority sectors"? Are sector studies highlighting the need for particular projects adequately? Are we paying sufficient attention to the international consistency of our project recommendations? (It is interesting in this connection to note that the recent Agricultural Sector Survey Report for Brazil recommends that measures should be adopted quickly to increase Brazilian coffee production.) There are difficult issues of principle raised by this line of questioning (Harry Johnson's comment about the World Bank as a kind of embryonic world government comes to mind) but it seems that some of them can not be avoided in any appraisal of our overall operations which goes beyond a very narrowly national framework.

As an interim judgment, I find myself agreeing with you that to do this ex post evaluation we really need two different staff groups. One would be doing the kind of in-depth study of particular projects which the Sector and Project Analysis Division of the Economics Department seems well-placed to do. The other would have a much broader set of objectives, along the lines of those suggested in your draft. Logically, the place to establish such a group would be in P & B -- the group's function is clearly related closely to the programming function, and it would be essential that the group be both removed from immediate operational pressures and yet have close contact with senior management. Could such a staff group also serve the Bank's Board, or will we, like the IDB, be compelled to set up another group to keep the shareholders informed?

DTBrash:omc

JBlaxall:vvw  
30 March 1970

SUBJECT: Ex-post Evaluation of Operations

1. The minutes of the March 9 Senior Staff Meeting note your comment that "the FY1971 budget should include provision for the post-supervision evaluation of projects, to determine how far they had achieved their objectives." This is a matter that has come up two or three times before in different contexts, but never in such a way as to force a resolution of the issues.

2. My own preliminary view is that there are two aspects of <sup>kinds of activities relating to</sup> ex-post evaluation ~~to be covered~~. The first is some set of procedures ~~and activities~~ through which a fairly small staff could cover the whole spectrum of Bank operations on a continuing basis. The objectives would be to gain a synthetic view of what and how well the Bank is doing, to identify general features of projects where an improvement in our methods or focus of effort might be expected to provide substantial benefits, to suggest certain projects or classes of projects for much more intensive investigation, and to provide an overall framework for explicitly recording and transferring the Bank's operational experience. The second aspect <sup>activity</sup> is the carrying out of detailed reevaluations of particular projects, with a view to improving our techniques of evaluation and the focus of our effort during project preparation.

3. The second <sup>activity</sup> ~~aspect~~ mentioned above is within the terms of reference of the Sector and Projects Analysis Division of the Economics Department. The group works closely with the <sup>P</sup> projects departments. It completed in a reappraisal of a FY1959 road project in Iran, and since then has worked on

4. The activities and procedures I noted earlier as constituting the first <sup>response to</sup> ~~aspect of~~ the problem are by no means well defined in my mind. It would, I think, be necessary to devote a fair amount of effort over a period of two or three weeks to come up with a proposal which had been well thought through. I should be glad to turn my department's attention to this problem, but as you know we are heavily preoccupied for the moment with the budget, and it will be difficult to take the necessary time.

Headquarters:  
Washington, D.C., U. S. A.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTRAFRAD PARIS

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS PARIS



EUROPEAN OFFICE:

66 ~~NE~~ AVENUE D'ÏENA, PARIS (16<sup>E</sup>) - FRANCE

Telephone - 553-2510

June 19, 1970

Dear Dick,

...  
X Please see attached letter to me from Hellmuth Führer, reference HF/970, dated June 18, regarding a Seminar to be held in Holland on October 28-30 on the subject of ex post evaluation of the effectiveness of aid. |

I should be grateful if you would consider the request for a Bank representative at the Seminar and let me know, in due course, how to reply to Führer. Incidentally, Führer came through on the 'phone and stressed to me that he hoped that you would not mind his suggesting the names of possible Bank representatives. He appreciated that this is entirely a matter for the Bank. I told him we were always pleased to take into account anything OECD/DAC may have heard regarding interest by Bank staff members in the subject matter of a meeting.

With kind regards.

Yours sincerely,

G. C. Wishart



Mr. Richard H. Demuth  
Director  
Development Services Department  
Room D 1128  
International Bank for  
Reconstruction and Development  
Washington D. C. 20433

# OCDE

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HF/970

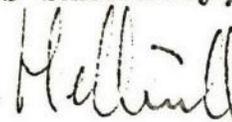
18th June, 1970

19 JUN 1970

Dear George,

As you know the O.E.C.D. intends to organise, with the financial sponsorship of the Dutch Government, a Seminar on ex post evaluation of the effectiveness of aid. You will see some of the details from the attached very preliminary working paper. We hope very much that the Bank will actively participate in this Seminar so that we can benefit from its wide-ranging experience. Mr. van der Tak, who is now on leave of absence from the Bank, has already agreed to participate in a more or less private capacity, but I hope we would also have an official representative. I gather that Ben King has been interested in this general subject, but the Bank is, of course, entirely free as to whom they think would be most suitable. The Seminar will be from 28th-30th October in Wassenaar near The Hague.

Yours sincerely,



H. Führer.

Mr. George C. Wishart,  
I.B.R.D.,  
64-66 Ave. d'Iéna,  
Paris, 16.

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

Development Directorate

DD-124

RESTRICTED TO PARTICIPANTS

Paris, 25th February 1970

Working Document

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DEC 16 2022

WBG ARCHIVES

PROPOSED SEMINAR ON THE  
EVALUATION OF THE EFFECTIVENESS OF AID

(Note by the Secretariat)

In the D.A.C. Work Programme as agreed by the Committee [DAC(69)30(3rd Revision)] and the Council it is proposed to call a meeting of interested D.A.C. countries to review the experience of Members with evaluation work and to exchange views on appropriate evaluation techniques and criteria. The Dutch government has kindly offered to sponsor a seminar which might be held in preparation of such a meeting. The following note puts forward proposals for the content and organisation of such a meeting.

Seminar on Evaluation

1. Evaluation of the efficacy of past aid activities is of essential importance:
  - (i) to improve aid giving techniques in the light of past experience;
  - (ii) to demonstrate that the taxpayers' money is wisely used.
2. Experience with ex post evaluation is still very limited. Few aid agencies have established systematic evaluation procedures. Evaluation techniques and even terminology are usually developed on an ad hoc basis. But there is growing interest. (See e.g. the pertinent comments in Chapter V of the U.N. Capacity Study.)
3. The D.A.C. has agreed to call a meeting of interested D.A.C. countries later in 1970 to review the experience of Members in this field and to exchange views on appropriate evaluation techniques and criteria.
4. It would be extremely useful if such a meeting of government representatives could be preceded by more informal technical discussions among persons with particular competence in this field.
5. Purpose and subjects to be discussed. The purpose of the Seminar would be to draw on the experience of experts with knowledge in a wide range of fields which are relevant for evaluation work. The Seminar should take stock of available evaluation techniques and criteria, assess some of the experience with evaluation work made so far, identify the major issues which donor governments and organisations and also recipient countries have to face in establishing effective evaluation procedures and to make suggestions for subjects warranting further consideration and study.
6. Ex post evaluation of development assistance projects or activities comprises activities which vary widely in character and scope and consequently raise very different conceptual and institutional problems. Evaluation in the true sense of an ex post assessment of the results of activity after it has come to full fruition raises very different problems from evaluation in the sense of operational control as a current management tool designed to improve the planning and implementation of on-going activities. The problems of evaluating the cost/benefits of large capital investment projects are very different from those of technical assistance activities. Assessing the results of a specific individual project activity raises problems very different from appraising the efficacy of the overall aid programme of a

given donor or group of donors in a particular recipient country. It would seem desirable that a general stock-taking seminar should deal with all these aspects. But it will no doubt be necessary, at a subsequent stage, to concentrate on more selectively defined problems.

7. The detailed issues to be discussed must also be carefully defined and prepared. It may be useful to distinguish broadly between economic-analytical problems and organisational-institutional problems. The questions and topics to be taken up might include, for example:

- a. Scope and nature of current ex post evaluation work by aid agencies and recipients;
- b. Techniques and procedures for ex post evaluation currently being used. What has been the general experience?
- c. Proper role of the different types of evaluation, such as:

built-in evaluation by project staff itself, inspections from headquarters during implementation, ex post evaluation by outside teams, sector surveys, macro-economic evaluation studies of overall aid programmes.

- d. Relative advantages and shortcomings of practical management oriented evaluations versus quantified cost/benefit studies;
- e. What lessons can be drawn from evaluation work outside the field of development assistance?
- f. What has to be done at the planning and project formulation stage to enable effective evaluation to be made subsequently (e.g. clear and, if possible, quantitative formulation of objectives, collection of relevant bench-mark data);
- g. Need for systematic collection of data on output and other effects of project; need for proper analytical cost accounting;
- h. Is it possible to quantify the expected returns or cost/benefit ratios of technical assistance projects?

- i. Aid projects are not necessarily selected on the basis of maximum expected cost-benefit ratios. On the contrary, donors often finance projects facing particularly difficult conditions of operations. How can such factors be adequately taken into account in evaluations?
- j. Foreign-financed projects tend to use more sophisticated, capital-intensive techniques than comparable local activities. Need to demonstrate higher efficiency as against implied higher comfort and amenity standards of foreign-imported techniques and facilities.
- k. What are the appropriate organisational/institutional arrangements?
- l. What should be the role of the recipient country in the evaluation of assistance activities?
- m. What can be done to assure full use of the findings of evaluations? Have the results of evaluation work already led to improvements in aid management? What is the cost-benefit ratio of evaluation work itself?
- n. Public information aspects of evaluation work; need for creditability, objectivity and intelligibility.

8. Participants. The major advantage of a seminar would be that it could bring into the discussion persons who would not normally attend D.A.C. meetings. It is proposed to invite representatives of research institutes (e.g. the German Development Institute, the Netherlands Economic Institute, the Japanese Research Institute for Economic Development, Brookings), university scholars, experts from the private sector (e.g. representatives of one or two reputed consultant firms or research staffs of large corporations), and experts from two or three developing countries, who can express the experience of the recipient side. It would probably also be useful to draw on the experience of experts who have worked on the evaluation of the economic and social effects of investment projects in developed countries (e.g. the U.S. Bureau of Land Reclamation, economists of Public Works Departments, a specialist from an auditing board or cours des comptes). In addition, there should be representatives, in a personal capacity as experts, of some national and international aid agencies, (e.g. US-AID, U.K.-ODM, Germany BMZ, Swedish SIDA, French CCCE, FEDOM, I.B.R.D., UNDP, UNITAR, F.A.O.). The host country, the O.E.C.D. Secretariat and the Development Centre would, of course, also be represented. Altogether the number of participants should not exceed 25-30.

9. Length. It is proposed that the Seminar should be held for three full days.

10. Timing and Location. The Seminar might be held in October with a view to calling a D.A.C. meeting in December. It is proposed that the Seminar be held in the host country.

11. Preparation. Invitations would be extended by the O.E.C.D. Secretariat. The O.E.C.D. Secretariat would prepare a basic paper for the discussion. In addition, it would be useful if three or four participants could submit contributions on special subjects. The practical preparations would lie in the hands of the host country.



