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The Inter-American Development Bank was established by international agreement in 1959 to promote the economic development of Latin American member countries. In 1976, the Bank made loans and provided technical assistance of more than \$1.5 billion to 20 Latin American countries. The United States has contributed 58% of all members' contributions to its financial support. The Secretary of the Treasury has primary responsibility for U.S. participation in the Bank. As a result of a 1967 amendment to the Inter-American Development Bank Act, the Group of Controllers was established to perform independent and comprehensive reviews of Bank operations.

Findings/Conclusions: The effectiveness of the Group of Controllers has improved steadily since its creation. Its reports have contained many recommendations for improving Bank operations, and most of its recommendations have been adopted and implemented. The Board of Executive Directors has established a working group to consider reorganizing the Group in 1979. Some of the suggestions would adversely affect the present evaluation system by reducing the Group's independence. Protecting the Group's independence and strengthening its role is in the best interest of the United States and other members of the Bank. Further improvements in the Bank's operations could be made if the Group placed greater emphasis on evaluating the effectiveness of individual loans. Recently, the Group redirected efforts in this direction. There have been some problems in reports because of language and style.

Recommendations: The Secretary of the Treasury and the National Advisory Council on International Monetary and Financial Policies should develop and support a U.S. position sustaining an independent evaluation function within the Bank. The Secretary should have the U.S. Executive Director suggest that

*he group improve report clarity and conciseness. (Authcr/HTW)

6792

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Independent Review And Evaluation System Of The Inter-American Development Bank Needs Support

The Group of Controllers, an independent review and evaluation system of the Inter-American Development Bank, has, since its establishment in 1968, been instrumental in improving the Bank's operations. The Board of Executive Directors has established a working group to consider reorganizing the Group in 1979. Some of the informal suggestions would, in GAO's opinion, adversely change the present system. GAO believes the Group's independence should be protected and its role strengthened.



ID-78-21
JUNE 22, 1978



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

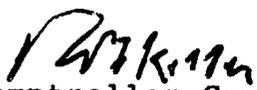
B-161470

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

This report discusses the progress made by the Inter-American Development Bank in establishing an independent review and evaluation system for its programs and activities. We recommend that the Secretary of the Treasury and the National Advisory Council on International Monetary and Financial Policies develop and support a U.S. position sustaining the independent evaluation function within the Bank.

Our review was conducted pursuant to Public Law 90-88, which amended the Inter-American Development Bank Act (Public Law 86-147).

Copies of the report are being sent to the Director, Office of Management and Budget, and to the Secretary of the Treasury.


ACTING Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE INDEPENDENT REVIEW AND
EVALUATION SYSTEM OF THE
INTER-AMERICAN DEVELOPMENT
BANK NEEDS SUPPORT

D I G E S T

The United States is the largest financial contributor to the Inter-American Development Bank, having provided \$3.9 billion, or 58 percent, of all contributions. The Secretary of the Treasury has primary responsibility for U.S. participation in the Bank. In 1976, the Bank made loans and provided technical assistance amounting to more than \$1.5 billion to 20 Latin American countries. Thus, the United States has a major interest in the operations of the Bank and in the administration of its lending and assistance programs.

In 1967, the Inter-American Development Bank Act was amended by Public Law 90-88, which, among other things, encouraged the establishment of an independent review and evaluation system within the Bank. As a result, the Group of Controllers was established to perform independent and comprehensive reviews of Bank operations.

The amendment also directed the U.S. Comptroller General to review periodically the Group's reports and to suggest improvements. In July 1971 and again in November 1974, GAO reported to the Congress on the work of the Group and the progress made. This is the third report.

The effectiveness of the Group has improved steadily since its creation. Its reports have contained many recommendations for improving Bank operations. GAO noted that most of the recommendations have been adopted by the Board of Executive Directors and that Bank management has taken specific actions to implement them. (See pp. 8 and 9.)

The Board of Executive Directors has established a working group to consider reorganizing the Group of Controllers in 1979. Some

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of the informal suggestions would, in GAO's opinion, adversely affect the present evaluation system. One suggestion would result in the Group of Controllers performing routine staff functions for Board members instead of independent comprehensive examinations of Bank operations; evaluations would be performed by Bank management.

GAO believes that protecting the Group's independence and strengthening its role is in the best interests of the United States and the other member countries of the Bank. (See p. 12.)

GAO believes also that the Group's reports could be further improved through a more direct style of writing, since they are wordy and excessively detailed. The need to translate from one language to another and to reconcile the styles of three Controllers appears to further aggravate report-writing problems. (See p. 16.)

GROUP OF CONTROLLERS' MISSION

Although the Group has helped to improve the Bank's operations, as evidenced by the large number of its recommendations used by Bank management, it needs to place greater emphasis on evaluating the effectiveness of individual loans. Recently, for example, the Group redirected its efforts toward evaluating the efficiency and impact of loans to selected projects in rural electrification, animal health, and small industries. Three such evaluations are included in the Group's 1978 work program. GAO endorses this redirection of the Group's effort. (See p. 8.)

Since the Board of Executive Directors holds the key to the Group's ultimate success, and the Treasury Department advises and instructs the U.S. representative to the Board, GAO believes it is incumbent upon Treasury to follow more closely the Group's direction and progress. (See p. 11.)

