

GAO

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AFRICAN DEVELOPMENT BANK

A More Independent Evaluation System Is Needed



129128

**National Security and International
Affairs Division****B-221618**

February 21, 1986

The Honorable James A. Baker, III
The Secretary of the Treasury

Dear Mr. Secretary:

We have reviewed the progress made by the African Development Bank in establishing an independent program and project evaluation system. This letter presents our recommendations and summarizes our findings and conclusions, which are set out in detail in appendix I.

We previously reported on the establishment of evaluation systems in the World Bank, the Inter-American Development Bank, and the Asian Development Bank (see app. II). Evaluation systems are important for keeping member governments and management of the banks informed as to whether the banks are meeting their objectives efficiently, economically, and effectively. As we have stated in the past, while the views of management and operational staff must be considered in developing evaluation plans and in conducting evaluations, evaluation systems should be independent from management, so that facts can be considered objectively and unbiased judgements formed in performing evaluations and reaching conclusions. We believe that the time is now appropriate to initiate steps to bring about a fully independent review and evaluation system in the African Development Bank.

The United States has important overall political, strategic, economic, and humanitarian interests in Africa which it pursues in part through participation in the African Development Bank. The level of U.S. participation is viewed by many in Africa as a gauge of U.S. support for the development objectives of African countries. The Bank is the preeminent regional institution for addressing Africa's long-term economic crisis. Therefore, the United States and other non-regional members seek to strengthen the Bank's capability to deal with Africa's critical development problems.

The United States has subscribed \$359.7 million of the Bank's capital over 5 years. This represents 5.6 percent of total capital and 17 percent of non-regional subscriptions. The United States has also provided \$325 million to the African Development Fund, an affiliate of the Bank.

Evaluation and U.S. Operational Interests in the Bank

U.S. operational objectives focus on the improvement of Bank operations, including better management of its expanding loan portfolio which by the end of 1984 reached a cumulative total of 776 loans amounting to \$5,650 million. An effective evaluation system is an integral part of these objectives. Evaluation seeks to examine ongoing and completed projects and operations so that Bank management, governing bodies, and member governments can be apprised of the results and the lessons learned can be applied to new projects and programs and the revision of Bank policies and procedures. U.S. technical assistance has been and continues to be provided to the Bank to improve its operations, including its evaluation system.

From 1968 through 1984, the U.S. Agency for International Development has provided over \$13.4 million in grant assistance to develop specific projects for the Bank and to strengthen its ability to manage those projects. The Agency plans to provide an additional \$15 million in grant aid for the balance of this decade to further enhance the Bank's institutional capacity to manage its ever-enlarging portfolio of development projects.

Part of this assistance package has focused on improving the Bank's system of evaluation. An Agency funded study of that system in 1982 showed the need to develop a more comprehensive and independent evaluation system with a direct line of reporting to the Bank's Board of Executive Directors. The study pointed out the relevance of such an independent system to improving project and program management through objective assessment of ongoing and completed Bank-financed activities. An evaluation expert is being funded by the Agency to assist in further developing the evaluation system.

Achievements in the Bank Evaluation System

Since its establishment in late 1980 as a division within the Department of Planning and Research, the Evaluation Division has continued to take steps which we believe represent significant progress toward a more effective evaluation system. It has (1) better defined its roles and operating procedures, (2) developed a more comprehensive system encompassing ongoing as well as completed Bank activities, (3) improved its evaluation data collection, and (4) more widely disseminated the results of its work. Through 1984 the Division issued 23 reports. For 1985 it planned to complete and/or initiate 23 additional reports covering Bank-financed projects in agriculture, development finance companies, public

utilities, education and health, transportation and such operational program concerns as project implementation delays and recurrent cost financing.

Further Progress Depends on a More Independent Evaluation System

While the Division has made important progress since 1980 its position as one component of the Department of Planning and Research means that it cannot readily control its resources or develop its own working procedures independently of Departmental or higher Bank management. This had led to the following constraints to a more fully effective Evaluation Division.

- It does not have full control over the use of its staff, which has been used for non-evaluation purposes, compounding problems stemming from the Division's overall shortage of staff and the shortage of expertise in certain specialized areas of Bank lending, such as telecommunications. As a result, the completion of several evaluations during 1982, 1983, and 1984 was delayed.
- Its lack of a direct line of reporting to the Board of Executive Directors does not ensure an objective approach to evaluation results and has led to delays in issuing reports to the Board. Objectivity needs to be insured by making the evaluation system independent of Bank management and responsible directly to the Board, a basic tenet of the Comptroller General's Audit and Reporting Standards.
- It has not exercised control over nor developed an evaluation report recommendation follow-up system to keep the Board and Bank management systematically apprised of the effect of evaluation results on Bank operations. We found that for 8 of 19 evaluation reports, Evaluation Division personnel were unaware of what, if any, actions were taken on report recommendations by the operating divisions. Subsequent to our fieldwork, Evaluation Division officials proposed to remedy the situation by clarifying Bank responsibilities for follow-up and by preparing status reports to the Board through the President.

Conclusion

Bank management and the Board of Directors have increasingly recognized the need for creating a more fully independent review and evaluation system. Bank management has recently been considering forming a central evaluation unit to report directly to the President of the Bank.