# Record Removal Notice

<b>File Title</b> Operations Evaluation - Preliminary information		<b>Barcode No.</b>  30069312		
<b>Document Date</b> 12 October, 1970	<b>Document Type</b> Report			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> OECD Seminar on the Evaluation of the Effectiveness of Aid : Selected Bibliographical Review of the Evaluation's of the Effectiveness of Aid				
<b>Exception(s)</b> Information Provided by Member Countries or Third Parties in Confidence				
<b>Additional Comments</b>		<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><b>Withdrawn by</b> Vlada Alekankina</td> <td><b>Date</b> 31-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12
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<b>Document Date</b> 09 July, 1970	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To : George Wishart From : Richard Demuth				
<b>Subject / Title</b> OECD Seminar				
<b>Exception(s)</b> Information Provided by Member Countries or Third Parties in Confidence				
<b>Additional Comments</b>  Attached documents : Letter to R. Demuth from G.C. Wishart (6/19/1970), Letter to G. Wishart from H. Furher (6/18/1970), Note from the Secretariat "Proposed Seminar on the Evaluation of the Effectiveness of Aid" (February 25, 1970)		<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><b>Withdrawn by</b> Vlada Alekankina</td> <td><b>Date</b> 31-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12
<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12			



## OFFICE MEMORANDUM

TO: Mr. W. C. Baum

FROM: H. G. van der Tak *H.G.*

SUBJECT: Follow-up of Projects

DATE: October 24, 1968

I refer to our recent conversation concerning what we are doing or planning to do about follow-up of projects after a loan is made. I have discussed this with Messrs. Reutlinger and de Weille. The attached note briefly reviews past and present efforts and makes proposals for greatly expanding activities in this area, as a basis for further discussion.

We look forward to discussing this question with you in the near future.

HGvanderTak:zmc

cc: Mr. Kamarek  
Mr. Stevenson  
Mr. Reutlinger  
Mr. de Weille

FOLLOW-UP EVALUATION OF PROJECTS

I. General Background

1. Many people in the Bank have expressed concern over the past lack of effort to follow up and learn from the development impact of Bank projects. So far, this concern has not been translated into remedial action. The purpose of this memorandum, therefore, is to review past and present efforts and to suggest how the Bank could intensify project follow-up activities now and in the future.
2. Ex post evaluation of public projects has become of increasing concern in many agencies. A growing tendency to base ex ante project appraisal on rational analysis has also made it feasible and necessary to make more ex post evaluations. As evidenced, for instance, by recent experience with U.S. manpower development programs, it has become standard procedure for government programs to require and to allot funds to a careful ex post evaluation of a program's performance. Can the Bank afford to do any less?
3. If anything, the Bank has an even greater need to follow up projects than governments in the developed countries. The Bank has a potential comparative advantage in collecting and evaluating data on ongoing projects in the less developed countries and in transmitting follow-up experience to its member countries. This would complement its efforts to improve project appraisal procedures. Since efforts by national and international agencies in this follow-up area are mostly inadequate, there is very little risk of duplication and much opportunity to tap experience for useful policy reevaluation. At the very minimum, resources committed to this area should be equal to those used in gathering macro-economic statistics.
4. This memorandum deals only with the purpose and substance of follow-up activities, leaving organizational issues for subsequent

consideration. At this time, we suggest only that project follow-up would be most usefully performed by an agent not directly involved either in the original appraisal or in the supervision of the projects, yet fully informed on project history. It should be remembered that the follow-up is primarily research-oriented and should not be handled like an accounting audit.

## II. Past Efforts at Follow-up

5. Past attempts to follow up Bank projects have been limited in scope, depth and number. The Project Supervision Reports, formerly called End-Use Reports, provide a limited follow-up of projects during the construction phase. They often compare original and final cost estimates and discuss the reasons for differences. Sometimes they also contain some reference to the benefits as originally estimated and some data on the actual development (e.g., traffic counts in case of road projects). In addition, they may occasionally provide some information on another, similar project in the same country which the Bank has financed some time before.

6. In "A Review of 62 Road Project Appraisal Reports"<sup>1/</sup>, an attempt was made to analyze systematically the quantitative information in 62 road project appraisal reports prepared by the World Bank from 1960 to 1966. This attempt was largely unsuccessful, however, because the information contained in the appraisal reports was insufficiently detailed and/or defined for the purpose of such an analysis. Because of the Bank's fairly unique potential for providing comparable data on road projects all over the world, the authors make some suggestions in this paper as to

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<sup>1/</sup> J. de Weille and H. Angeles, "A Review of 62 Road Project Appraisal Reports", Economics Department Working Paper No. 5, December 4, 1967.

how this potential might be exploited.

7. The Reappraisal of a Road Project in Iran<sup>1/</sup> has been the Bank's first and only attempt thus far to reevaluate in some detail one of its projects. One of the authors' recommendations is "that during the period of project supervision as well as later a more systematic effort be made to gather information on the economic results actually obtained from the projects". "Development Projects Observed"<sup>2/</sup> is an attempt by Albert Hirschman to extract lessons on administrative, political and social factors governing success or failure from a series of Bank projects.

8. Finally, under some of the Bank's recent loan agreements the borrower is obliged to provide the Bank regularly with some specified information (in the case of road projects, e.g., with traffic count data for certain roads).

### III. Current Efforts at Follow-up

9. A new data bank questionnaire has been designed to collect information from project appraisal and supervision missions about new projects until completion of construction. It will only provide a part of the information necessary for full follow-up. Information derived from the questionnaire should be useful in identifying operational bottlenecks, and coverage should be more systematic than in the case of the project supervision reports. However, the data requirements for an

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<sup>1/</sup> H. G. van der Tak and J. de Weille, "An Economic Reappraisal of a Road Project: The First Iranian Road Loan of 1959" (IRN-227), EC-1147, September 26, 1966. This study is shortly to be published by the Johns Hopkins Press.

<sup>2/</sup> Albert O. Hirschman, "Development Projects Observed", The Brookings Institution, Washington, D.C., 1967.

appraisal of cause and effect relationships are not spelled out in sufficient detail and the questionnaire still does not provide guidance on how data are to be collected. Thus, it will be difficult to ascertain the validity of data obtained from the questionnaire for particular analysis.

10. The Economics Department is currently carrying out an evaluation of experience during the construction phase of 15 Bank irrigation projects. The study is first reviewing those changes in construction costs and schedules, as recorded in supervision reports, which have not affected the nature of the project or the benefits as initially conceived. The effect of these changes on the rate of return based on the original expected results is calculated. The report will then briefly describe changes which have been made in the nature of the project and the anticipated gain or loss in benefits, to provide background for field investigations to reappraise project benefits.

#### IV. Proposals for New Follow-up Procedures

11. Follow-up activities have two major purposes:

- i) Monitoring implementation of a project in order to alert the Bank and the authorities concerned to any difficulties and delays in construction or utilization that may arise so that remedial action can be taken.
- ii) Learning more about the functioning and impact of projects, and the relevant relationships determining the outcome of projects, to provide a basis for appropriate policies, <sup>and</sup> better resource allocation and design of projects.

12. Specifically, three research-oriented follow-up procedures are suggested:

- a) Systematic reporting and evaluating of actual against predicted benefits and costs for all new projects (simple indicators).
- b) In-depth data collection on all aspects of project impact, included as an integral part of project execution, for selected individual projects (complex indicators).
- c) Major reappraisal of impact for selected projects.

The needs both of monitoring and comparative research should be met by the planned project data bank, provided that its scope is properly extended.

13. For several reasons, discussion below centers primarily on the design and collection of data for new projects. First, the proposed activities tie in with the budding interest in establishing<sup>a</sup> general project data bank. Second, the proposed activities require major administrative decisions on staffing and organization. Third, the chances are better with new projects that the Bank will receive the needed cooperation from all parties concerned.

14. However, it would be extremely advantageous to include some projects which have already passed through the construction phase and are now entering the benefit phase. As far as is possible, the major reappraisal studies should cover selected projects in this stage.

A. Systematic Collection of Actual Benefit and Cost Data

15. The primary objectives of this activity would be to provide the data basis (i) for monitoring projects during their implementation phase for operational purposes, and (ii) for comparative research on actual behaviour of benefit and cost variables in relation to their anticipated behaviour. Through systematic data collection and periodic evaluation, it should become possible to identify the major erroneous assumptions used in appraising projects and to recommend policies to improve project performance.

16. This type of data collection and evaluation is only likely to produce results if the original project appraisal reports spell out in considerable detail all assumptions and predictions. General propositions with respect to benefits and costs, even when quantified, cannot be effectively evaluated. Lessons concerning appraisal methods and predictions cannot be learned unless information is available on the components entering into costs and benefits. At best, data on many benefit factors can be combined with some reasoned judgments about unmeasurable phenomena to construct an estimate of total project benefits. It is imperative to sort out the systematic biases made in the original projections. Actual benefits, or costs, may differ from original projections because of either faulty predictions or unforeseeable events.

17. Setting up a system for the collection of project data requires integrated planning of the kinds of evaluation to be made, of the data required, and how and by whom the data are to be obtained, reported, assembled and evaluated. The data bank procedures recently initiated

only partially meet these requirements. They need to be extended and adapted to serve the dual purpose of monitoring projects, also after completion of construction, and comparative research on behaviour of benefit and cost variables.

18. Eventually, all new projects would be covered in the above reporting program. Initially, a list of items to be reported on would be prepared for each type of project, but to assure successful implementation, data collection and reporting requirements should probably be tailored to each project. Special efforts should be made to define clearly the variables to be collected. In selecting them, one should weigh their value for analysis against the difficulty and cost of collection.

19. Tentatively, the responsible agent would proceed as follows:

- a) Compile a list of variables for which data are to be collected and record their predicted values at the time of appraisal.
- b) Prepare a proposal on how data should be collected.
- c) Decide whether to recommend that the borrowing country be given any special incentive or assistance for the reporting of data, and if so, in what form.
- d) At the time of loan negotiations, determine what person or agency in the country would be responsible for data reporting.
- e) Handle data records, to be kept inside the Bank, either inside or outside computer.
- f) Periodically report on project developments.

B. In-Depth Collection of Data on Selected Projects

20. The objective of this activity would be to permit a thorough ex post evaluation of a project's benefits and to estimate basic causal relationships between variables. Experimental design features would be incorporated into the chosen projects. This should make it possible to evaluate the development impact of specific projects and project features in specific environments.

21. A small number of projects would be chosen to represent major lending activities of the Bank Group and to highlight central problems of a particular geographic area or of a particular class of projects. Other important selection criteria would be the ease with which data collection and experimental design could be built into project execution and the availability of a suitable agency to handle data collection.

22. In some cases, the desired data may already be collected as a matter of routine by an existing country agency. In other cases, minor adjustments in the existing reporting system may be sufficient to provide meaningful data for this kind of project evaluation. Otherwise, a special survey scheme may have to be established and an organization designated. The complexity of the desired data, the country's capacity for statistical reporting, and the ability of the project appraisal team to define and organize data reporting schemes would determine whether the Bank agent for data collection would need to visit the projects in question.

C. Major Reappraisal of Selected Projects

23. The objective of these studies would be to reappraise the total impact of a project and various project features in different circumstances. Particular attention would be given to projects which

have proved to be unusually difficult to appraise for lack of adequate data.

24. For some time such studies in depth, as well as the comparative studies referred to earlier, will have to be pursued without the benefit of the proposed data collection schemes. They would be carried on as part of the regular research program in the Sector and Project Studies Division of the Economics Department. Pending the results of the current irrigation projects study, a similar appraisal may be followed in future studies. In this case, the first stage of the study would consist of a careful desk review of a number of projects in the designated class. Field investigations would follow, for one or two whole projects or for a few selected project features in a large number of projects.

#### V. Summary

25. Current efforts and plans in both the Projects and Economics Departments fall far short of meeting the minimal needs for ex post project evaluation. If any real progress is to be made in learning systematically from project experience, the designing, collecting and recording of project data must be given high priority. Some proposals for new follow-up activities are outlined above.