RECOMMENDATIONS

To facilitate the continued development of an effective, independent review system at the Inter-American Development Bank, GAO recommends that:

- The Secretary of the Treasury and the National Advisory Council on International Monetary and Financial Policies develop and support a U.S. position sustaining an independent evaluation function within the Bank. (See p. 12.)
- The Secretary of the Treasury and the U.S. Executive Director suggest that the Group of Controllers improve report clarity and conciseness. (See p. 17.)

AGENCY COMMENTS

The Department of the Treasury agreed with the overall thrust of GAO's report that the effectiveness of the Group of Controllers has improved steadily since its creation. It also agreed that there has been almost total neglect of project audits or evaluations and recognized the importance of project evaluation as part of the overall evaluation system.

Treasury endorsed both of GAO's recommendations. (See app. I.)

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ABBREVIATIONS

GAO	General Accounting Office
NAC	National Advisory Council on International Monetary and Financial Policies

CHAPTER 1

INTRODUCTION

The Inter-American Development Bank was established by international agreement in 1959 to promote the economic development of Latin American member countries.

The original membership consisted of 19 Latin American countries and the United States. Five other Western Hemisphere countries became members between 1969 and 1976. Between 1976 and 1977, 15 countries from outside the Western Hemisphere joined, bringing total membership to 25 regional and 15 nonregional members. (See app. II.)

U.S. membership in the Bank was authorized August 7, 1959, by the Inter-American Development Bank Act (22 U.S.C. 283a-o). The United States signed the international agreement establishing the Bank on October 14, 1959.

The Secretary of the Treasury has the primary responsibility for managing U.S. participation in the Bank. He also serves as the U.S. Governor on the Bank's Board of Governors and instructs the U.S. Executive Director on U.S. positions vis-a-vis the Bank. The Secretary is assisted in these responsibilities by the National Advisory Council on International Monetary and Financial Policies (NAC), which evaluates and advises him about proposed Bank loans and other actions.

ORGANIZATION OF THE INTER-AMERICAN DEVELOPMENT BANK

The Board of Governors usually meets once a year to review operations and decide major policy issues. The Governors and their alternates are appointed by the member governments. With certain exceptions, the Governors have delegated their powers to the Board of Executive Directors, which is responsible for conducting Bank operations. There are 11 Executive Directors--7 elected by groups of Latin American countries, 2 by nonregional members, and 1 each appointed by Canada and the United States. The Executive Directors conduct their affairs at Bank headquarters in Washington, D.C., and meet as frequently as necessary.

The President of the Bank is elected by the Board of Governors for a 5-year term and is responsible for conducting the Bank's day-to-day business. He also presides over meetings of the Board of Executive Directors, voting only in case of a tie. The current President, Antonio Ortiz Mena

of Mexico, was reelected in December 1975 to a second term which will expire in March 1981.

DEVELOPMENT ACTIVITIES

In 1976, Inter-American Development Bank loans and technical assistance to 20 Latin American countries totaled over \$1.5 billion. From its inception through December 31, 1976, the Bank made loans amounting to \$10 billion for such projects in such sectors as agriculture, fishing, mining, energy, transportation, communications, and tourism, and for such social programs as water supply, health, housing, urban renewal, and education.

The Bank also committed \$412 million for preinvestment and technical cooperation projects to generate new investment proposals, to strengthen the local institutions' capacities to plan and carry out investments, to make sectorial studies, and to train specialists in development functions.

FINANCIAL SUPPORT

Inter-American Development Bank operations are financed primarily through member contributions and borrowings within world capital markets. The United States contributed 58 percent of all members' contributions, as shown in the following table.

<u>Bank fund</u>	<u>United States</u>		<u>All other members</u>		<u>Total</u>
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	
	(millions)		(millions)		(millions)
Ordinary capital	\$ 362	35	\$ 679	65	\$1,041
Interregional capital	20	24	65	76	85
Fund for Special Operations	3,040	68	1,423	32	4,463
Social Progress Trust Fund	525	100	-	-	525
Other funds	-	-	654	100	654
Total	<u>\$3,947</u>	58	<u>\$2,821</u>	42	<u>\$6,768</u>

The above amounts do not include members' subscriptions (callable by the Bank) to ordinary and interregional capital, amounting to \$6.3 billion (U.S. share, \$2.3 billion). Callable subscriptions act as a guarantee for the Bank's borrowings in world capital markets. To date, no subscriptions have ever been called. Also, members' commitments of \$1.3 billion

(U.S. share, \$600,000) are due in future years for the Fund for Special Operations.

The United States established the Social Progress Trust Fund to finance social development projects. This fund was placed under Bank administration in 1961 and is managed in the same manner as other Bank operations, with the Board of Executive Directors responsible for approving the loans. The Bank also administers 10 other separate funds, amounting to \$654 million, for Latin American development on behalf of member and nonmember countries. A statement of changes in financial position for the year ended December 31, 1976, is contained in appendix III.