We believe now is an appropriate time to initiate those additional steps which would make such a system a reality. We believe that the evaluation system should eventually be fully independent of Bank management and responsible directly to the Board of Executive Directors and through them to the Board of Governors. This would be in accordance with the Auditing and Reporting Standards recommended by the Comptroller General in prior reports on the evaluation systems of the other multilateral development banks (see app. II.).

Recommendations

We recommend that the Secretary of the Treasury instruct the U.S. Executive Director to propose that the African Development Bank's management and Board of Executive Directors

- as an interim measure, establish the Evaluation Division as a central evaluation unit under the President of the Bank, but with a direct line of reporting to the Board of Executive Directors, and
- consider the eventual establishment of a fully independent evaluation unit attached directly to the Board of Executive Directors.

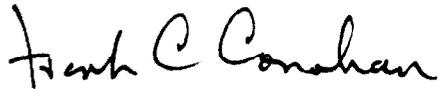
Agency Comments

In commenting on a draft of this report, the Department of the Treasury agreed that the Bank should move toward establishing an increasingly independent evaluation system which should eventually be attached to the Board of Directors. Additional comments on operational aspects of the Bank's evaluation system were offered by the Agency for International Development. These comments and our evaluation are in appendix III.

As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Committees cited above; the Senate Foreign Relations Committee, House Foreign Affairs Committee; House Committee on Banking, Finance and Urban Affairs; and the Director, Office of Management and Budget.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director

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Abbreviations

AFDB	African Development Bank
AID	Agency for International Development
GAO	General Accounting Office

Independent Evaluation Needs to Be Strengthened in the African Development Bank

Background

The African Development Bank Group consists of the African Development Bank (AFDB), the African Development Fund, and the Nigeria Trust Fund.

The AFDB was organized, capitalized, and operated entirely by its African member countries until December 1982, when non-regional members were admitted. The United States formally joined the Bank in February 1983 under the authority of Public Law 97-35, which included a U.S. subscription of \$359.7 million to the Bank over 5 years. U.S. subscriptions represented 5.6 percent of total AFDB capital and 17 percent of non-regional subscriptions as of September 30, 1985.

The African Development Fund was organized in 1973 as the concessional lending affiliate of the Bank, lending only to the poorest African countries. Unlike the Bank, the Fund was open to membership of non-African countries from its beginning. The United States joined the Fund under Public Law 94-302 in November 1976, and through fiscal year 1985 has provided \$325 million in contributions. The U.S. voting power as of September 30, 1985, was 6.61 percent of total voting membership. The U.S. plans to contribute \$225 million to the fourth replenishment of the Fund to cover fiscal years 1986-1988. Under this plan, the United States will become the single largest contributor.

The Nigeria Trust Fund was established by an agreement between the AFDB and the Nigerian government in February 1976 and its resources are wholly contributed by the government of Nigeria and administered by the Bank.

The U.S. Executive Director is the focal point through which the United States exercises its role in the Bank. The Director receives instructions from the Secretary of the Treasury, who has primary responsibility for managing U.S. interests, with the assistance and advice of the National Advisory Council on International Monetary and Financial Policies and the Inter-Agency Working Group on Multilateral Assistance, of which the Agency for International Development is a member.

Evaluation As a Component of U.S. Efforts to Improve AFDB Management

The United States has important overall political, strategic, economic, and humanitarian interests in Africa which it pursues in part through participation in the AFDB. Many in Africa view the level of U.S. participation as a gauge of U.S. support for the development objectives of African countries. Since the AFDB is the preeminent regional institution for addressing Africa's long-term economic crisis, the United States and

other non-regional members seek to strengthen its capability to deal with critical development problems. The U.S. Agency for International Development (AID) has provided and continues to provide technical assistance to improve AFDB operations, including its evaluation system.

Through AID, the United States provided over \$13.4 million in technical assistance grants to the AFDB during fiscal years 1968-84. Another \$15 million in technical assistance is planned for fiscal year 1985 through the end of the decade.

The purpose of this assistance is to help the AFDB strengthen its institutional capacity to develop and manage an enlarged and improved portfolio which by the end of 1984, reached a cumulative total of 776 loans amounting to \$5.6 billion. U.S. assistance is intended to address the following areas of long-range concern to the Bank.

- Developing a substantive staff training program to meet specific staff needs; present training has not been able to keep pace with development needs, according to AID.
- Improving the information management computer system, particularly for project and financial management. According to AFDB officials, the computer purchased under prior technical assistance has been significantly underused.
- Streamlining project identification, preparation, appraisal, and management; the preparation of consistently high-quality projects remains a problem, according to AID and Treasury.
- Improving the ability to conduct effective evaluations of projects and other analyses of operations; AID noted that this activity has received relatively low priority vis-a-vis other operational imperatives.
- Developing the capability to conduct meaningful policy dialogues with member countries; the Bank recognizes the necessity of being prepared with assessments and recommendations on borrowing-country policies which affect development.

To promote institutional and professional development, \$7.7 million of the U.S. program will finance a mix of short- and long-term technical experts to assist in project work and country/sector studies. This will be complemented by assistance for training programs and partial funding of necessary commodities.