26. Further discussion of these proposals should also consider the desirability of establishing a small project data and evaluation unit, staffed initially with three to four professional staff members from the Sector and Projects Studies Division in the Economics Department. The project data generated by such a group should be in high demand both inside and outside the Bank. The Bank could enjoy a large degree of comparative advantage in this area of research.



# Record Removal Notice

<b>File Title</b> Operations Evaluation - Preliminary information		<b>Barcode No.</b>  30069312		
<b>Document Date</b> 24 January, 1968	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To : Mr. Secretary From : Elmer B. Staats				
<b>Subject / Title</b> Statement of the Comptroller General of the United States				
<b>Exception(s)</b> Information Provided by Member Countries or Third Parties in Confidence				
<b>Additional Comments</b>  Attached documents : Statement by the Comptroller General of the United States of the Scope of the Audit, Reporting Standards and Auditing Standards for use by United States Executive Director of Inter-American Development Bank.		<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><b>Withdrawn by</b> Vlada Alekankina</td> <td><b>Date</b> 31-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12
<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12			



# Record Removal Notice

<b>File Title</b> Operations Evaluation - Preliminary information		<b>Barcode No.</b>  30069312		
<b>Document Date</b> 01 September, 1970	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To : Ambassador Edwin M. Martin (OECD) From : Michael L. Hoffman				
<b>Subject / Title</b> Indian Punjab Project				
<b>Exception(s)</b> Information Provided by Member Countries or Third Parties in Confidence				
<b>Additional Comments</b>  Attached documents : Letters to L.J.G. Evans from J.B. Henry (8/26/1970); letter to R.H. Demuth from Fritz Steuber (7/30/1970); letter to Arthur Karatz from E.M. Martin (7/28/1970); letter to E.M. martin from Arthur Karatz (7/24/1970)		<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><b>Withdrawn by</b> Vlada Alekankina</td> <td><b>Date</b> 31-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12
<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> 31-Aug-12			

Establishment of an Operations Evaluation Unit

1. 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.
2. 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.
3. 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.

4. 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.

5. 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.

6. 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.

*Dr. Willoughby*

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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

August 24, 1970

Donna has prepared the attached list of countries (or in two cases, regions) in which there are now at least eight projects which would, on the face of it, be suitable for Ex Post evaluation. Only those loans/credits have been included where the commitment date has been since January 1, 1960, and where the undisbursed portion is less than 10% of the original principal amount. Perhaps we could get together tomorrow (Tuesday) to discuss which of these countries would be most suitable for the initial pilot project.

*Don B*  
Don Brash

C.Y.S.

Central America

Costa Rica	1961	Roads	(Bank & IDA)
	1960	Industry	(Bank)
	1961	Industry	(Bank)
	1961	Power	(Bank)
	1963	Power & Communications	(Bank)
El Salvador	1960	Power	(Bank)
	1963	Power	(Bank)
	1963	Communications	(Bank)
	1962	Roads	(IDA)
Honduras	1960	Power	(Bank)
	1961	Roads	(IDA)
	1965	Roads	(IDA)

Spanish  
no ag  
educ'n.

China

1963	①	Fishing vessels	(Bank)
1965	②	Railways	(Bank)
1967	③	Fishing vessels	(Bank)
1964	④	Industry <i>c b c II</i>	(Bank)
1961	A	Harbor dredging	(IDA)
1961	⑤	Ground water development	(IDA)
1961	B	Water supply	(IDA)
1961	⑥	Industry <i>c b c I</i>	(IDA)

diversified  
more  
DFC  
ag infra  
water

no roads  
highly successful  
low production  
infrastructure

why?

East Africa

Kenya, Tanzania & Uganda (jointly)	1965	①	Railways & Harbor	(Bank)
	Kenya (U.K. guarantor)	1960	②	Agriculture & Roads
1961		③	Land Settlement	(Bank)
Uganda (U.K. guarantor)	1961	④	Power	(Bank)
Kenya	1964	⑤	Roads	(IDA)
	1965		Tea Roads	(IDA)
	1966	⑥	Education	(IDA)
Tanzania	1963		Education	(IDA)
	1964		Roads	(IDA)

ag  
Roads  
Educ'n  
more knowledge  
beneficial  
good collection of  
projects  
problems - countries  
make use of  
Van der Tuin's wk

2

1

India

1960	Railways	(Bank)
1961	Coal mining	(Bank)
1961	Railways	(Bank)
1965	Power	(Bank)
1960	Industry	(Bank)
1962	Industry	(Bank)
1963	Industry	(Bank)
1961	Port	(Bank)
1961	Highway	(IDA)
1961	Tubewell Irrigation	(IDA)
1961	Shetrunji Irrig. Proj.	(IDA)
1961	Salande Irrig. Proj.	(IDA)
1961	Flood Protection & Drainage	(IDA)
1962	Power	(IDA)
1962	Sone Irrig. Proj.	(IDA)
1962	Purna Irrig. Proj.	(IDA)
1962	2nd Koyna Power Proj.	(IDA)
1962	Telecommunications	(IDA)
1963	Railway	(IDA)
1963	Kothagudem Power Proj.	(IDA)
1964	Industrial Imports Proj.	(IDA)
1964	2nd Telecomm. Proj.	(IDA)
1964	Railway	(IDA)
1965	2nd Industrial Imports	(IDA)
1966	Railway	(IDA)
1966	3rd Industrial Imports	(IDA)
1966	4th Industrial Imports	(IDA)
1969	5th Industrial Imports	(IDA)

Mexico

1962	Power	(Bank)
1965	① Power	(Bank)
1965	① Power	(Bank)
1960	② Roads	(Bank)
1963	② Roads	(Bank)
1961	③ Irrigation	(Bank)
1965	④ Agriculture Livestock	(Bank)
1962	Toll Roads	(Bank)

Pakistan

1962	① Railways	(Bank)
1962	① Railways	(Bank)
1964	② Pipeline	(Bank)
1961	③ Industry	(Bank)
1963	③ Industry	(Bank)
1964	③ Industry	(Bank)
1965	③ Industry	(Bank)

Pakistan (Contd.)

1967	Industry	(Bank)
1961	Dacca Irrig. Proj.	(IDA)
1961	Inland Ports Proj.	(IDA)
1962	(4) Irrigation	(IDA)
1962	Industry	(IDA)
1963	Flood Proj.	(IDA)
1963	Irrigation	(IDA)
1964	E. Railway	(IDA)
1964	W. Railway	(IDA)
1964	Indus Basin Proj.	(IDA)
1964	Inland Water Transport	(IDA)
1965	(5) Agriculture	(IDA)
1966	(6) Roads	(IDA)
1966	Industry	(IDA)

Peru

1960	Roads	(Bank)
1961	Roads	(Bank)
1964	Port	(Bank)
1960	Agriculture	(Bank)
1965	Agriculture	(Bank)
1963	Railways	(Bank)
1960	Power	(Bank)
1963	Power	(Bank)
1966	Power	(Bank)

*diversified  
particularly important*

Thailand

1962	(1) Irrigation	(Bank)
1962	(1) Irrigation	(Bank)
1963	(2) Roads	(Bank)
1961	(3) Railways	(Bank)
1963	Power	(Bank)
1965	(4) Power	(Bank)
1967	Power	(Bank)
1964	(5) Industry IFCT	(Bank)

(3)  
*Philippines:  
Port  
Power  
PDCP  
Water supply  
Ag. Credit.*

*Urile.  
Columbia. - Ecuador*

05.B

INTER-AMERICAN DEVELOPMENT BANK

(2)

To: Mr. John Adler

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Per conversation

Rec'd  
9/18  
mwm

From:

ALFRED C. WOLF

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
FOR OFFICIAL USE ONLY

GN-430-5  
28 March 1968  
Original: English

TO: The Professional Staff  
FROM: The Secretary  
SUBJECT: Audit of the Bank's operations

Transmitted herewith is the text of a document formally adopted by the Board of Executive Directors by Resolution DE-35/68 which establishes a system for the comprehensive and continuing audit of the operations and other activities of the Bank.

Document superseded: GN-430-4

Other distribution:

Board of Executive Directors  
Managers and Division Directors  
Representatives

NOTED A.C.W.

ESTABLISHMENT OF A SYSTEM FOR THE COMPREHENSIVE AND CONTINUING  
AUDIT OF THE OPERATIONS AND OTHER ACTIVITIES OF THE BANK

I. Scope of Audit

A. Introduction

1. After nearly seven years of extensive operations by the Inter-American Development Bank resulting in a large portfolio covering a broad variety of projects, the Board of Executive Directors of the Bank deems it timely to create a system which will enable it to more fully assess the results of the Bank's activities, and thus lead to an even more effective discharge of the responsibilities of the Board of Executive Directors in particular, and of the Board of Governors and the Bank in general, pursuant to the Agreement Establishing the Bank.

B. Purpose of Audit

2. The purpose of the audit is to provide for the Board of Executive Directors and through it, for the Board of Governors and the member countries, a program of selective and continuing independent and comprehensive examination of the manner in which the Bank is discharging its responsibilities under the Agreement Establishing the Bank. These responsibilities include the administration and implementation of loans to borrowers, both public and private, and the granting of technical assistance.
3. The general aim of the audit is to examine into whether the Bank's activities are conducted in a manner designed to attain the objectives intended and in an effective and efficient way and at the lowest reasonable cost. The major objective, within this general aim, is to evaluate the conduct of the programs and activities of the Bank, as they bear on the effectiveness of the implementation and administration of loans and technical assistance activities of the Bank, in the light of the Agreement Establishing the Bank and the policies and directives of the Executive Directors and the Board of Governors and to make recommendations concerning any matters in which those programs and activities can be improved, bearing in mind the banking and international character of the institution and its assigned role in the financing of hemispheric development.
4. The audits are intended, within the general aim, to be analytical examinations of all important operations, activities and procedures of the Bank with special consideration to the implementation and administration of the Bank's loans and technical assistance operations. Accordingly, they are not restricted to accounting matters or to books, records, and documents and they extend beyond those usually performed by independent public accountants leading to the expression of an opinion on the financial statement of an institution.

5. The effective discharge of these audit responsibilities requires the prompt reporting of audit findings and related recommendations to the Board of Executive Directors and ~~through it to the Board of Governors.~~ The Board of Executive Directors, when it deems appropriate, may request the observations of the Management on any such matters.

6. The detailed auditing standards to be followed shall be set forth in regulations to be adopted by the Board of Executive Directors.

C. Depth and Scope of Audits

7. In order to achieve the aim and carry out the major objective as indicated in the preceding section, the program of examination should provide evaluations in depth and extend to all important operations, and procedures of the Bank, however, with particular emphasis on the effectiveness of the implementation and administration of the loans and technical assistance activities of the Bank. To achieve this would require giving consideration to such matters as:

- (a) Whether the programs and activities of the Bank are consistent with the scope and intent of the Agreement Establishing the Bank and with the decisions of the Boards of Governors and Executive Directors, and are being conducted in a manner likely to accomplish the objectives intended.
- (b) Whether the programs and activities are conducted, expenditures and the resources (which would include funds, property and personnel) of the Bank are applied in an effective and efficient manner, and at the lowest reasonable cost, in compliance with applicable policies, restrictions and instructions, and with adequate controls.
- (c) Whether the Bank's accounting system is sufficient for the sound administration of the programs and activities.
- (d) Whether reports by the Bank contain the information required for the purposes thereof.
- (e) Whether the results of the loans and technical assistance provided by the Bank are consistent with the provisions of the respective documents proposing the operations.