VOTING POWER

The Board of Governors and Board of Executive Directors make decisions according to voting rules stipulated in the Bank's authorizing agreement. Each country's voting power is related to its capital stock subscriptions and at September 19, 1977, was distributed as follows:

	<u>Percent</u>
Latin American countries	55.4
United States	34.7
Canada	4.7
Nonregional members	<u>5.2</u>
Total	<u>100.0</u>

With certain exceptions, decisions involving ordinary and interregional capital resources are decided by a simple majority of votes, but decisions involving the Fund for Special Operations and the Social Progress Trust Fund require two-thirds majority. Thus, the United States has veto power over actions involving these two funds.

PRIOR GAO WORK

In 1967, the Inter-American Development Bank Act was amended by Public Law 90-88. Among other things, the amendment directed the Secretary of the Treasury to instruct the U.S. Executive Director to propose a continuing program of selective, independent, and comprehensive audits of the Bank, in accordance with such terms of reference as the Board of Executive Directors may prescribe.

The amendment also directed the U.S. Comptroller General to submit auditing and reporting standards to the Secretary

of the Treasury for the U.S. Executive Director's use in helping to formulate the terms of reference. It further directed the Comptroller General to review audit findings periodically and to report to the Secretary of the Treasury and the Congress suggestions for improving the scope of audit and the auditing and reporting standards.

On January 24, 1968, the Comptroller General transmitted the required auditing and reporting standards to the Secretary of the Treasury. They formed the basis of the standards governing the establishment and operation of the Bank's audit program, which was approved by the Board of Executive Directors on March 28, 1968.

In October 1968, the Board of Executive Directors established an independent review and evaluation system. The system is directed by a Group of Controllers consisting of three principal members, one from the United States and two from other member countries, who are under the guidance of and responsible to the Board.

In 1971 and 1974, we reported to the Congress on the Group of Controllers' audit work and the progress being made. 1/ This is the third report.

Our 1971 report noted that the Group's first two reports were deficient in either substance or format, which severely limited their usefulness as management tools, and recommended that the Secretary of the Treasury urge

--the Bank to expand the Group of Controllers with additional senior staff having professional experience in management auditing or consulting and varied academic backgrounds, and

--the Group to present clearly and concisely its findings and recommendations for corrective action.

Our 1974 report noted that our previous recommendations had been implemented and that the Group of Controllers had made progress toward developing an effective independent

1/"Progress Made Toward Independent and Comprehensive Audits of the Inter-American Development Bank," July 20, 1971 (B-161470) and "Effectiveness of Independent and Comprehensive Audits of the Inter-American Development Bank," Nov. 26, 1974 (ID-75-12).

review body. The Group had expanded its staffing and workload, published a handbook of formal operating procedures, and organized its reporting format to better present its findings, conclusions, and recommendations. We recommended that the Secretary of the Treasury urge the Group of Controllers to

- place greater emphasis on evaluating and reporting how well the economic and social objectives of the Bank's programs are being met and
- make every effort to issue unrestricted reports which can be freely distributed.

We also recommended that the Secretary of the Treasury report to the Congress on the Group of Controllers' significant findings and recommendations and on corrective actions taken by the Board of Directors and Bank management. Treasury agreed with this recommendation and stated that it would include such information in future NAC annual reports to the Congress.

SCOPE OF REVIEW

This report, as part of our continuing responsibility under Public Law 90-88, evaluates the progress and effectiveness of the Inter-American Development Bank's independent review and evaluation system.

The scope of our review was limited. We did not directly examine Bank operations because we have no audit authority over international organizations. However, with the U.S. Executive Director's assistance, we received excellent cooperation from Bank officials and were able to review numerous Bank documents and to have several discussions with various Bank officials.

We (1) evaluated the adequacy of the Bank's revised auditing and reporting standards, (2) evaluated 13 reports issued by the Group of Controllers since our last review to ascertain their compliance with the standards, and (3) analyzed the Group's responsibilities, functions, and practices.

To determine the usefulness and effectiveness of the Group's reports among U.S. executive agencies, we met with Treasury officials and contacted NAC staff members who regularly receive Bank evaluation reports.

We also met with staff members of congressional committees responsible for overseeing international financial institutions and ascertained their interests in the Bank's independent review and evaluation reports.

CHAPTER 2

GROUP OF CONTROLLERS' MISSION

The effectiveness of the Group of Controllers has improved steadily since its creation in 1968. It should, however, become more involved in evaluating the effect of individual loans on Latin American countries.

We are concerned that certain suggestions for reorganizing the Group would result in restricting its independence or scope of activities and, ultimately, in limiting the Bank's effectiveness. It is in the best interest of the Bank, the United States, and the other member countries of the Bank to protect the Group's independence and strengthen its role.

SCOPE OF EVALUATIONS

The majority of the Group of Controllers' evaluations have dealt with the Bank's internal operations; only two reports, both issued in 1970, addressed the efficiency of administration of project loans and their impact on the countries' economies. We were told that these reports generated a great deal of discussion within the Bank, which resulted in halting further country-by-country loan evaluations. As a consequence, the Group emphasized evaluations of the Bank's internal operations.

At the time of our 1974 report, therefore, the Group was not reviewing project effectiveness, and the Bank had no formal system for evaluating project impact. We expressed the view that the Group of Controllers should encourage the Bank to accumulate project performance data and to develop a project followup reporting system which would enable the Group to evaluate and report on how effectively the Bank had assisted the countries or sectors involved.