The U.S. program will also provide about \$7.3 million for a number of project studies, including eight major pre-investment studies—two annually for the first 3 years, and one annually for the following 2

years. However, if the studies can be obtained at lower cost, AID contributions to additional studies may be programmed. It is envisioned, however, that the need for this type of assistance will lessen in future years as AFDB contributes a larger share of the funding.

It is noteworthy that, consistent with the priority objectives of this technical assistance project to improve selected areas of program and project management, the AFDB officials specifically requested that AID fund a full-time expert for 2 to 3 years to help the Evaluation Division improve the quality and quantity of evaluation reports and to make the evaluation system more responsive and supportive of Bank needs. This request stemmed from an AID-funded assessment of the evaluation system in 1982 which stated that, "evaluation concepts need to be instilled throughout the Bank" and that "policies, procedures and actions . . . be reviewed periodically to ensure their continued relevance and to determine if the state of the art has progressed sufficiently to suggest more effective or more efficient policies or procedures for the Bank's operations."

The report recommended a number of actions to improve the evaluation system, including

- a more comprehensive evaluation system focusing on current as well as completed projects and programs;
- a direct line of reporting to the Board of Executive Directors; and
- a more independent central evaluation unit to ensure objectivity in reporting.

AID has agreed to fund an evaluation expert to assist in this process and, as of August 1985, AFDB had initiated procedures to recruit this expert according to the U.S. representative.

U.S. officials and AFDB management view evaluation as an integral component of efforts to improve Bank operations.

Objectives, Scope, and Methodology

We made this review to assess the progress made by the African Development Bank in establishing an independent evaluation system which would keep member governments and AFDB management informed as to whether the Bank is meeting its objectives efficiently, economically, and effectively.

We have previously reported on the establishment of similar evaluation systems in the World Bank, the Inter-American Development Bank, and the Asian Development Bank (see app. II.). These institutions are outside the audit authority of any single member government. Their evaluation units are a principal means for providing independent assessments of their operations to all member governments as well as to bank management.

Because the African Development Bank is outside our audit authority, we did not examine its operations. However, with the assistance of the U.S. Executive Director, we received excellent cooperation from Bank officials and received a detailed account of their evaluation system. The U.S. Executive Director also provided access to executive directors from other countries.

Our fieldwork was conducted at AFDB headquarters in Abidjan, Ivory Coast, during March and April 1985 and included interviews with various Bank officials and review of pertinent documents. We also interviewed officials from the U.S. Department of the Treasury and the Agency for International Development in Washington, D.C., and in Abidjan. Our discussions with Bank and U.S. government officials addressed the (1) scope of the evaluation system, (2) contents and use of evaluation reports (3) potential areas for improvements in the evaluation system, and (4) role of U.S. technical assistance to the Bank. Using a case study approach we examined evaluation reports that had been issued as of the date of our fieldwork to ascertain the methods, standards, and procedures for conducting evaluations.

We made our review in accordance with generally accepted government auditing standards.

Progress Toward Achieving an Effective Evaluation System

The Evaluation Division, since its inception in late 1980 and since the 1982 consultant study, has taken several important actions to enhance its work. It has (1) given greater definition to its roles and operating procedures, (2) developed a more comprehensive evaluation system focusing on current problems as well as completed projects, (3) improved methodology for collecting evaluation data, and (4) taken steps to disseminate evaluation results within the Bank Group.

The Evaluation Division has also increased training for its staff and increased contact with the evaluation units of other international and bilateral development organizations, including the World Bank and the

Inter-American and Asian Development Banks, the Canadian International Development Agency, and the Expert Group on Aid Evaluation of the Organization for Economic Cooperation and Development.

Defining the Evaluation System

The evaluation function was started on a small scale in 1977 as a unit within the Policy Planning Division. Three employees were assigned to the Unit. During late 1980 the Bank Group was reorganized and evaluation was elevated to divisional status within the Department of Planning and Research. The Division's responsibilities were to examine and assess the results and impact of projects implemented with funds provided by the Bank and its affiliates and to submit evaluation reports on completed projects.

Subsequent to its formation, the Evaluation Division prepared a report which defined its roles and responsibilities by interpreting the statutes, administrative instructions, and management studies which institutionalized evaluation as a formal Bank activity. The report also identified the different forms of evaluation, criteria for evaluation, and evaluation work programs and staffing for 1981-83.

In 1984 the Evaluation Division updated this report and further refined evaluation functions and documented guidelines and procedures for evaluation, including methodologies and the processes involved in implementing evaluation activities within the Bank. In November 1985, Division officials stated they planned to submit this document in the near future to the President and the Board of Directors as official guidelines and procedures for evaluation activities. The report proposed that the Division's role and purposes be refined to reflect its potential as a key management device for directing and improving ongoing and future activities. The report, in distinguishing between the AFDB audit and evaluation functions, noted that the former would focus mainly on financial management aspects of lending while the latter would go beyond that to deal with socioeconomic, technical, and other aspects. The principal purposes of evaluation were summarized as follows.

- To verify the relevance, effectiveness, impact, and efficiency of AFDB activities in order to permit well-founded decisions.
- To provide information for selecting alternative courses of action as deemed necessary.
- To identify lessons of experience which can be fed into current and future activities.

- To provide accountability to owners of the institution, donors and recipients, for better use of resources.