8. In establishing the specific scope of audit work to be performed and devising specific audit procedures, the auditors referred to in Part II below shall give full consideration to the nature and effectiveness of the Bank's system of management controls, including internal auditing and other forms of internal review, and shall not substitute for or interfere with the work of the independent public accountants leading to the expression of an opinion on the Bank's financial statements performed at the request of the Board of Governors pursuant to Article VIII, Section 2(b), of the Agreement Establishing the Bank.

D. Selectivity in Audits

9. The provisions for a program of selective and continuing comprehensive examination do not require that all activities of the Bank be examined in a single year.
10. To systematically provide for the required audit coverage over a reasonable period of time and for the assignment of priorities in the conduct of the work, the auditors shall propose a time-phased audit plan, which shall be revised periodically for consideration and approval by the Board of Executive Directors.
11. In the formulation of this plan, and the priorities to be assigned, particular consideration should be given to those matters which appear to be in need of attention or offer prospects for significant improvement. Such matters, to the extent they exist, will become apparent in part as the result of preliminary reviews of the Bank's activities to ascertain their nature and in subsequent tests of their effectiveness in accomplishing their objectives. The plan should therefore permit the necessary flexibility to enable appropriate attention to them.

E. Matters for Special Consideration

12. In planning and conducting the audits, special consideration should be given to the manner and effectiveness of the implementation and administration of the loans made by the Bank. Particular attention should be directed to questions of whether the necessary control and follow-up is provided, and whether the projects financed are completed or are progressing in a timely manner, and effectively accomplish the objectives sought.

II. Operations of the System of Audit

A. Introduction

13. The audit is to be carried out within the Bank's structure, but independent of the Management. In each case the audits shall be directed by a group of three individuals, selected by the Board of Executive Directors as set forth below, who shall act as a unit pursuant to regulations to be approved by the Board of Executive Directors. The group shall be responsible to and derive its working instructions from the Board of Executive Directors, which will include therein any specific requests by the Board of Governors. The group shall receive all necessary staff assistance and support from the Bank, as the Board of Executive Directors shall determine.

B. Selection of Auditors

14. The three auditors shall be persons of recognized competence and wide experience in evaluating economic and financial matters pursuant to the

qualifications set forth in the regulations to be adopted by the Board of Executive Directors. They may not, at the time of their nomination, be employees of a member government or of the Bank, or have any interest in an operation financed by the Bank. The Board of Executive Directors shall select the auditors in the manner prescribed in the regulations, one of them shall be a national of the member country having the largest number of votes and the other two shall be nationals of the other member countries.

15. The auditors shall have a term of three years. Nevertheless from among the auditors designated in the first election, two shall have terms of one and two years, respectively, as determined by lot. No auditor may serve more than one term, except that the auditor elected for one year may be re-elected once.
16. Appended to each nomination shall be a written statement declaring the nominee's willingness to serve for the full respective term if selected by the Board of Executive Directors.
17. The Board of Executive Directors shall designate annually one of the auditors to act as the Coordinator of the group.
18. In the selection of the auditors and their subordinate staff, and in the performance of their duties, the provisions of Article VIII, Section 5 (d), (e), and (f) of the Agreement Establishing the Bank shall apply.

C. Work Program

19. Within the approved audit plan, and in conformity with guidelines established by the Board of Executive Directors the auditors shall present for the consideration of the Board recommendations for the annual work program at least two months before the beginning of the year. The Board of Executive Directors shall consider and approve the definitive annual program with such additions or deletions as it may deem appropriate. The program for the first year shall be presented within two months from the date on which the auditors assume their duties.
20. The auditors may propose to the Board of Executive Directors upon their own motion or at the request of the Board additions or deletions to and from the work program at any time. Such changes shall require the prior approval of the Board of Executive Directors.

D. Cost of Audit

21. The Board of Executive Directors shall include in the annual budget of the Bank the amounts which it deems necessary to cover the expenses of the audit, including the cost of personal services, office space and other facilities which the Bank shall make available to the group to carry out their duties. The expenses of the first year shall be incorporated in the budget for 1968 at the appropriate time.

22. The Board of Executive Directors shall determine the conditions of employment of the auditors and their subordinate staff, including their compensation, in accordance with the policies and procedures of the Bank relating to personnel.

E. Basic Organization

23. The basic organization of the Bank shall be amended to indicate the existence of the audit group, which shall be shown as being directly dependent upon and responsible to the Board of Executive Directors.

III. Standards of Reporting

24. In order to assure that the reports of the auditors are complete and appropriate, the standards set forth in the succeeding paragraphs should govern.
25. Written reports are to be rendered to the Board of Executive Directors when:
  - (a) The Board of Executive Directors so requests on its own initiative or by reason of a decision of the Board of Governors; or
  - (b) Significant matters warranting the attention of the Board of Executive Directors or, in its judgment, that of the Board of Governors, are involved; or
  - (c) It is needed to keep the Board informed on the results of audit work.
26. The Board of Executive Directors shall present such reports to the Board of Governors at the request of the latter or when it deems appropriate. In either case it may add such observations as it considers pertinent.
27. Matters included in the auditors' reports should be significant, and they should be clearly written, accurate, and fully supported by facts. Audit findings and related conclusions and recommendations should be presented in an objective, concise, complete, and constructive manner.
28. Reports should be timely.
29. Reports should be available to all Executive Directors and through them to the Governors of the Bank. However, such reports shall not be considered official until the Board of Executive Directors so determines.
30. All reports should clearly state the scope of the auditors' inquiry and nature and extent of their work as well as any exceptions to their inquiry, either self-imposed or otherwise, so that the reader can clearly understand the coverage of the work.

31. The reports should contain such information concerning the conduct of the loan and technical assistance activities by the Bank as will permit an appraisal of the effectiveness of the implementation and administration of such loans and activities of the Bank.
32. Effort should be made to provide reports not containing confidential information. However, since the subject, scope and depth of the studies available to the Board of Executive Directors should not be limited, when there is need to present confidential information, the pertinent portion of the report should be prepared as a supplement so that the usefulness of the basic report is not limited.

RESOLUTION DE-35/68

ESTABLISHMENT OF A SYSTEM FOR THE COMPREHENSIVE AND CONTINUING  
AUDIT OF THE OPERATIONS AND OTHER ACTIVITIES OF THE BANK

WHEREAS:

The number of loan operations has resulted in a large portfolio covering a broad variety of projects;

The other activities which the Bank must necessarily undertake in order to perform its functions as stated in the Agreement Establishing the Bank are bound to grow;

Without failing to recognize the value of the system of internal audit and control of operations which the Bank now has, it is advisable, for the reasons set forth above, to adopt additional measures to maintain in the future a satisfactory discharge of its responsibilities;

There is a consensus of the Board of Executive Directors that it is desirable that a system of comprehensive and continuing review and evaluation of loan operations and other activities of the Bank be carried out without substituting for or interfering with the existing system of external accounting audit;

A continuing review and evaluation, under standards and procedures established by the Board of Executive Directors, of the Bank's work with special emphasis on the implementation and administration of the Bank's loan operations and technical assistance activities would enable the Board of Executive Directors and through it, the Board of Governors, more effectively to discharge their decision-making responsibilities, and

Pursuant to the Agreement Establishing the Bank, the Board of Executive Directors is responsible for the conduct of the operations of the Bank, for determining its basic organization, and for approving its budget annually,

The Board of Executive Directors

RESOLVES:

That a system of comprehensive and continuing review and evaluation of the loan operations and all other activities of the Bank is hereby established. Such system shall be in accordance with the concepts of document GN-430-5 and its application shall be subject to pertinent regulations to be adopted by the Board of Executive Directors.

(Approved March 28, 1968)

*Lu Willoughby*

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

August 26, 1970

Herewith Mark II of the Ex Post  
Evaluation paper. Your comments on the  
need for further redesign would be ap-  
preciated, though since I will probably  
have to work on liquidity for the rest  
of this week, I may not be able to in-  
corporate your suggestions in a new  
model until early next week.

Don Brash

*Capacity Study  
Appr. Reports  
Progress Reports  
Do the prog. reports  
check the goals?  
with team?*

8/25/70

TO: Mr. Robert S. McNamara, through Mr. S. Aldewereld  
FROM: John H. Adler  
SUBJECT: Ex Post Evaluation of Operations

Mr. Aldewereld has asked me to give thought to how best the Bank Group might set up a procedure for evaluating the impact of the projects it finances. This memorandum sets out my conclusions and their justification. In brief, I recommend that a unit be established within the Programming and Budgeting Department (initially of three people ) to evaluate the impact of past operations, and that this be done as soon as possible.

Importance of Ex Post Evaluation

I think it is important to have clearly in mind that there are two somewhat distinct reasons for the need to increase the Group's ex post evaluation of its operations.

a) First, since our primary objective is development, it is of fundamental importance that we have a way of appraising our contribution to that goal.

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At the moment, project performance in the Bank Group is monitored in several ways. The most common of course is the project supervision conducted by the Projects Departments, both at headquarters and in the field, during the period until the loan or credit is fully disbursed. Another is the monitoring implicit in the fact that many of our loans go to operating entities which have received previous Group support: the appraisal report for the new loan in this situation normally includes an assessment of the use made of previous loans. This has been particularly important for loans made for electric power, railways, and ports. Thirdly, several in-depth studies of particular projects have been completed by the Economics Department

(most notably one on Iranian roads and another on eight irrigation projects) and more are in progress.

The completed in-depth studies referred to were useful in highlighting some real weaknesses, in both appraisal and follow-up procedures. The Iranian road study, for example, revealed that, prior to the loan agreement there had been: (i) no analysis of the relative advantage of improving the existing rail link, as compared with improving the highway; (ii) no systematic examination of alternative road routes (with the result that some of the roads financed showed a negative present worth when examined, and one was substantially by-passed by another road financed by a later Bank loan); (iii) inadequate technical preparation (resulting in a cost overrun of 40%); (iv) substantial over-estimation of ancillary "development benefits". The study of eight irrigation projects drew attention to frequent under-estimation of costs and construction periods. It made no systematic attempt at all to assess the accuracy of predicted benefits because "the data presently available in files do not provide even a minimum foundation for reappraisal of benefits".

It is not fair to imply, of course, that the conditions prevailing when the first Iranian road loan was signed in 1959 still prevail today. There have been some substantial improvements in appraisal procedures, and the consideration of alternative ways of achieving the same goal is now, at least formally, common practice. Pre-investment sector studies are now frequent.

But the systematic reappraisal of individual projects after the construction phase is over is still very rare (except where "repeater" loans to the same operating entity are involved), and there have been sufficient criticisms levelled (directly or indirectly) at the Group's methods of

appraisal to raise legitimate doubts about what the real impact of our operations is. <sup>1/</sup> At very least, our own estimate of this impact should be made.

b) But even if we ourselves were confident that our operations were making the maximum possible contribution to development, we would still need a more explicit re-evaluation procedure because of the very strong pressures building up, particularly in the U.S. Congress, for tangible assurances that the taxpayer's dollar is being used to greatest effect. In other words, we not only have to use our resources to contribute to development but have to make this effective use apparent also.