We also pointed out in our 1974 report that the Group should pay particular attention to whether the loans accomplished their objectives. In 1974, the Bank, prompted by a similar recommendation from the Group, established an impact evaluation office under its internal controller, to make socioeconomic evaluations. This unit issued two reports and was subsequently absorbed by the Operations Evaluation Office, which was established in February 1977.

The Operations Evaluation Office is responsible for implementing the Bank's postevaluation policy and for conducting impact evaluation studies of selected completed projects. We were told that this office plans to evaluate

several projects within a sector, issue reports on each project reviewed, and compile overall sector summary reports for management. The studies will examine not only social and economic impacts but also other project elements, such as financing and engineering. Recommendations will be directed toward improving individual projects as well as Bank policies and operations. 1/

Although the Bank has recognized the need for impact evaluation studies, its assignment of this responsibility to the Operations Evaluation Office should not restrict the Group of Controllers' performance of independent reviews.

The Group of Controllers' mission is to independently evaluate all Bank operations, including the impact of its lending program. Recently, the Group redirected its efforts toward evaluating the efficiency and effectiveness of the Bank's lending program in several subsectors. The Group plans to direct its efforts to selected projects in rural electrification, animal health, and development of small industrial enterprises. We endorse this redirection of the Group's efforts.

FOLLOWUP

Upon completing an evaluation, the Group of Controllers distributes its report to the Board of Executive Directors for review. The Board may request comments from management, which must be provided within a specific time period determined by the Board. Afterward, the Group prepares an analysis of management's comments and suggested actions for the Board. The Board then discusses each recommendation and votes to adopt it as originally stated, adopt it with modification, or reject it.

Bank management has full responsibility for complete and timely implementation of the recommendations adopted by the Board, and its internal controller is required to make semiannual reports to the Board on the implementation status of all outstanding recommendations.

The internal controller's June 30, 1977, report stated that for the 150 recommendations the Board had approved

1/See our report, "Evaluation and Analysis To Support Decisionmaking," Sept. 1, 1976 (PAD-76-9), which discusses concepts and basic approaches to analysis and evaluation.

--122 had been fully or substantially implemented in prior reporting periods,

--2 were fully or substantially implemented in the current reporting period (January 1 to June 30, 1977),

--21 were in process, and

--5 were awaiting future action.

However, at the Board's request the Group, in its review of the December 31, 1976, implementation report, noted the need for all concerned to reach agreement on the meaning of "substantially implemented" and "fully implemented." The Group pointed out that the classification "substantially implemented" has the effect of removing a particular item from future implementation reports. Actions cited as "substantially implemented" are not always accompanied by an explanation of why the Board's decisions were not fully implemented. Such an explanation would provide the Board with a better basis for reviewing recommendations not fully implemented and for determining whether further action was desirable.

Despite this disagreement over the status of some recommendations, the fact that management has implemented so many of the Group's recommendations indicates that the Group is contributing to improving the Bank operations.

WORK PROGRAM

The Group of Controllers is required to submit an annual work program to the Board of Executive Directors for its review and approval. The work program, which is submitted each June, outlines the studies proposed for the next calendar year. For areas in which the Group has insufficient background knowledge, it may request the Board's approval to conduct preliminary surveys.

The work program addresses the status of current work, the resources needed, and the costs for carrying out current and proposed programs. The Board may add or delete items prior to approving the work program and may also make changes to the program at any time during the year.

The Group's seven professional staff members, in making a study, typically start by reviewing documents and gathering data on Bank policies and procedures at the headquarters level. They then interview appropriate Bank officials and, when necessary, visit project sites, meeting with country and borrowing officials and Bank field representatives.

We found that the Group had consistently overestimated its work capacity and had to carry over many approved programs into succeeding years. For example, in July 1976 the Group had six studies still in progress from the 1974 and 1975 work programs. The Board subsequently approved 7 more studies, for a total of 13 studies, 12 of which were targeted for completion by the end of 1977.

Four of the six carryover studies were issued by December 1977 and the other two were about to be released at the time we completed our work. One of the seven studies approved in 1976 was completed by December 1976, and one other was issued as a preliminary review after we completed our work.

The Group, recognizing that prior work programs have proven overly optimistic, proposed only four studies in its 1978 work program. The Board approved three.

BOARD OF EXECUTIVE DIRECTORS' INVOLVEMENT

Under existing procedures, one Board member is selected to serve as delegate to the Group, acting as liaison and facilitating matters affecting the Group and Bank management. We were told that the delegate has no authority to make decisions concerning the Group or specific responsibility to direct and monitor the Group's efforts. Decisions regarding the Group's work program are made by the entire Board, whose members sometimes differ on emphasis and objectives. Due to the usual process of negotiating and compromising, the decisions finally reached do not always provide the Group with well-defined objectives and direction. We were also told that the Group's effectiveness has been further hampered because the Board was sometimes unwilling to defend the Group's conclusions and recommendations. It was explained that the Board preferred in the past to avoid confrontations with management and that it had instructed the Group to be more cooperative.

We believe that, to fulfill its responsibilities in a timely and effective manner, the Group must be confident that its suggestions will be considered fairly and objectively by the Board. Greater support should enable it to focus its efforts more precisely, avoid excessive and unnecessary research, and conduct more evaluations in less time.