To fulfill these responsibilities, the report describes several different forms of evaluations that could be conducted, including project evaluations such as interim, project completion, impact, and post-evaluations covering single projects, sectors, and program loans. Another category includes operational/program evaluations which cut across project lines to address such functional concerns as project implementation delays or financing of recurrent costs or overall AFDB programs in a country.

Detailed project-related evaluations are conducted to use lessons learned to improve the design and implementation of current and future projects. Operational/program evaluations are conducted to enhance operating procedures and practices and overall operations in selected member countries.

The different forms of evaluations will vary as to when in the project/program cycle they are undertaken as well as in their scope, approach, and methodology.

The report sets up a two-tiered evaluation system addressing the types of reports for which the operating divisions and the Evaluation Division would be responsible. The first tier consists of self-evaluation by the operating divisions through interim evaluations and project completion reports. The second consists of reviews of those self-evaluations by the Evaluation Division, which would also be responsible for special studies of an operational/program nature and for monitoring the efficiency and effectiveness of the evaluation system.

A More Comprehensive Evaluation System

The majority of the work of the Division has been concentrated on project post-evaluations. The 23 reports issued to the Board through 1984 included 18 post-evaluations, 2 interim evaluations, 2 sector studies, and one special evaluation report. In 1985 the Division planned to initiate and/or complete studies on delays in project implementation, problems in recurrent costs and an emergency loan to one country, and 20 project post-evaluations. The emphasis on post-evaluations can be attributed to a variety of factors including the

- administrative instruction that established the Division's responsibilities, which explicitly stated that post-evaluations were to be conducted,
- scarcity of evaluation staff,

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- newness of the Evaluation Division,
- project-oriented role of the AFDB, and
- urgent need to document lessons learned.

Evaluation Division officials told us that as the evaluation function evolves, greater emphasis will be placed on conducting several different types of evaluations.

Table I.1 shows the reports issued by the Evaluation Division to the Board of Executive Directors through 1984 and those planned for 1985.

Table I.1 Evaluation Division Reports

Sector	Issued as of Dec. 31, 1984^a	Planned for 1985
Agriculture	7	5
Development finance companies	4	4
Power and water	3	3
Education and health	3	3
Transportation	5	5
Operational/program	1	3
Total	23	23

^aExcludes periodic reports such as the Division's annual report.

As can be seen, the Evaluation Division plans to increase its workload. This will include the review of more recently completed projects and a greater emphasis on current operating problems and is made possible, in part, by the greater number of project completion reports issued by the operating divisions.

AFDB officials stated that many of the evaluations to date have been conducted on early Bank-approved projects completed years ago and that, because the Bank has since changed its policies and procedures, the Evaluation Division's recommendations are not always applicable. These officials believe the Division will have a more positive effect on their work when the "new generation" of projects (those implemented after 1980) are evaluated.

Evaluation Division officials believe that they will have a greater effect on bank practices as they accumulate more comprehensive single evaluation reports. These reports can serve as building blocks for sector-wide reviews of policies and procedures and will make a significant contribution to the general review of policies and procedures in the various sectors of lending. In the near future, the Division believes it will have a

greater effect in such areas as agriculture, road transport, and lines of credits, in which substantial findings have been amassed on some aspects of the project cycle.

We discussed the effects of evaluation on Bank operations with AFDB officials responsible for identifying, preparing, appraising, designing, implementing, and supervising programs and projects. Several senior officials said that the Evaluation Division can have varying effects on their work. For example, we were told that a series of reports on lines of credit to development finance companies was valuable because it contributed to a Bank policy on the subject. Citing the positive impact of these reports, the officials believe that the Division's work is most useful when several evaluations are conducted in the same sector, compared with an individual evaluation.

One operational department head believed the Division has often raised issues needing the attention of AFDB management. For example, the Division was the first to recognize the importance of environmental implications in AFDB projects and, as a result, the Bank now has an environmental inspector who examines proposed projects to ascertain potential environmental implications. Another official believed that the Division's work in the industry and public utility sectors has been helpful in the design of future projects.

Steps Taken to Disseminate Evaluation Results

The Evaluation Division has prepared several documents in addition to its evaluation reports, to further disseminate evaluation results within the Bank so that AFDB staff would have ready access to evaluation results, findings, conclusions, and recommendations. As of April 1985, the Division issued 19 Abstracts of Evaluation Reports, 1 to 2 pages in length, summarizing the report conclusions, lessons learned, and recommendations. It had also prepared in draft form, an Annual Report on Evaluation and Review of Post Evaluation and Special Studies, (1984) which contains on all issued reports a review of the findings, conclusions, and recommendations relating to each stage of the project cycle. The Division's Concordance To Post Evaluation Reports Produced by the Evaluation Division (1982-1984), contains extracts from 20 individual post-evaluation reports and was created to facilitate ready access to report findings and conclusions.

To further provide feedback on evaluation activities, Division staff attend loan committee meetings on some proposed new projects.

**Efforts to Enhance Data
Collection**

The Evaluation Division has made efforts to improve the collection of evaluation data by assisting the operating divisions in formulating a standard format for Project Completion Reports. These reports are important because they serve as terminal evaluations prepared by and for the operating departments and are a critical input for the preparation of evaluation reports. The Evaluation Division plans to include project completion reports as an annex to their evaluation reports.