As you know, as a result of congressional pressures, the U.S. General Accounting Office has already begun a series of "management audits" related to international organizations, including lending institutions. GAO does not claim the right to audit these organizations directly, and indeed it is recognized that it would be highly undesirable if each member of an international organization were to assert such a right. So GAO contents itself with auditing U.S. participation in international organizations. But the distinction is a fine one. It was congressional pressure which obliged the IDB to establish a special GAO-type auditing unit within its structure, a unit designed to assess the efficiency and effectiveness of IDB lending programs and to report that assessment directly to the IDB Board. There appears a real risk that similar pressure will be exerted on the Bank

*Other agencies  
noting?  
to learn!*

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<sup>1/</sup> See, for example, Albert O. Hirschman, Development Projects Observed, 1967; Michael Lipton, "Forward from Pearsonism", in Bulletin of the Institute of Development Studies, December 1969; Pearson Report, pp. 114-115 (on IFC).

*?*

Group, perhaps in connection with ratification of the U.S. contribution to the Third Replenishment of IDA.

There have been rumblings of a somewhat different character from other quarters. Mr. Kalderen of the Swedish International Development Agency, for example, has informed us that there is considerable interest in the evaluation of the impact of development assistance in Sweden. Such interest extends beyond questions of economic impact to those of social impact. He warned us last November that a feeling in the Swedish parliament that IDA often uses its resources to finance projects of little social merit could well create obstacles to parliamentary approval of Sweden's IDA contribution to the Third Replenishment.

#### Reasonable Targets

Most of the monitoring of project performance currently done in the Bank Group is essentially of a supervisory nature, designed to ensure that costs are minimized and our borrowers given every help in bringing projects to a successful conclusion. The ex post evaluation now proposed would be of a fundamentally different character in that it would be aimed at helping the Bank Group itself to improve its policies and methods by learning from the results of its past experience.

The principal focus of attention would of necessity be on the project itself, narrowly conceived. Evaluation would involve a comparison of the actual direct costs and benefits of the project with those foreseen in the appraisal report, with a view to recomputing, on the basis of actual data, the project's rate of return. In some cases, there would be considerable difficulties in achieving even this -- arising both from the practical difficulty of collecting some of the necessary data and from the fact that until recently many appraisal reports include insufficient data to make a fully adequate comparison possible -- but such a comparison, even in

approximate terms, would be a minimum expectation. And where no expected rate of return was given in the original appraisal report, it would normally be possible to find quantitative targets which would serve as benchmarks. The comparison would include an assessment not only of the "quantitative" impact of the project, but of its "qualitative" impact, its impact in other words on institution-building, management training, etc.

To the extent possible, ex post evaluation would also involve looking at three broader areas. First, there would be an assessment of some of the more indirect economic costs and benefits of the project. Relevant questions might be: Did a road project, expected to open up new areas to commercial agriculture, succeed in doing so? Did it also (instead?) result in the destruction of village industries? Did it help to reduce the country's dependence on future flows of external capital by increasing savings or improving the balance of payments?

Secondly, there would be an assessment of the more strictly social or political effects of the project. It would be impossible in a short period of time to evaluate all of these, but it should be possible fairly quickly to form some impression of a project's contribution to three or four key social/political problems in most developing countries. As a start these might be its contribution to the reduction of unemployment, to a more equitable distribution of income, and to the reduction of intra-country regional imbalances.

Thirdly, there would have to be at least some attention given to the impact of the project on other developing countries. Did an expansion of exports from (or reduction of imports into) one country, made possible by a Bank-financed project, significantly reduce the export prices of other developing countries? (It is interesting in this connection to note that

the recent Agricultural Sector Survey Report for Brazil recommends that measures should be adopted quickly to increase Brazilian coffee production.)

#### Possible Results

The primary benefit of better ex post evaluation would probably be the improvement it would make possible in the Group's own methods of project appraisal. For example it might shed light on the true importance of indirect effects, and on the relevance of the macro-economic environment to project success in the wider sense. It might indicate biases in estimating rates of returns, such as are thought to occur because of the estimate of project benefit on the basis of disbursement schedules designed at least partly to put pressure on borrowers to proceed with project construction as rapidly as possible. It should suggest the kinds of measures which the Bank must insist on as a condition of its loans, and on the other hand those which, either because they are irrelevant to success or because the chance of their fulfilment is so remote, are better ignored. As a by-product, it should provide the Group with sustainable arguments in publicly defending its contribution to development.

#### Procedure

There is a limited amount of ex post evaluation already being done in the Economics Department, and it is important that this very detailed approach continue. Because of the time required for such very thorough research, however, the work done in the Economics Department covers a rather limited number of projects and so does not give a sufficiently broad view of the impact of the Group's operations to satisfy fully either of the two reasons for doing this kind of work indicated earlier. There is, then, a need for a broader, more rapid, re-appraisal.

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The approach must ~~still~~ be essentially that of the test audit: it is neither necessary nor practical to make the ex post evaluation all-inclusive, either in breadth of coverage or in depth of study. The breadth should be sufficient to give a reasonable impression of the impact of projects in different sectors, regions, and time periods, while the depth should be adequate to provide some assurance that all major effects of the project have been taken into account. It would not be possible to explore thoroughly all the by-ways encountered, and this is where close cooperation between the new ex post evaluation unit and the Economics Department would be very important. *made by relevant groups*

There would seem to be little advantage, at least to begin with, in conducting a re-evaluation of projects financed by commitments made in the early years of the Group's operations: because of improvements in appraisal methods since that time, lessons learnt from such evaluation would be significantly less relevant than those which might be derived from a study of more recent commitments. On the other hand, to be meaningful evaluation should be confined to projects where the Group's commitment is entirely, or at least substantially, disbursed. For a start we might focus on those commitments made since the beginning of FY1960 which had less than 10% of the original principal amount still undisbursed as of June 30, 1970. There are 283 Bank/IDA commitments in this category, while in addition, since the beginning of FY1960 IFC has made commitments which are fully (or almost fully) disbursed to 101 companies. Even excluding commitments to Australia, Austria, Denmark, Italy, Japan, Norway and South Africa (all Part I countries to which no further commitments are currently planned), and IFC commitments to companies also receiving Bank or IDA loans, this yields a total of 338 commitments "available" for re-evaluation.

*Don't check program report compare with 90% sub.*

For various reasons, it seems desirable that re-evaluation should proceed on a country (or regional) basis rather than on a sectoral basis. In part this is because of the savings in staff time which would probably result from such a procedure, but even more important is that many of the questions which must be asked in the course of the evaluation process will be "country" in nature.

The first country or region which we look at will inevitably be something of a guinea pig, designed to give us experience of the problems (practical, conceptual, and possibly political) which may be encountered. It should, therefore, be selected with special care. There are now nine countries or regions where the Bank/IDA has made at least eight substantially-disbursed loans or credits since the beginning of FY1960 -- Central America, China, Colombia, East Africa, India, Mexico, Pakistan, Peru, and Thailand.

Of these, East Africa is in many ways the most suitable: the Group has financed a wide range of projects there (see attached list), we have substantial knowledge of the area (a result of several major missions, the office in Nairobi, and the Economics Department study on education in Kenya), the area is more typical of developing countries generally (at least in Africa) than some of the other possibilities, there have been relatively few major problems with projects in the area, English is widely spoken in all three countries, and IFC has also made investments in the area. None of the other areas listed has as many advantages as does East Africa from these points of view, though you may still feel, because of the work-load likely to be imposed on local officials by the forthcoming pre-investment mission, that the choice of East Africa would not be wise.

In that case I would recommend either China or Thailand. In both there is a reasonable range of completed Bank/IDA-financed projects (see attached list) and in both English-speaking staff would face no linguistics problem. Because of their unique foreign exchange positions, however, neither is really typical of developing countries, and in both staff might well face difficulties in getting completely frank answers to their questions.

For this first "test evaluation", I feel that all the other countries listed above have problems of one kind or another, whether of language (Central America, Colombia, Mexico, and Peru), politics (Peru), inadequate sectoral spread (Mexico), or complexity (India and Pakistan).

*not so  
great*

I recommend that an evaluation unit be established as soon as possible with an initial staff of three, two well versed in project appraisal and the other a good macro-economist. The unit would almost certainly have to draw on the expertise of specialists from elsewhere in the Group from time to time, and might have to increase its "permanent" staff somewhat as time went on. But a small unit would be adequate to initiate the evaluation process, would enable us to "learn the ropes" before deciding on the necessity of launching a larger unit, and would not unduly disrupt the FY1971 budget (total cost of three additional professional positions, secretarial support, and necessary travel for the balance of the fiscal year after October 1, 1970, would be not more than \$70,000).

Though it is impossible to be sure, the re-evaluation process should on average require about four man-weeks per project: one man-week of preparation at headquarters, two man-weeks in the field, and one man-week of assessment back at headquarters. On this basis, and with some help from elsewhere in the Group, the unit would be able to re-appraise about 35-40 projects annually. The target might have to be revised substantially on the basis of experience however.

Incidentally, one innovation which could be made now to speed ex post evaluation in the more distant future concerns the possibility of requiring borrowers to furnish annual, or perhaps bi-annual, reports on the working of the project after it has been completed. At present, only IFC requires such reports after disbursements are concluded.

There are several departments in the Bank which might, in principle, be an appropriate place for establishing the evaluation unit. Because of (i) the need for objectivity to be apparent, (ii) the obvious relevance of the evaluation process to the programming of future operations, and (iii) the need for immediate feed-back of results to management, I feel that this unit would most appropriately be established in the Programming & Budgeting Department.

#### Reporting

The results of the evaluation process would obviously be communicated in the first instance to the Group's management and to the heads of the relevant Area and Projects Departments. An unanswered question, however, is whether the results should also be communicated to the Executive Directors. In favor of this is that such reporting might reduce the political pressure to set up a separate evaluation unit, reporting primarily to the Board, such as IDB has been compelled to accept. On the other hand, the need to report to the Board might affect the objectivity of the evaluation process, and thus its usefulness to management. On balance, and especially since the objectivity of reports by a staff unit might well be doubted by legislatures whatever their actual veracity, it seems better (at least initially) not to make the detailed results of the evaluation process available to the Board.



To: Mr. S. At world  
From: C.R. Willoughby  
Subject: Operations Evaluation Unit

Now that a formal decision has, as I understand it, been made to set up a unit whose specific function will be to audit our operations from the point of view of their contribution to development I would like to offer you some reflections about the initial phases of the work.

You have suggested that the new unit should start with a work program of five completed projects. These projects would be completely reassessed for the contribution that they have made to development. Special attention would be given to comparison between the actual contribution, as now assessed, and that which was expected at the time of appraisal. Explanation would be sought for any divergences between what has actually happened and what was originally expected to happen.

You have also pointed out how greatly our methods of project selection and appraisal have evolved and improved over the years and how <sup>consequently</sup> ~~misleading~~ <sup>misleading</sup> would be a simple comparison between the summary indicators of benefits emerging from a reappraisal along modern lines ~~with~~ and those ~~derived~~ <sup>projected</sup> in the original appraisal. I believe that in almost no case would our approach to economic evaluation of a project today be the same as it was even ten years ago. We now do more quantification of much better quality. We try to capture in our numbers more of the benefits. We try to adjust for distortions in price structures by using shadow prices. We are more sophisticated about time phasing of costs and benefits and uncertainty aspects. We typically take a more comprehensive view of the development impact of our

operations including, for instance, effects on government revenues and expenditures, on private and public savings and reinvestment and on income-distribution and the extent to which the projects may set the pattern for ~~and~~ further development in the country along new institutional or technical lines.