Since the Board holds the key to the Group of Controllers' ultimate success and since the Treasury advises and instructs the U.S. representative to the Board, we believe it is incumbent upon Treasury to follow more closely the Group's direction and progress. Treasury, after regular briefings by the U.S. Executive Director, including the status of the Group's findings and recommendations, should recommend guidelines and strategies for the U.S. Director to propose to the Board.

PENDING REORGANIZATION

The terms of all three present Controllers will expire in the summer of 1979. Normally, one Controller is elected each year for a 3-year, nonrenewable term. We were told that the Board has established a working group to consider reorganizing the Group because of the admission to the Bank of many nonregional members and the difficulties encountered with the triumvirate system, which is why it established the same expiration dates for the terms of the present Controllers.

Some of the reorganization suggestions made by interested individuals would, in our opinion, adversely change the present evaluation system. The purpose of the system, as set out in the Basic Document, is:

"* * * to provide for the Board and, through it, for the Board of Governors and the member countries, an independent program of selective, continuing, comprehensive examinations of the manner in which the Bank is discharging its responsibilities under the Agreement establishing the Bank."

One suggestion would result in the Group performing routine staff functions for Board members instead of independent comprehensive examinations of Board operations. Evaluations would be performed by Bank management. We believe this would disregard both the Inter-American Development Bank Act 1967 amendment (Public Law 90-88) and the Basic Document establishing the review and evaluation system.

Another of the suggested alternative structures would replace the Group with a single individual, with no assurance that this individual would be from the United States. The Basic Document also states that one of the Controllers shall be a national of the member country having the largest number of votes, which is the United States. Although we do not consider it essential that an American be directly involved

in the system, we believe the United States should be certain that the principle of independent evaluation of Bank operations is pursued to the fullest.

We believe that the Secretary of the Treasury and NAC should develop and propose a U.S. position ensuring the continued existence and strengthening of an independent evaluation organization that meets the requirements of the 1967 amendment. Failure to promptly propose such a position could result in the termination of the review and evaluation system or in its replacement by a system not in the best interests of the Bank, the United States, and the other Bank members.

RECOMMENDATION

The Group of Controllers has contributed to improving the Bank's operations through its independent appraisal of management actions. We recommend that the Secretary of the Treasury and the National Advisory Council on International Monetary and Financial Policies develop and support a U.S. position sustaining the independent evaluation function within the Inter-American Development Bank--a function which effectively serves the Board of Executive Directors and member governments by providing them with continuing, comprehensive, and independent appraisals of Bank operations.

AGENCY COMMENTS

The Department of the Treasury agreed with the overall thrust of our report that the effectiveness of the Group of Controllers has improved steadily since its creation. Treasury agreed that there has been almost total neglect of project audits or evaluations and recognized the importance of project evaluation as part of the overall evaluation system.

Treasury endorsed our recommendation that the Secretary of the Treasury and NAC develop and support a U.S. position sustaining the independent evaluation function within the Bank. (See app. I.)

CHAPTER 3

GROUP OF CONTROLLERS' REPORTS

The Group of Controllers issued 23 reports between August 1969 and December 1977. (See app. IV.) The first six reports were reviewed in our two previous reports. This report evaluates the 13 reports issued between May 1973 and May 1977. We did not evaluate the four reports issued between August and December 1977.

REPORT FINDINGS

The following sections summarize some of the more significant points from the 13 reports and illustrate the kinds of information the Group presents for consideration and action to the Board of Executive Directors.

Planning

The September 1973 report noted that the Bank had no comprehensive, well-defined planning and programming system. The report concluded that the lack of precise policy directives to guide Inter-American Development Bank's allocation of resources had resulted in a preoccupation with expanding the loan levels, which in turn led to a concentration of high-dollar industry-infrastructure loans. The Group made nine recommendations, which were generally accepted and implemented by the Bank.

Administrative budget system

The November 1975 report reviewed the administrative budget system. The budget for 1975 totaled \$53 million, 73 percent of it attributable to personnel costs. It was pointed out that the Bank's budgeting system too readily accepts the current levels of costs, particularly staffing requirements, and that there was an absence of operational targets, specific workload data, and emphasis on staffing standards. The Group believed that the lack of a well-coordinated program had limited the Board in deciding how much the Bank should spend as a whole or by function or activity. The Group believed the Bank should make more penetrating analyses of its operational methods, costs, and allocations of administrative resources. Several recommendations for correcting these problems have been accepted by management.

The December 1976 report on consulting and contractual services included in the 1976 administrative budget found little distinction between "consultant" and "contractual" services. These two categories were combined for the 1977 administrative budget. Although it was determined that budget preparation was reasonably well organized and timely, the report concluded that the explanatory information and analysis supporting consultant and contractual services was not adequate for the Board of Executive Directors review. Recommended corrective actions were adopted as of June 30, 1977, and were in the process of being implemented by management.