Division officials noted that more improvements on data collection, however, need to be made. The Division continues to experience difficulties in obtaining data for evaluations because of inadequate staff in borrowing member countries and, more importantly, because of AFDB's inability to demand and specify to the borrowers the type of evaluation data to be generated and retained. Efforts are underway to find the best means for the borrowers to collect and retain data for evaluations including their more active involvement in AFDB's evaluation activities by consultation and by the participation of Evaluation Division personnel in Bank training programs for officials from borrowing countries.

**Need for a More
Independent
Evaluation Unit to
Assure Further
Progress**

The Evaluation Division has made progress, but constraints on its efficient and effective functioning remain. These stem, at least in part, from its location in AFDB's management structure. As a division within a department, it cannot readily develop its own working procedures independently of the department in which it is located or of AFDB management at higher levels. For example it has not

- been able to control the use of its personnel, which have been used for non-evaluation purposes, thus compounding problems stemming from the shortage of evaluation staff, including delaying the completion of several evaluations;
- had a direct line of reporting to the Board, which is necessary to assure objectivity in reporting and prompt attention to evaluation results; and
- exercised control over nor developed a system for assuring follow-up to report recommendations or for reporting to the Board on the status of recommendations. A follow-up system is now under consideration.

Staff Constraints

Redeployment of some of its eight staff members has affected the Evaluation Division's work. For example, Division officials said that the completion of some reports under the 1982 and 1983 Work Program was delayed because two staff members were redeployed to non-evaluation

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duties for a long period of time. During 1984, one staff member participated in a task force to review the AFDB's human resource requirements, one participated in a technical committee to review and make recommendations to AFDB management on an external consultant's report on financial policies, and one staff member was detailed to work on a publication dealing with the Bank's 20th anniversary.

This situation only exacerbates the effects of the Division's personnel shortage; for example, to implement the Medium Term Work Plan (1981-1983), the Division expected that four additional staff members would be assigned but received only one additional person, preventing the undertaking of several planned evaluations.

Although the Evaluation Division has begun to develop sector expertise (e.g., lines of credit to development banks) it does not have expertise in all of the Bank's lending sectors or in some specialized areas such as telecommunications. Three consultants have been hired since 1984 to overcome this shortage in staff expertise, which has enabled projects to be evaluated that normally would be beyond the capability and expertise of the existing staff. Division officials believe that consultants will continue to be required.

An independent status may not resolve staff shortages, but it could help to ensure that the effects of such shortages are not compounded by the use of evaluation personnel for other duties.

**Direct Line of Reporting to
the Board**

The Evaluation Division lacks a direct line of reporting to the Board of Executive Directors. Its reports must be cleared through a number of management stages before they are sent to the Board. Such a process does not ensure an objective approach to reporting evaluation results and, has led to delays in issuing reports to the Board.

Our previous reports on the evaluation systems of other multilateral development banks noted that a primary consideration in establishing an effective evaluation system is to ensure that it is independent of the bank's president and other management officials. The system should be responsible to the bank's directors, and ultimately to the board of governors, which represents the member governments. Objectivity is an extremely important and basic requirement.

This same problem was noted in the AID-funded 1982 assessment of the AFDB's evaluation system, which recommended that management review

of evaluation reports by the Bank's Programming Committee, chaired by the Vice President for Planning and External Relations, be changed so that reports go directly to the Board. Bank management and staff, however, would have time to comment on the report before it was sent to the Board and would be encouraged to do so.

The 1982 assessment cited the delays in issuing reports to the Board of Executive Directors as a result of delays in report review by AFDB management, and the problem is a continuing one, according to Evaluation Division officials. We noted that for 19 post-evaluation reports issued from 1982 through 1984, for which data were available, that the average time from the start of the evaluation to report issuance to the Board was 12 to 13 months. An average of 8 to 9 months was spent in clearing the report from an interdepartmental working group through the Programming Committee and the President to the Board of Executive Directors. Reports issued in 1984 took an average 10 to 11 months, but clearance still took from 6 to 7 months. Evaluation Division officials said that delays were also encountered due to difficulties in getting reports translated as well as difficulties in scheduling Programming Committee meetings to clear reports.

AFDB management is considering the formation of an independent central evaluation unit directly responsible to the President. Officials have not clearly spelled out the line of reporting but have noted that the Programming Committee as a management committee was not an appropriate control mechanism. They stated that once the evaluation unit is independent, procedures for clearing evaluation reports could be formulated to increase output.

In previous reviews of such evaluation systems, we stated that effective discharge of review responsibilities requires that findings and related recommendations be promptly reported to the board of executive directors, who should have the benefit of the comments of bank management at the time it considers the reports. Bank management and staff should be given a set time to comment on reports before they are sent to the board.

Most important, however, is the need to ensure the objectivity of these reports, and thereby the value of their findings and recommendations, by having a direct line of reporting to the Board.

Recommendation Follow-Up System

One of the Evaluation Division's most important functions is to make recommendations to borrowers and management for improving current and future operations, programs, and projects. The Bank may not be realizing the full benefit of such recommendations, according to Evaluation Division officials, because there is no mechanism to ensure that recommendations are implemented and their status and disposition reported to the Board of Directors and Bank management.