Nobody will question that the new unit, when it comes to examine the projects it ~~is~~ selects, should look at them through the most modern pair of spectacles it can find. For instance I would hope that the unit would be able ~~to~~ in most cases to summarize the relationship between costs and benefits in a sophisticated though naturally approximate rate of return, even where no kind of rate of return calculation was originally made. At the same time attention should also be given to investigating quite carefully the evolution of the benefits as originally foreseen, whether summarized in a rate of return calculation or specified, as more often in the past, in other less standard but equally concrete indicators.

The central point that I want to make is that, in my belief, the most important advances that have been made in the selection and appraisal of projects have been those tending to bridge the gap between the project on the one hand and the sector and the economy as a whole on the other. We go to much greater lengths now to examine a project in its sectoral context, including the sectoral policies which will have to be adopted by the Government to maximize pay-off and the priority of the particular project within its sector. We also try to take much fuller account of the complicated interactions

and interdependencies between sectors, particularly of course in projects explicitly called 'multi-purpose' but also, for instance, ~~also~~ in roads whose traffic will depend on agricultural development and in educational institutions whose graduates will fill specific needs for technical manpower. Many of the individual advances in appraisal technique to which I referred above — such as the broadening of the coverage of benefits, the use of shadow prices, <sup>consideration of</sup> ~~the~~ the effect of the project on government revenues, expenditures and savings, ~~the extent~~ evaluation of the extent to which the project may introduce new patterns of development — reflect precisely this broadening of the approach to a project.

These are the principal considerations that lead me to believe that the unit should select its first five projects if at all possible in a single country or at least a single, fairly closely-knit region. Of course all of these aspects could be studied in connection with several separate projects in as many different countries — as indeed they generally have to be by appraisal missions. But it would clearly be more economical, in terms of cost per project audited, if the necessary preliminary reviews of macroeconomic and sector background could be confined to one country or region for all five projects. Personally, however, I would lay less stress on this economy than on the substantial improvement in quality that such country or region concentration should yield. Development is essentially development of countries, and our impact on development in a country is the sum of the projects we have financed and the policies we have pursued there. I believe the unit would reach a much deeper understanding of the development situation and of

our contribution to development by looking at several sectors in one country than individual projects in different countries. I would expect there to be important cross-fertilization of ideas in the studies of the various different sectors in a country.

Owing to the gradual growth of the Bank's concern with development as opposed to reconstruction, the creation of IDA only in 1960 and the amount of time generally required to bring a project to the operating stage there are not very many countries or regions with as many as five projects, in various sectors, suitable for audit at this time. Some rough preliminary checks suggest that the principle ones are India, Pakistan, Mexico, Colombia, Peru, Central America (3 of the 5 countries), Chile, Philippines, Thailand, China and East Africa (Kenya, Tanzania and Uganda).

In time I would hope to see the unit cover several of these countries — and others — but for the pilot phase one should be selected in my view and it should be selected with a view to minimizing peripheral difficulties so that maximum effort can be concentrated on the essential problems of project audit itself. This consideration affects some of the criteria which I would suggest for selection of an appropriate country or region:

1. Extent of knowledge and information in Washington about country
2. Diversity of projects eligible for audit
3. General success of projects and of country's development effort
4. Penetrability of country (ease of communication with project beneficiaries)
5. Typicality of country's main development problems.

I think I would rate criteria (2) and (4) as most important for the pilot phase, although the others are not unimportant.

Preliminary inspection suggests that, on these criteria, the most

suitability of the countries listed above would be China, East Africa, Peru, Philippines, Thailand & West Pakistan.

Among these, and again applying the same criteria as listed above, I ~~do~~ feel that East Africa has marked advantages in terms of diversity of projects, penetrability, knowledge already available in the Bank and, to a somewhat lesser extent, the other criteria. It has the important disadvantage that it is not a single country and so ~~to some extent~~, three different country backgrounds would have to be ~~studied and~~ assimilated. On the other hand the region is reasonably close-knit, one of the eligible projects is a joint East Africa project (railways and harbors) and many of the countries' problems are common throughout the region.

The other consideration about East Africa is that, assuming the unit starts operation quickly, its main work would be more or less coincident with that of the big effort about to begin on Comprehensive Reinvestment Studies Programming for East Africa. From the point of view of the unit <sup>itself</sup>, this would almost certainly be an advantage since it would mean that other Bank personnel would be particularly 'boned up' on East Africa and moreover technical specialists might be called on in East Africa to review ~~some~~ <sup>any</sup> particular technical aspect of a project under audit that was causing difficulty. On the other hand the work of the unit would add at least a little to the burden imposed by the Bank Group this year on officials in the three countries and it would ~~also~~ further increase the proportion of total Bank Group resources ~~currently~~ <sup>currently</sup> allocated to East Africa. ~~this year~~. You may feel that these considerations outweigh the marked advantages of East Africa from the other points of view discussed.

Pending your judgment on this matter and

for purposes of securing a fairly concrete background for my thinking I have ~~reviewed~~ briefly reviewed projects in East Africa which would prima facie be eligible for audit in the near future. I find five <sup>suitable</sup> and I list them in Appendix Table 1, with a few details. All the projects represent portions of sectoral investment programs which were ~~intended~~ originally intended to be completed by the end of 1967 at latest. ~~Final closing dates were~~ There were some delays on most of the projects but final closing dates are well in the past except for the Railway and Harbors Project. However the vast majority of this ~~total~~ loan has been disbursed, further loans have since been made and the agency responsible is of course an on-going entity; so this should not create too much problem. Only one of the appraisal reports gives a comprehensive rate of return on the investment proposed, and that rather partial, but all the others give fairly ~~simple~~ <sup>hard</sup> indicators of expected results in other terms, and some cite estimated returns to various pieces of investment.

As I begin to look into some concrete examples of projects that might be selected for the pilot phase of the audit unit a number of things become abundantly clear. In the first place, by contrast with appraisal of a new project, there are really two jobs rather than one to be done: an <sup>economic</sup> appraisal along modern lines and, <sup>second,</sup> a re-evaluation keeping as closely as possible to the method originally used. This is not an unimportant point because one thing facilitating appraisal of a new project is that you can freely choose the approach to be taken and the aspects to be stressed, depending amongst other things on data availability. Reappraisal hewing closely to work done five or ten years ago may mean spending quite a lot of effort on checking and adjusting data for comparability. Second - and here the job

is not different from appraisal of a new project — the work is very open-ended. It could be fitted into very ~~long~~ different amounts of time, with more time permitting more detailed and thorough coverage. It is extremely hard to see at this ~~time~~<sup>stage</sup> where the line could best be drawn. Third, the amount of time required for the exercise — and the quality of the results — will depend mainly on how experienced the members of the unit are in modern methods of project appraisal. The job is more technical than I had previously foreseen.

My own conclusion on the staffing of the unit is that it is essential <sup>with a total of only three,</sup> that all members ~~of the~~ should have had some experience of project appraisal in the Bank, <sup>in at least one sector,</sup> and the more ~~the~~ <sup>experience they had had the better.</sup> ~~the better~~ they should be familiar with our modern approaches to appraisal and they should be broad in their orientation in the sense I tried to describe earlier in connection with the need to look at a project in sectoral ~~context~~ and macroeconomic context. An ideal combination would be three people, of appropriate caliber and qualities, each of whom had had experience in the appraisal of projects in a different sector.

The work plan would, I believe, consist of three approximately equal stages:

- i. Thorough familiarization with trends in the selected economy over the period since the loan/credits were made and with the history of the projects themselves as recorded in appraisal reports, progress reports, supervision reports and other file documentation, and discussion with Bank staff who have been involved

with the country and the projects.

- ii. Field reviews of projects, consisting principally of discussions with, and data-gathering from, project authorities, project users and Government Ministries (Planning/Finance and technical): Area Department man might be needed as a guide, ~~etc.~~ and diplomat, especially initially.
- iii. Report-writing, with the final product to consist of one volume, containing an initial chapter on the Bank Group's contribution to the development of the country in general, ~~followed~~ a subsequent chapter for each of the projects reviewed, and necessary supporting annexes.

How much time may be required to accomplish this work will depend heavily on the experience and ability of the people secured to do the job. Just because it is so open-ended and necessarily unspecifically defined at this stage I do feel that a fairly tight schedule should be set for the pilot phase. Give the unit a few projects and a deadline, and see what they can accomplish in the time. If it appears, as time goes on, that it might be ~~useful~~ worthwhile to extend the deadline, then you can consider the case on its merits at that time. Having in mind my experience in the winter of 1968-69 on a kind of reappraisal of power aspects of the Indus Special Study that Mr. Berrie and I did and, immediately following that, an economic appraisal of the India Telecommunications III credit which I did, I would say that, if it is possible to obtain people with the proper experience and variety of it, then an initial deadline of six months from the ~~time~~<sup>date</sup> they start ~~work~~ full-time work on the assignment would be appropriate. This would allow approximately two months elapsed time or six man-months for each stage shown above.

set up a visit

I understand that it has been broadly agreed to extend our audit to cover the contribution of our ops. to dev.

Initial work program for pilot phase - about 5 projects in different sectors.

depends on how experienced the people.

Time-phasing: need almost as much time as for appraisal:

but it is suspended, & I would recommend setting a fairly tight schedule & seeing what can be accomplished.

May call for more detailed studies.

~~Time~~

Projects to be selected: have to look at broad context of country policies. & effect on other sectors.

to project selection & appraisal.  
Modern approach is much more to look at project in context of country & sector.

Procedure: study all reports here over the years, & talk w. Area & Projects people concerned.

quantify  
Objective to calculate econ rate of return anyway.

Cf. projected cost-benefit w. actual turn-out.

Area man to guide & introduce.

2 M/W. orient'n = 6  
2 M/W per proj = 10  
3 x 5 = 15 M/W. 56

I'd cover all of these aspects to be considered in connection w. a single proj. - as indeed they generally have to be by an appr. unit - but economics - a cross-fertilization & deeper understanding of dev situ. And dev is dev of countries & our interest in dev is the sum of the projects we have financed - & country

1. the modern approach.
2. much to be said for countries. impact of our various ops is really country-based.
3. E. Afr. eg. advantages over other areas
4. Good combination of projects

UG 279

Uganda Power, 1961.

UES - principally transm. & distrib'n to expand pr. of unit for Owen Falls. (some 'rural' electrification).  
1959-63 expansion plan  
firm financial targets. & technical.  
Some org & accounting changes, minor

June 30 '64  
final: Aug 31 '64

KE 256

Kenya, Ag. & Roads, 1960

Highway Plan execution - principally roads and stock equipment, including vehicles, for various services including land consolidation & extension services & credit program for farmers. principally in Central & Nyanza Provinces.

Dec 31 '63  
Apr 30 '64

Indicators of benefit in terms of increases in prod'n of certain key crops, & exports & vehicle per day targets for roads. (but not put into form of a return.) & effect on Govt revenues.

45  
TA ~~400~~ Ci.

Tanzania Education 1964

Secondary school places: 2 new <sup>boarding</sup> schools & extensions to 53 other schools, some boarding & some day schools, to provide a total of 6,845 additional school places. pr. of 1962-67 expansion plan.  
benefits - broad indications of labor market requirements to the meeting of un. project wd. contribute.

Dec 31 '67

EA 428

E.A. Railways & Harbors 1966

part of I prog. 65-67, locomotives, wagons, <sup>main-line</sup> permanent way, <sup>numbers & desc's</sup> ~~unovers~~ & jetty & port equipment  
definite financial targets born '71.