Global loans

The March 1973 report assessed Bank policies and procedures for global loans, which are granted to development finance institutions so that they may extend credit to sub-borrowers. The major findings were that the Bank had no comprehensive policy statement or operating procedures manual and did not require development finance institutions to accumulate and report reliable data for project evaluation. Also, borrowers had no acceptable accounting systems, and Bank management made no effort to press borrowers to improve these systems. Additionally, the Group cited program implementation problems and the excessive technical and financial requirements placed on borrowers, development finance institutions, and subborrowers. Most of the recommended corrective actions were accepted by the Board and implemented. However, as of June 30, 1977, the Bank's internal controller reported that some recommendations were still awaiting future action.

Training activities

The October 1976 report reviewed the Bank's training activities, which are a significant part of its technical cooperation programs. Training is carried out by two divisions within the Bank, and between 1969 and 1975 a total of \$36 million was spent on training. Several favorable aspects of the Bank's training activities were recognized, but a number of inadequacies were noted, including lack of (1) policy and program guidance, (2) inter-office coordination, (3) criteria for selecting training institutions and participants, and (4) systems for monitoring training components within loans and for following up training results. Several recommendations for improvement were in the process of being implemented by management.

Loan application appraisals

The May 1977 report examined the Bank's system of appraising loan applications from member countries. The Bank makes six major appraisals of each loan proposal, and full, formal evaluations are carried out by an interdisciplinary committee. It was estimated that \$9.3 million, or about 15 percent of the 1977 administrative budget, would be used to cover direct and indirect staff costs for loan promotion, preparation, evaluation, and approval. Although improvements were noted in both the quality and presentation of appraisals over the past several years, it was concluded that the appraisal reports could still be improved in a number of ways, including, for example, the need to disclose a project's significant risks and potential problems. Recommendations for improvement were acted on by the Board subsequent to June 30, 1977.

Local contributions

The October 1974 report examined Bank policies, procedures, and practices concerning contributions required from borrowers or beneficiaries of Bank-financed development projects. The Bank's partial financing policy is consistent with its charter and has been successful in stimulating local commitments and spreading Bank resources. The report concluded that the Bank's complex internal requirements and practices led to confusion, delays, and uncertainties in negotiating, computing, and monitoring local contributions. Recommendations for strengthening Bank policies and practices are being studied by the Board, but no decisions have been made.

International organization cooperative programs

The May 1973 report reviewed the Bank's cooperative program with the Food and Agricultural Organization of the United Nations. The Bank provides two-thirds and the agricultural organization one-third of the funding for the cooperative program. The Bank's contribution averaged less than \$200,000 a year. The Group compared the cooperative program with the Bank's regular technical assistance program and found that the cooperative program produced higher quality reports in about half the time, held consultant costs to a minimum, and generated more follow-on investments. Although there had been some misunderstanding about the program within the Bank, the Group concluded that the program was successful and recommended that it should be expanded. The Bank's internal controller reported that management had implemented the required changes.

The April 1974 report reviewed the Bank's cooperative activities with the U.N. Development Program. The Group found that the Development Program's technical cooperation projects, which the Bank had agreed to execute, were successful in terms of project quality and subsequent investments resulting from the projects. However, a number of problems were impeding cooperative activities, including the lack of a Bank policy, overall strategy, and understanding by headquarters. Nevertheless, the Group concluded that these cooperative activities should be strengthened and continued, and it recommended several corrective actions which were approved by the Board and were being implemented as of June 30, 1977.

REPORT QUALITY

In January 1976, the Board of Executive Directors revised the Group of Controllers' Basic Document and regulations, which had incorporated the auditing and reporting standards we originally suggested. We evaluated these revised standards as well as the 13 reports issued by the Group between May 1973 and May 1977. We also ascertained the extent to which the reports complied with both the Group's and the Comptroller General's reporting standards and found that our suggested standards have been adopted and generally complied with.

Most of the reports were organized around conclusions and recommendations for corrective action. They also contained executive briefs, which summarized conclusions and recommendations and which were designed as action documents for consideration by the Board of Directors.

We believe the overall quality of the Group's reports has improved since our last review. Conclusions were adequately supported, subjects were comprehensively treated and thoroughly analyzed, and the nature and extent of work performed and methodologies used were carefully and completely described.

We believe, however, that the reports could be further improved through a more direct style of writing, since they seem to be wordy and excessively detailed. The need to translate from one language to another and to reconcile the styles of three Controllers appears to further aggravate report-writing problems.

RECOMMENDATION

We recommend that the Secretary of the Treasury have the U.S. Executive Director suggest that the Group of Controllers improve report clarity and conciseness.

AGENCY COMMENTS

The Department of the Treasury supported our recommendations for improved clarity and conciseness in the preparation of the Group's reports. (See app. I.)

CHAPTER 4

U.S. OVERSIGHT OF

INTER-AMERICAN DEVELOPMENT BANK

This chapter is an overview of U.S. oversight of the Inter-American Development Bank as carried out by U.S. executive departments and agencies.

U.S. MANAGEMENT SYSTEM

The National Advisory Council on International Monetary and Financial Policies coordinates the policies and operations of all U.S. Government agencies when they make or participate in making foreign loans, or engage in foreign financial exchange or monetary transactions. Although NAC's function is basically advisory, it is authorized to review proposed individual loans or other transactions to the extent necessary to coordinate policies. NAC consists of the Secretary of the Treasury, as Chairman, the Secretaries of State and Commerce, the President and Chairman of the Board of Directors of the Export-Import Bank of the United States, and the Chairman of the Board of Governors of the Federal Reserve System.