Evaluation reports to the borrower serve an important function by contributing to dialogue on development issues. Recommendations are usually intended as suggestions on how to improve project performance. Since these recommendations are made after the loan has been disbursed and the project completed, AFDB has little if any leverage to ensure their implementation. Such recommendations, however, could form the basis for establishing conditions for future lending.

After the Board of Directors approves the evaluation reports the operating divisions are responsible for implementing the recommendations. There is no mechanism to ensure that systematic actions are taken to implement recommendations and to report their status and disposition to the Board of Directors and management. The Evaluation Division does not know the full extent to which its recommendations have been addressed nor has it had the authority to independently report on the status of recommendations.

We discussed with Evaluation Division staff the status of recommendations contained in 19 post-evaluation reports. Evaluation Division staff through various working groups and loan committees concerned with reviewing and clearing appraisal reports for new projects and through informal contacts with Bank staff, knew the status of recommendations contained in 11 reports but not the status of those in the other 8 reports.

Subsequent to our fieldwork, Evaluation Division officials proposed to remedy the lack of a follow-up system by clarifying the respective roles of the Division and of AFDB's Central Projects Unit. The Central Projects Unit is under the Vice President for Operations and is responsible for coordinating project implementation by the operational departments. Under the proposal

- the Central Projects Unit would continue to be responsible for following up on recommendations; and
- the Evaluation Division would monitor follow-up actions and prepare status reports. Follow-up actions would be reported in the Division's

annual report to be submitted to the Board by the President with a note on actions taken and/or proposed to be taken.

Although the proposal would help to institutionalize a follow-up system, we believe that a more fully independent evaluation system would better assure the Board and AFDB management of objective reporting on the status of recommendations.

Bank Initiatives for a More Independent Evaluation System

There has been a growing recognition by AFDB management of the need for a more independent evaluation system. Evaluation was placed in the Planning and Research Department under the Vice President for Planning and External Relations, and therefore made independent of the operating departments but not of management. More recently, AFDB management has been considering making the Evaluation Division a more independent unit reporting directly to the President, as recommended by the AID-funded consultant in 1982. Management stated that the Evaluation Division, as an independent appraisal function, should be given autonomy, like similar functional units in other international organizations, and be made directly responsible to the President.

The Board of Directors has also taken an increased interest in the evaluation function. Its oversight of evaluation had been exercised primarily through its Operations Committee. In August 1984, the Board decided to establish a new committee specifically to follow up on the audit and evaluation functions. Some members of the Board, moreover, have cited the merits of creating a more fully independent review and evaluation system.

To date, the work plans of the Evaluation Division have been approved by management and provided to the Board for information only. Reports are sent to the Board through the President with no line of direct reporting. In addition to being independent and having a direct line of reporting, an effective evaluation system requires that the Board have a definitive role in planning the evaluation work program and in reviewing and approving reports and recommendations.

In February 1985, the Board adopted the terms of reference for the new Audit Committee, including a provision that the Committee would satisfy itself that the evaluation function was adequate and efficient. Under the terms of reference, the Committee is to study the evaluation

reports and report to the full Board of Directors. The Committee is composed of six executive directors, including a chairman, appointed by the Board and is to meet at least once every quarter.

At the time of our fieldwork in April 1985, the Audit Committee had deferred any action on evaluation activities because of the press of other business. In October 1985, according to AFDB officials, the Committee began action on evaluation activities, reviewing seven evaluation reports.

Conclusions

We commend AFDB's initiatives toward making the Evaluation Division more independent but believe that there is a need to establish a more fully independent evaluation unit in order to improve its utility to both management and the Board in applying the lessons which can be learned in managing an expanding loan portfolio. The advent of a more independent review and evaluation unit would also be more in keeping with the systems of other multilateral development banks and with the Auditing and Reporting Standards of the Comptroller General. These standards were developed for use by the U.S. executive directors in formulating the terms of reference for review and evaluation groups in the other multilateral development banks. The standards have a basic tenet that:

"The review system should provide the Bank's Board of Directors and ultimately, the Board of Governors with an independent and continuous program of selective reviews of all major programs and activities of the Bank and should be responsible to the Bank's Directors and, ultimately, to the Board of Governors, which represents the member governments."

An independent evaluation unit is essential for ensuring bank management, governing bodies, and member governments that (1) basic objectives and criteria in support of development projects and programs are being met, (2) strengths and weaknesses of completed and ongoing activities are considered in other projects and programs and in the revision of lending policies and procedures, and (3) member country contributions and subscriptions are applied effectively.

At the time of our audit work, no timetable had been set for the Evaluation Division to be made more independent. AFDB management has begun only recently to consider a significant change in the Evaluation Division's status. As of October 1985, the Audit Committee had just begun to exercise its oversight of the evaluation system.

**Appendix I
Independent Evaluation Needs to Be
Strengthened in the African
Development Bank**

In view, however, of Management and Board recognition of the need for a more autonomous evaluation group we believe that now is the appropriate time to initiate steps toward the formation of a fully independent evaluation group reporting directly to the Board.