June 30 '69  
June 30 '70  
June 30 '71

traffic growth figures.  
37% <sup>inc</sup> always & ports traffic  
sample con. rate of return on diesel locos, <sup>also</sup> new goods wagons, ~~and~~ track

KE 70 G.

Kenya Roads \$ 4.5

Construction & reconstruction of 194 miles of existing low standard 65-67. sections of seven roads & construction of 18 bridges on bank road system.

Dec 31 '67  
Sept 30 '68  
Mar 31 '69

18% return in form of savings of vehicle operating costs for existing traffic alone

Projects in East Africa Suitable for Audit

1. Uganda Power Project, Loan UG 279 (\$ 8.4 million of Mar 29 1961) with final closing date of Aug 31 1964): Part of the 1959-63 expansion plan of the Uganda Electricity Board, principally transmission and distribution (including some 'rural' electrification) to expand the market for Owen Falls. Appraisal Report gives no economic rate of return but does give firm financial and technical targets.
2. Kenya Agriculture & Roads Project, Loan KE 256 (\$ 5.6 million of May 27 1960 with final closing date of Apr. 30 1964): Execution of the Swynnerton Plan for 1960-63, principally in Central and Nyanza provinces, with main items being roads and the provision of equipment for land consolidation and extension services and for farmers through a small credit program. Appraisal Report gives no economic rate of return but indicates benefits in terms of increases in production and exports of certain key crops and in terms of effects on Government revenues and also provides targets in terms of vehicles per day for the roads.
3. Tanzania Education Project, Credit TA 45 (\$ 4.6 million of ~~December~~ 19 1963 with final closing date of ~~December~~ 31 1967): Part of the 1962-67 education expansion plan, covering construction of two new boarding schools and extensions to 53 other schools, to provide a total of 6,845 additional secondary school places. Appraisal Report gives no direct indication of the benefits of the school places to be added but does give a lot of information about projected total labor market requirements which the schools in question would help to meet.

4. Kenya Roads Project, Credit KE. 70 (\$1.5 million of Dec. 29 1964 with final closing date of Mar. 31 1969): Part of the 1965-67 highway program, comprising construction and reconstruction of 194 miles of ~~existing~~ low standard sections of seven roads and construction of 18 bridges on the trunk road system. Appraisal Report quotes an economic rate of return of 18% in the form of savings of vehicle operating costs for ~~existing~~ traffic already existing at the time of appraisal; no allowance made for any traffic generation.

quantitative

5. East African Railways & Harbors Project, Loan EA 428 (~~\$32.14~~<sup>38.0</sup> million of Sept 29 1965 with closing dates extended from original June 30 1969 and June 30 1970 to current June 30 1971): Part of the Railways and Harbors 1965-67 investment program, consisting mainly of locomotives, wagons, permanent way and a small amount of expansion in the ports of Mombasa and Dar-es-Salaam. Appraisal Report gives no summary rate of return, but does give definite financial targets through 1971, broad projection of traffic growth and some sample economic rates of return on diesel locomotives, new goods wagons, track renewal.

Our quantification is <sup>now than in the past,</sup> ~~soon's~~ <sup>our</sup> view of development more comprehensive and our analysis of sectoral and inter-sectoral aspects of projects <sup>projects & sectors deeper.</sup> the impact of projects broader.

with those expected at the time of appraisal and, in case of divergence, the reasons. Our methods of project appraisal have of course developed and improved <sup>greatly</sup> over the years. ~~For instance~~ We have developed <sup>better</sup> techniques for quantifying the relationship between costs and benefits ~~and~~ ~~time~~ in more sectors with <sup>fuller</sup> ~~better~~ <sup>handling of</sup> attention to ~~the~~ <sup>time-</sup> sharing of ~~benefits~~ <sup>of a more</sup> and uncertainty <sup>aspects.</sup> ~~dimensions~~. We ~~now~~ take ~~a more~~ <sup>an increasingly</sup> comprehensive view of the development ~~of~~ impact of our operations including, <sup>for example,</sup> ~~the~~ effects on government revenues ~~and~~ expenditures, <sup>on private and public savings and investments,</sup> on income-distribution and on institutional development. We go to ~~great~~ <sup>increasing</sup> lengths to ensure that the projects we are helping to finance are of the highest priority and will contribute most widely to the development of the sector to which they belong and of other sectors. Naturally the latest techniques and methods will be used in evaluation of the actual contribution to development of our <sup>part</sup> operations, but a special effort will also be made, within this, to see how ~~cost~~-actual costs and benefits compare with those <sup>specified</sup> ~~defined~~ in the original appraisal report reality compares with ~~the~~ original forecasts using the same definitions of costs and benefits.

Since this type of work has not been carried out to any extent before in the Bank ~~the~~ I envisage the new unit starting with a pilot phase, with ~~an~~ ~~initial~~ staff complement of three and a workload of some five projects in several different sectors. <sup>Especially initially</sup> the staff of the unit will ~~draw~~ 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.

Substantially Disbursed Bank/IDA/IFC Commitments in  
China, East Africa, and Thailand  
since July 1, 1959 a/

<u>Country/Region</u>	<u>Fiscal year of commitment</u>	<u>Sector</u>	<u>Original Principal Amount (\$ million)</u>	<u>Organization</u>
<u>China</u>	1962	Harbor dredging	2.2	IDA
	1962	Ground water development	3.7	IDA
	1962	Water supply	4.4	IDA
	1962	Industry	5.0	IDA
	1964	Fishing vessels	7.8	Bank
	1965	Industry	15.0	Bank
	1965	Railways	20.0	Bank
	1967	Fishing vessels	14.4	Bank
<u>East Africa</u>	1960 (Tanzania)	Industry (sugar)	4.7 <sup>b/</sup>	IFC
	X 1960 (Kenya)	Agriculture & roads KE 256	5.6	Bank
	X 1961 (Uganda)	Power UG 279	8.4	Bank
	1962 (Kenya)	Land settlement KE 303	8.4	Bank
	X 1964 (Tanzania)	Education TA 45 Cr.	4.6	IDA
	1964 (Tanzania)	Roads TA 48 Cr.	14.0	IDA
	1965 (Kenya)	Roads KE 70 Cr.	4.5	IDA
	1965 (Uganda)	Industry (textiles)	3.5	IFC
	1965 (Kenya)	Roads (tea) KE 77 Cr.	3.0	IDA
	1966 (EACSO)	Railways & harbors EA 428	38.0	Bank
1967 (Kenya)	Education KE 93 Cr.	7.0	IDA	
1967 (Kenya)	Tourism	3.1	IFC	
<u>Thailand</u>	1961	Railways	22.0	Bank
	1963	Irrigation	3.4	Bank
	1963	Irrigation	5.6	Bank
	1963	Power	6.6	Bank
	1963	Roads	35.0	Bank
	1964	Industry	2.7	Bank/IFC
	1965	Power	6.0	Bank
	1967	Power	5.0	Bank

*fully disbursed, financing  
SPM in May '70  
ed. 11/31/71  
still under; 3/31/69 C.D.  
U.S. since June 30 '70  
still under SPM Dec 69  
still under SPM Dec '69*

a/ Only those commitments with less than 10% of the original principal amount still undisbursed as of June 30, 1970, are included.  
b/ Includes subsequent commitments.

*1960 Kenya Ag. & Roads.  
1961 Uganda Power  
1964 Tanzania Education  
~~1962 Kenya Land Settlement~~ (most of it was cancelled)  
1965 Kenya Roads.  
1966 Railways & Harbors EACSO.*

Form No. 75  
(2-60)  
INTERNATIONAL FINANCE  
CORPORATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

ROUTING SLIP		Date 8/14/70	
NAME		ROOM NO.	
Messrs: Adler			
Blaxall			
Dunoulin			
Haq			
✓ Willoughby			
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			
<p>Because of problems with the liquidity paper, this is the product of hours rather than of days. The second part of the paper is, indeed, no more than notes designed to show you the direction I think the paper should take. All comments are welcome.</p>			
From		Don Brash	

8/13/70

TO: Mr. Robert S. McNamara  
FROM: John H. Adler  
SUBJECT: Ex Post Evaluation of Operations

In recent months, you have urged me on several occasions to give thought to how best the Bank Group might set up a procedure for evaluating the impact of the projects it finances. This memorandum sets out my conclusions and their justification. In brief, I recommend that a unit be established within the Programming and Budgeting Department (initially of two people) to evaluate the impact of past operations, and that this be done as soon as possible.

Importance of Ex Post Evaluation

I think it is important to have clearly in mind that there are two somewhat distinct reasons for the need to increase the Group's ex post evaluation of its operations.

a) First, since our primary objective is development, it is of fundamental importance that we have a way of appraising our contribution to that goal.

At the moment, project performance in the Bank Group is monitored in several ways. The most common of course is the project supervision conducted by the Projects Departments, both at headquarters and in the field, during the period until the loan or credit is fully disbursed. Another is the monitoring implicit in the fact that many of our loans go to operating entities which have received previous Group support: the appraisal report for the new loan in this situation normally includes an assessment of the use made of previous loans. This has been particularly important for loans

T.A.  
imitation

*DFCs as audit ?*

made for electric power, railways, and ports. Thirdly, several in-depth studies of particular projects have been completed by the Economics Department (most notably one on Iranian roads and another on ~~eight irrigation~~ *Kayy Education* projects) and more are in progress.

The completed in-depth studies referred to were useful in highlighting some real weaknesses, in both appraisal and follow-up procedures. The Iranian road study, for example, revealed that, prior to the loan agreement there had been:

- (i) no analysis of the relative advantage of improving the existing rail link, as compared with improving the highway;
- (ii) no systematic examination of alternative road routes (with the result that some of the roads financed showed a negative present worth when examined, and one was substantially bypassed by another road financed by a later Bank loan);
- (iii) inadequate technical preparation (resulting in a cost overrun of 40%);
- (iv) substantial over-estimation of ancillary "development benefits".

The study of eight irrigation projects drew attention to frequent under-estimation of costs and construction periods. It made no systematic attempt at all to assess the accuracy of predicted benefits because "the data presently available in files do not provide even a minimum foundation for reappraisal of benefits".

It is not fair to imply, of course, that the conditions prevailing when the first Iranian road loan was signed in 1959 still prevail today. There have been some substantial improvements in appraisal procedures, and the consideration of alternative ways of achieving the same goal is now, at least formally, common practice. Pre-investment sector studies are now frequent.

But the systematic reappraisal of individual projects after the construction phase is over is still very rare (except where "repeater" loans to the same operating entity are involved), and there have been sufficient criticisms levelled (directly or indirectly) at the Group's methods of appraisal to raise legitimate doubts about what the real impact of our operations is. <sup>1/</sup> At very least, our own estimate of this impact should be made.

b) But even if we ourselves were confident that our operations were making the maximum possible contribution to development, we would still need a more explicit re-evaluation procedure because of the very strong pressures building up, particularly in the U.S. Congress, for tangible assurances that the taxpayer's dollar is being used to greatest effect. In other words, we not only have to use our resources to contribute to development but have to make this effective use apparent also.

*note  
general  
in fundamental  
scope of central  
article.*

As you know, as a result of congressional pressures, the U.S. General Accounting Office has already begun a series of "management audits" related to international organizations. GAO does not claim the right to audit these organizations directly, and indeed it is recognized that it would be highly undesirable if each member of an international organization were to assert such a right. So GAO contents itself with auditing U.S. participation in international organizations. But the distinction is a fine one: a GAO audit of U.S. participation in the W.H.O., for example, released

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<sup>1/</sup> See, for example, Albert O. Hirschman, Development Projects Observed, 1967; Michael Lipton, "Forward from Pearsonism", in Bulletin of the Institute of Development Studies, December 1969; Pearson Report, pp. 114-115 (on IFC).