NAC seeks to coordinate the operations of the international financial institutions (World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Fund) with U.S. policies and objectives and the lending activities of U.S. Government agencies. It formulates, reviews, and advises the Secretary of the Treasury, (as U.S. Governor of the international financial institutions) on the policies and proposed programs the U.S. representatives to these institutions must consider. NAC also advises on problems arising in the administration of these institutions and oversees whether the institutions are operating efficiently and using their funds effectively.

Informal NAC meetings on upcoming international issues and problems are usually held once a month. These meetings facilitate policy coordination among NAC agencies, establish work programs, and provide guidance to the NAC Staff Committee and working groups.

The NAC Staff Committee, composed of economists, lawyers, and other professionals from NAC agencies, meets weekly to review international monetary and financial transactions. Most of NAC's day-to-day work is accomplished by this committee. Representatives of other U.S. agencies, such as the

Departments of Defense and Agriculture, Agency for International Development, Council of Economic Advisors, National Security Council, and the Office of Management and Budget, regularly participate in NAC's activities as appropriate. NAC also has ad hoc working groups to consider particular issues and report recommendations to the NAC Staff Committee.

NAC REVIEW OF GROUP REPORTS

When the Group of Controllers issues a report to the Inter-American Development Bank's Board of Executive Directors, the U.S. Executive Director forwards it to the Secretary of NAC and member agencies together with Bank management's comments. An NAC working group usually reviews the reports and information provided by the U.S. Executive Director and prepares a proposed NAC position paper. The paper is then presented to NAC for consideration and after NAC agencies agree on it and the Secretary of the Treasury approves it, the paper is forwarded to the U.S. Executive Director to guide him in addressing the Group's recommendations at the Board of Executive Directors' meeting.

NAC REPORTS TO THE CONGRESS

NAC is also responsible for reporting to the Congress on the Group of Controllers' appraisal of Bank operations and loan administration. This reporting requirement was part of the 1967 amendment to the Inter-American Development Bank Act.

We noted that NAC's 1974 and 1975 annual reports to the President and the Congress included the required comments on loan implementation and administration based on the Group's reports. NAC's 1976 report, however, did not comment on the Group's reports. Treasury officials explained that this was an oversight and that they would include comments on the Group's work in future NAC annual reports.

Our November 1974 report (ID-75-12) pointed out that the Congress should also be given a summary of significant findings and recommendations by the Group, together with the Board's actions and management's implementation of the approved changes. That report recommended that the Secretary of the Treasury report to the Congress on the Group's findings and recommendations and on related actions taken. At that time, the Secretary agreed to expand future NAC annual reports to include such information, but this has not yet been done.

The U.S. Executive Director and Treasury officials have recently made reports of the Group of Controllers available to the Congress. The reports will provide the Congress with an independent appraisal of the Inter-American Development Bank's programs and operations as well as additional insight into the Group's effectiveness in bringing about improvements in the Bank's operations and lending programs.



THE DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

APR 6 1978

Dear Mr. Fasick:

On behalf of the Secretary, I wish to thank you for the opportunity of commenting on the draft GAO report entitled "Effectiveness of the Inter-American Development Bank's Independent Review and Evaluation System." Treasury staff have reviewed this draft and discussed it informally with your office, as has the U.S. Executive Director's (USED) office. These discussions produced clarifications of facts and issues which you may wish to incorporate in your final report.

I agree with the overall thrust of your report that "the effectiveness of the Group of Controllers has improved steadily since its creation."

During their review of the Group of Controllers' activities, the authors of the report became aware of the fact that a review of the structure of the Review and Evaluation System of the Bank's activities has been undertaken. While the outcome of this review is by no means yet clear, I endorse the GAO's recommendation relating to this future action that "...the Secretary of the Treasury and the NAC develop and support a U.S. position sustaining the independent evaluation function within IDB -- a function which effectively serves the Board and member governments by providing them continuing, comprehensive, and independent appraisals of Bank operations."

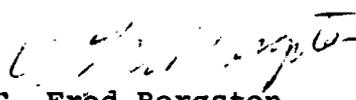
We also, of course, support the recommendation pertaining to improved clarity and conciseness in the preparation of the Group's reports.

The draft report, while recognizing the value of the Group's work in analyzing the Bank's operations and procedures and making and following up on the recommendations resulting therefrom, quite rightly points out that there has been almost total neglect of project audits or evaluations. The USED has been calling this gap in the scope of the Group's work to its attention for several years. Even

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though the Group's current work program now calls for project evaluations in three sectors, it is good to have your report emphasize the importance of project evaluations in the overall scheme of the evaluation system.