Prior GAO Reports on Independent Evaluations in the Multilateral Banks

Report Number	Title	Date
ID-81-30	Improving Independent Evaluation Systems in the Multilateral Development Bank	April 21, 1981
ID-78-49	Independent Review and Evaluation at the Asian Development Bank	October 18, 1978
ID-78-21	Independent Review and Evaluation System of the Inter-American Development Bank Needs Support	June 22, 1978
ID-78-14	Effectiveness of the World Bank's Independent Review and Evaluation System	June 5, 1978
B-175281	Establishment of Independent Review System for the World Bank Group and the Asian Development Bank	July 30, 1975
B-146937	Effectiveness of Independent and Comprehensive Audits of the Inter-American Development Bank	November 26, 1974
B-161470	Progress Made Toward Independent and Comprehensive Audits of the Inter-American Development Bank	July 20, 1971

Comments From the Department of the Treasury and the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY
WASHINGTON

JAN 02 1986

Dear Mr. Conahan:

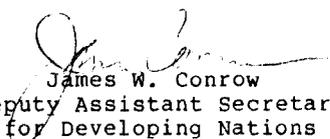
I am responding to your letter of November 22 to Assistant Secretary Mulford regarding the draft General Accounting Office report entitled African Development Bank: The Need For A More Independent Evaluation System (GAO Assignment Code 472068). I am also forwarding the comments of the Agency for International Development as an enclosure with our endorsement.

The report is a very helpful review of the African Development Bank (AFDB) evaluation system at the present time. The AFDB evaluation program is relatively new, and is undergoing rapid change.

The recommendations in your report offer a fruitful direction toward which the program should move and reflect a sophisticated appreciation of the pace of change that can realistically be expected. The Evaluation Division should eventually be attached to the Board of Directors when the purpose and value of the Division's work become fully appreciated by the Board. In the interim, direct reporting to the AFDB President will do much to eliminate the problems which your report identifies.

I am fully prepared to instruct our Executive Director to advance your suggestions forcefully. We appreciate the fine work that your agency has done on this subject.

Sincerely,


James W. Conrow
Deputy Assistant Secretary
for Developing Nations

Mr. Frank C. Conahan
Director
National Security and International
Affairs Division
United States General Accounting Office
Washington D.C. 20510

Enclosure

Appendix III
Comments From the Department of the
Treasury and the Agency for
International Development

AID COMMENTS ON DRAFT GAO REPORT CONCERNING
AFRICAN DEVELOPMENT BANK'S EVALUATIONS

Although earlier GAO reports on evaluations in the multilateral development banks may have discussed in more detail the theory and scope of independent evaluations in the MDBs, we believe that the report would benefit from further clarification in the following areas:

- the appropriate distinction between audit and evaluation functions in the MDBs;
- the rationale for independent evaluations in the MDBs;
- the specific types of reports for which the evaluations office should be responsible, and which (project, program, policy) should receive priority.

In addition, we have the following specific comments:

(Draft transmittal letter)

-- Page 1, line 15. Formal independence of the Evaluation Division from the operational staff of the Bank should not prevent the division from being responsive to Management requests for specific types of evaluations, seeking the views and reactions to its findings of operational staff (while requiring tight deadlines for comment to avoid unnecessary delays), and even encouraging input from regular staff to its reports. That is, independence should refer essentially to the division's right to make its own judgments without being concerned that they will be vetoed or delayed by operational staff with a vested interest in the conclusions.

-- Page 6, line 17. Although it is true that the AfDB Evaluation Division wishes to clarify responsibility for follow-up on its reports, the Central Projects Unit, which would be charged with follow-up under the Evaluation Division's plan, is not enthusiastic about taking on the task, according to AID discussions with Bank officials in May 1985. While this may have been resolved by now, there appeared to be a fundamental difference in views between the two staffs in the Bank. Therefore, it will be necessary for the Executive Board to watch closely the evolution of the decision process in the Bank on how the conclusions of evaluations reports are to be implemented. It may be that the Evaluation Division itself, some other part of the Bank, should assume this responsibility.

Appendix III
Comments From the Department of the
Treasury and the Agency for
International Development

-- Page 3, line 12. While AID did intend, at an earlier stage of its planning process, to perform a personnel needs assessment for the Bank, this element was dropped at a later stage of the development of the AID project. This was done because it was determined that the Canadian technical assistance, and Bank plans for follow-up on it, would achieve the same fundamental goal. However, individual assessments of staffing need will be done in response to Bank requests for advisors, to determine whether training or recruiting regular staff would fill the purpose more effectively than provision of an outside expert. Therefore, we ask that this point be dropped from the description of AID's project.

See comment 4.

Now on p. 16.

--Page 16, second full paragraph. This discussion of the problem of obtaining adequate and appropriate data from borrower countries to perform accurate evaluations raises the broader issue of the necessity for working closely with the borrower country as evaluation reports are developed. This is critical for two fundamental reasons: (1) it allows borrower country officials to familiarize themselves with the types of information necessary to the Bank in preparing evaluation reports, and (2) it involves the borrower in the development of conclusions about the successes and failures of a particular project, many of which may reflect as much on the environment in the host country as they do on the procedures of the Bank.

See comment 5.

Now on p. 17.