August 13, 1970

early in 1969, was designed to "determine how well the United States was able to exert a beneficial influence over (1) the make-up of the programs and budgets of W.H.O., and (2) the manner in which the programs were carried out". Since that report was released, the GAO has completed reports on FAO, OAS (classified), UNICEF, and UNDP, and informed the House Banking and Currency Committee on July 1, 1970, that it is currently making a study of U.S. participation in international lending institutions.

This new interest of GAO in international organizations reflects a congressional feeling that (1) some of these organizations are not well managed, and (2) that the authorities nominally controlling them do not get adequate information from their managements to make real decision-making possible. It was congressional pressure which obliged the IDB to establish a special GAO-type auditing unit within its structure, a unit designed to assess the efficiency and effectiveness of IDB lending programs and to report that assessment not merely to IDB management but also directly to the IDB Board. (Congress had originally demanded that GAO itself should be responsible for the "management auditing" of the IDB.)

There have been rumblings of a somewhat different character from other quarters. Mr. Kalderen of the Swedish International Development Agency, for example, has informed us that there is considerable interest in the evaluation of the impact of development assistance in Sweden. Such interest extends beyond questions of economic impact to those of social impact. He warned us last November that a feeling in the Swedish parliament that IDA often uses its resources to finance projects of little social merit could well create obstacles to parliamentary approval of Sweden's IDA contribution to the Third Replenishment.

What  
do we  
learn?

What  
units  
?

Reasonable Targets of Ex Post Evaluation

a) The most straightforward task of such ex post evaluation -- and the one which can be regarded as a minimum expectation -- will be to compare the actual direct costs and benefits of a project with those foreseen in the appraisal report with a view to recomputing, on the basis of actual data, the project's internal rate of return. Actual construction costs will presumably be known to the Bank but, except where we have made subsequent loans to the same operating entity, operating costs, and project benefits, will not be known in Washington.

*Difficulties*

*Should the appraisal report be revised?*

b) A more difficult task, but still one closely related to the original expectations held by the Bank when it financed the project, will be to ascertain whether the institution-building effects expected of the loan have been realized.

*What aspects - accounting system, autonomy, decentralization*

c) Perhaps the most difficult task of all, however -- but a crucial one if we are to provide an effective answer to the rising tide of criticism of aid in general and of Bank Group assistance in particular -- will be to make an assessment of the more indirect costs and benefits of the project in question.

Some of these indirect effects will be strictly economic. For the host country itself, relevant questions might be: Did a road project, expected to open up new areas to commercial agriculture, succeed in doing so?

Did it also (instead?) result in the destruction of village industries?

Beyond the host country, it would be desirable to examine the effects of a project on other developing countries. Did an expansion of exports from one country, made possible by a Bank-financed project, significantly reduce the export prices of other developing countries? (It is interesting in this

*emigration?*

connection to note that the recent Agricultural Sector Survey Report for Brazil recommends that measures should be adopted quickly to increase Brazilian coffee production.)

Other indirect effects would be essentially social in character. It would be impossible in a short period of time to evaluate all of these, but it should be possible fairly quickly to form some impression of a project's contribution to three or four key social/political problems in most developing countries. As a start these might be its contribution to the reduction of unemployment, to a more equitable distribution of income, and to the reduction of intra-country regional imbalances.

Notes on balance of paper

Possible Results of Better Ex Post Evaluation

- a) Might suggest more comprehensive ways of evaluating projects.
- b) Might indicate upward bias in estimating benefit of project arising from calculating the benefit on the basis of a disbursement/construction schedule designed to put pressure on borrower rather than on the best estimate of such schedule.
- c) Might indicate the relevance of the macro-economic environment to project success in the wider sense.
- d) Would almost certainly suggest the need to require at least a small amount of project reporting from borrowers after project completion.
- e) Would provide the Group with sustainable arguments in publicly defending its contribution to development

1. narrow project
2. social benefits
3. country aspects -  
policies
4. interest.

look into  
now

Procedure

- a) Some evaluation already being done in Economics Department.  
Very important that this very detailed approach continue.
- b) But because of the time taken for such very thorough research, this does not give a sufficiently broad view of the impact of the Group's operations to satisfy fully either of the two reasons for doing this kind of work indicated earlier. Need for a broader, more rapid, appraisal.
- c) Initially, such evaluation should concentrate on projects financed in the early sixties: such commitments were made sufficiently recently to be relevant to present procedures and yet sufficiently long ago to ensure that most of the projects will have been in operation for at least a few years. In total, there were some \_\_\_ projects made by IBRD, IDA, and IFC in 1960-64, of which \_\_\_ would be suitable for evaluation.
- d) Propose that an evaluation unit be established as soon as possible, with two staff members, one well versed in project appraisal, the other a good macro-economist. The unit would also be able to draw as need arose on specialists from elsewhere in the Group. Because of (i) need for appearance of objectivity and separation from Projects and Area Departments, (ii) relevance to programming future operations, (iii) need for immediate feed-back to management, this unit should be established in P & B.
- e) To economize on staff time, and to achieve the maximum results as quickly as possible, would suggest that the evaluation unit

*Which countries to start with*

*try more ambitious approach*

proceed by selecting individual countries in which Bank Group lending was significant in the early sixties, and then reviewing the projects in that country simultaneously. On average, it might require for each project one man-week of preparation at headquarters, two man-weeks in the field (perhaps part of it by a specialist from elsewhere in the Bank), and one man-week of assessment back at headquarters. On this basis, target of 20-25 projects annually appears reasonable, though target might have to be revised on basis of experience.

Reporting

No.

Most immediately, the results of the evaluation process would be communicated to the Group's management and to the heads of the relevant Area and Projects Departments. An unanswered question is whether the results should also be communicated to the Executive Directors. In favor of this is that such reporting might reduce the political pressure to set up a separate evaluation unit, reporting primarily to the Board, such as IDB has been compelled to accept. Against it is that the need to report to the Board might affect the objectivity of the evaluation process, and thus its usefulness to management. Even if objectivity not in fact affected, the objectivity might be in doubt to outside observers because of its source.

this

8/5/

This was a note I did  
in response to a request from  
John B. some months ago.  
Do you have any comments?

Clearly the note I am now  
doing will be somewhat  
different in direction, and will be  
more comprehensive.

Don B.

Mr. John Blaxall

April 10, 1970

Donald T. Brash

Ex post Evaluation of Operations

Rather than attempting to refine your draft memo to Mr. McNamara, I have decided that I would be wiser at this stage to try to sort out my own thoughts on this subject.

I think it is important to have clearly in mind that there are two somewhat distinct reasons for the need to increase the Group's ex post evaluation of its operations. First, since our primary objective is development, it is of fundamental importance that we have a way of appraising our contribution to that goal. Secondly, even if we ourselves were confident that our operations were making the maximum possible contribution to development, we would still need a more explicit re-evaluation procedure because of the very strong pressures building up, particularly in the U.S. Congress, for tangible assurances that the taxpayer's dollar is being used to greatest effect. In other words, we not only have to use our resources to contribute to development but have to make this effective use apparent also.

As you know, I was particularly impressed with this latter point after doing some work on aid auditing procedures when on the staff of the Pearson Commission last year. As a result of congressional pressures, the U.S. General Accounting Office has already begun a series of "management audits" related to international organizations. GAO does not claim the right to audit these organizations directly, and indeed it is recognized that it would be highly undesirable if each member of an international organization were to assert such a right. So GAO contents itself with auditing U.S. participation in international organizations. But the distinction is a fine one: a GAO audit of U.S. participation in the W.H.O., released early in 1969, was designed to "determine how well the United States was able to exert a beneficial influence over (1) the make-up of the programs and budgets of W.H.O., and (2) the manner in which the programs were carried out". Since that report was released, the GAO has completed reports on FAO, OAS (classified), UNICEF, and UNDP.

This new interest of GAO in international organizations appears to reflect a congressional feeling that (1) some of these organizations are not well managed, and (2) that the authorities nominally controlling them do not get adequate information from their managements to make real decision-making possible. It was congressional pressure also which obliged the IDB to establish a special GAO-type auditing unit within its structure, a unit designed to assess the efficiency and effectiveness of IDB lending programs and to report that assessment not merely to IDB management but also directly to the IDB Board. (Congress had originally demanded that GAO itself should be responsible for the "management auditing" of the IDB.)

At the moment, project performance in the Bank Group is monitored in several ways. The most common of course is the project supervision conducted by the Projects Departments, both at headquarters and in the field, during the period until the loan or credit is fully disbursed. Another is the monitoring implicit in the fact that many of our loans go to operating entities which have received previous Group support: the appraisal report for the new loan in this situation normally includes an assessment of the use made of previous loans. This has been particularly important for loans made for electric power, railways, and ports. Thirdly, several in-depth studies of particular projects have been completed by the Economics Department (most notably one on Iranian roads and another on eight irrigation projects) and more are in progress.

The completed in-depth studies referred to were useful in highlighting some real weaknesses, in both appraisal and follow-up procedures. The Iranian road study, for example, revealed that, prior to the loan agreement there had been:

- (a) no analysis of the relative advantage of improving the existing rail link, as compared with improving the highway;
- (b) no systematic examination of alternative road routes (with the result that some of the roads financed showed a negative present worth when examined, and one was substantially by-passed by another road financed by a later Bank loan);
- (c) inadequate technical preparation (resulting in a cost overrun of 40%);
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It is not fair to imply, however, that the conditions prevailing when the first Iranian road loan was signed in 1959 still prevail today. There have been some substantial improvements in appraisal procedures, and the consideration of alternative ways of achieving the same goal is now, at least formally, common practice. Pre-investment sector studies are now frequent.

But the systematic reappraisal of individual projects after the construction phase is over is still very rare (except where "repeater" loans to the same operating entity are involved).

Perhaps even more serious, we have at present no way of judging whether the projects we finance are being selected in an appropriate manner. Are economic reports devoting enough attention to highlighting "priority sectors"? Are sector studies highlighting the need for particular projects adequately? Are we paying sufficient attention to the international consistency of our project recommendations? (It is interesting in this connection to note that the recent Agricultural Sector Survey Report for Brazil recommends that measures should be adopted quickly to increase Brazilian coffee production.) There are difficult issues of principle raised by this line of questioning (Marry Johnson's comment about the World Bank as a kind of embryonic world government comes to mind) but it seems that some of them can not be avoided in any appraisal of our overall operations which goes beyond a very narrowly national framework.

As an interim judgment, I find myself agreeing with you that to do this ex post evaluation we really need two different staff groups. One would be doing the kind of in-depth study of particular projects which the Sector and Project Analysis Division of the Economics Department seems well-placed to do. The other would have a much broader set of objectives, along the lines of those suggested in your draft. Logically, the place to establish such a group would be in P & B -- the group's function is clearly related closely to the programming function, and it would be essential that the group be both removed from immediate operational pressures and yet have close contact with senior management. Could such a staff group also serve the Bank's Board, or will we, like the IDB, be compelled to set up another group to keep the shareholders informed?

DTE:ash:omc

CE5

In thinking about "post-supervision evaluation" (can't we think of a better title?!) it strikes me that we might make best progress by deliberately including in each "team" one or two (or three?) people ~~for~~ on loan from the projects departments. This might conceivably give us the best of both worlds

JB