Sincerely,



C. Fred Bergsten

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

MEMBER COUNTRIES OF THE INTER-AMERICAN
DEVELOPMENT BANK AT SEPTEMBER 19, 1977

Regional members

Developing countries (23):

Argentina
Barbados
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominican Republic
Ecuador
El Salvador
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Trinidad and Tobago
Uruguay
Venezuela

Nonregional members (15)

Austria
Belgium
Denmark
Federal Republic of Germany
Finland
France
Israel
Italy
Japan
Netherlands
Spain
Sweden
Switzerland
United Kingdom
Yugoslavia

Developed countries (2):

Canada
United States

COMBINED STATEMENT OF CHANGESIN FINANCIAL POSITION FORYEAR ENDED DECEMBER 31, 1976 (note a)

	<u>Ordinary capital</u>	<u>Inter- regional capital (note b)</u>	<u>Fund for Special Operations</u>	<u>Social Progress Trust Fund</u>	<u>Total</u>
----- (millions--rounded) -----					
Funds provided by:					
operations	\$ 86	-	\$ 45	-	\$ 131
Loan collections	115	-	87	\$25	227
Loan participations	53	-	32	-	85
Borrowings	560	-	-	-	560
Exchange rate fluctuations	42	-	-	-	42
Member and partic- ipant collections	97	\$20	355	7	479
Cash, investments, and other	<u>2</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>12</u>
Total	<u>\$955</u>	<u>\$20</u>	<u>\$519</u>	<u>\$42</u>	<u>\$1,536</u>
Funds applied for:					
Operations (net loss)	-	-	-	\$ 8	\$ 8
Loan disbursements	\$364	-	\$350	2	716
Loan payments	6	-	7	-	13
Purchases	-	-	-	32	32
Exchange rate fluctuations	33	-	-	-	33
Funded debt retirements	112	-	-	-	112
Commission allocations	16	-	-	-	16
Cash, investments, and other	<u>424</u>	<u>20</u>	<u>162</u>	<u>-</u>	<u>606</u>
Total	<u>\$955</u>	<u>\$20</u>	<u>\$519</u>	<u>\$42</u>	<u>\$1,536</u>

a/Other separate funds not included.

b/From inception, June 1, 1976, to Dec. 31, 1976.

REPORTS ISSUED BY GROUP OF CONTROLLERS

<u>Bank report number</u>	<u>Title</u>	<u>Date</u>
1. N/A	Study of Sources and Uses of Funds	Aug. 1969
2. RE-3	Report on Loans to Venezuela	July 1970
3. RE-8	Evaluation Report on IDB Operations in Paraguay	Nov. 1970
4. RE-10	Evaluation Report on IDB Operations in the Education Sector	Sept. 1971
5. RE-21	Evaluation Study of IDB Reporting Systems	Dec. 1972
6. RE-25	Evaluation Report on the IDB Global Preinvestment Loan Program	Jan. 1973
7. RE-29	Evaluation Study of Global Loans to Development Finance Institutions	Mar. 1973
RE-30	Handbook of Operating Procedures	Mar. 1973
8. RE-31	Evaluation Report on the FAO/BID Cooperative Program (Sub-Study No. 1 of the IDB Technical Cooperation Evaluation)	May 1973
9. RE-33	Evaluation Study of the Planning and Program Systems of IDB	Sept. 1973
10. RE-37	Evaluation Report on INTAL (Complementary Study No. 2 of the Technical Cooperation Evaluation)	Jan. 1974

APPENDIX IV

APPENDIX IV

11.	RE-41	Evaluation Report on UNDP/ IDB Cooperative Activities (Complementary Study No. 3 of the IDB Technical Cooperation Evaluation)	Apr. 1974
12.	RE-44	Evaluation Report on Local Contributions	Oct. 1974
13.	RE-47	Report on Loan 257/OC-CO	Dec. 1974
14.	RE-53	Evaluation Report on the Administrative Budget	Nov. 1975
15.	RE-54	Evaluation Report on Modifications and Waivers	Dec. 1975
16.	RE-61	Evaluation Report on IDB Training Activities	Oct. 1976
17.	RE-62	Preliminary Report-- Policies of the Banks Relating to Procurement of Goods and Services and to the Procedures for the Purchases	Nov. 1976
18.	RE-63	Evaluation Report on Consulting and Contractual Services 1976 Administrative Budget	Dec. 1976
19.	RE-65	Evaluation Report on Loan Application Appraisals	May 1977
20.	RE-74	Evaluation Report on IDB Loan Monitoring and Con- tractual Compliance	Aug. 1977
21.	RE-75	Evaluation Report on IDB Technical Cooperation-- an Overview	Aug. 1977
22.	RE-77	Evaluation Report on the Process of IDB Loan Approvals	Nov. 1977
23.	RE-76	Preliminary Report--Study on the Transfer of Science and Technology	Dec. 1977

OFFICIALS RESPONSIBLE FOR ADMINISTERING
U.S. PARTICIPATION IN THE
INTER-AMERICAN DEVELOPMENT BANK

	<u>Appointed or commissioned</u>
SECRETARY OF THE TREASURY:	
W. Michael Blumenthal	Jan. 1977
William E. Simon	May 1974
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS:	
C. Fred Bergsten	Mar. 1977
Gerald L. Parsky	Feb. 1976
Charles A. Cooper	Aug. 1974
U.S. EXECUTIVE DIRECTORS:	
Ralph A. Dungan	June 1977
John M. Porges	June 1973
ALTERNATE U.S. EXECUTIVE DIRECTORS:	
E. Jay Finkel	July 1977
Yan Michael Ross	Apr. 1975