-- Page 19, line 5. Continued use of consultants by the Evaluation Division is probably desirable in certain cases. Particularly in areas where the Bank is not particularly active (therefore not justifying ongoing expertise in the sector on the staff of the Evaluation Division) or for evaluations entailing a great deal of time, effort or cross-sectoral analysis, it is probably best to contract out the work so that evaluations staff can concentrate on routine evaluations in sectors where the Bank does most of its lending.

See comment 6.

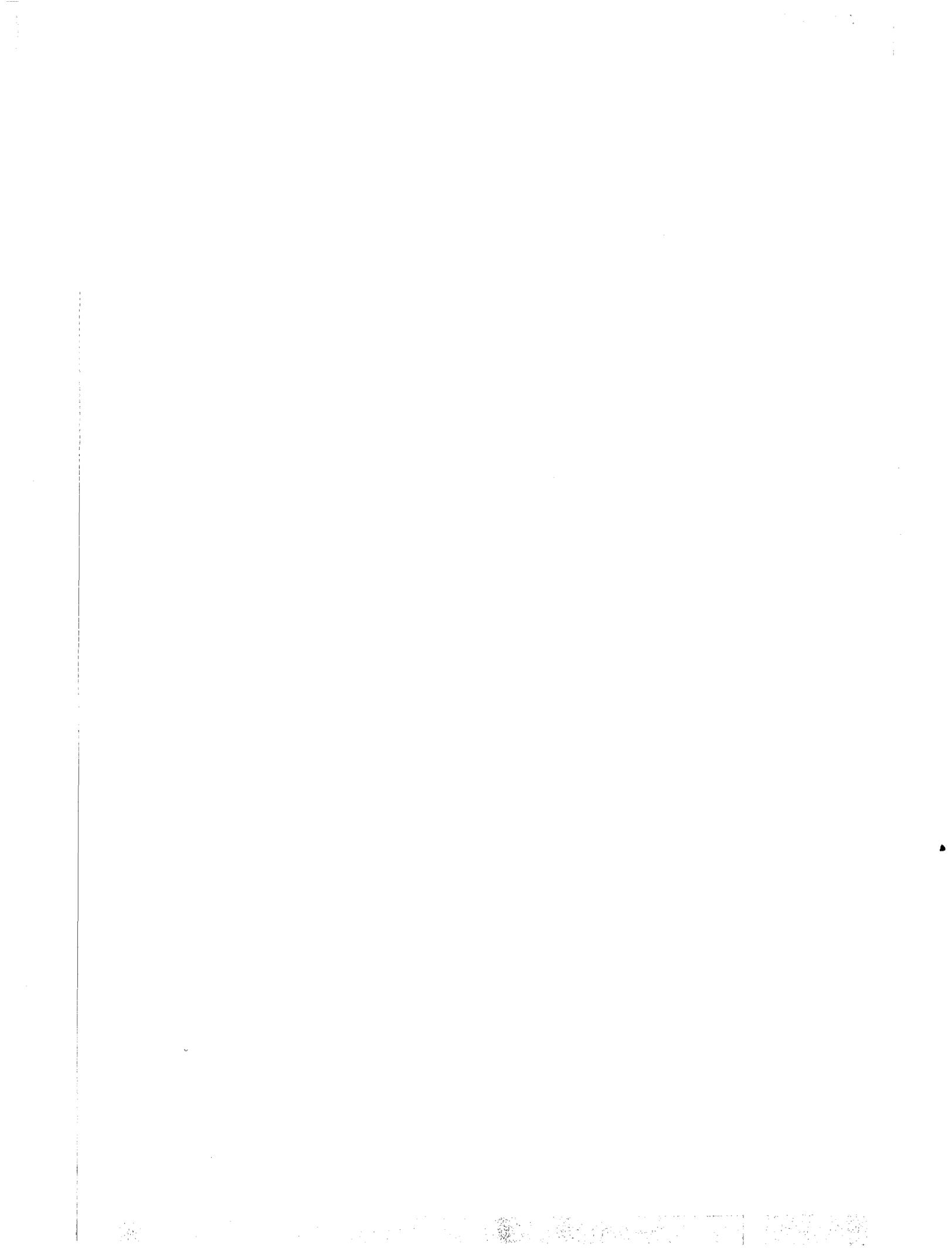
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The following are GAO comments on the Department of the Treasury letter dated January 4, 1986.

GAO Comments

1. Clarifying language on the distinction between audit and evaluation functions has been added to page 10. Clarification on the types and priority of evaluation reports has been added to page 11 of appendix I.
2. We agree that such independence should not prevent the Evaluation Division from being responsive to the concerns of management and have added language to clarify that point on page 1.
3. As noted in the report the clarification of follow-up responsibilities has been proposed by the Evaluation Division. The proposal was made subsequent to AID discussions with AFDB officials in May 1985 and is part of the report which the Evaluation Division is to submit to the President and to the Board of Directors as official guidelines and procedures for AFDB evaluation activities.
4. Reference to this portion of the AID project has been deleted.
5. We agree and have added language on page 16 noting that part of AFDB efforts to enhance data collection include more active involvement of borrowing countries in evaluation.
6. We agree that consultants will probably continue to be needed. Our concern is that the Division be sufficiently independent to assure control of its personnel—whether general economists or specialists—for evaluation purposes.



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