The First Experiments in Operations Evaluation: Roots, Hopes, and Gaps

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Ex post evaluation of the Bank’s activities was not an entirely new concept in September 1970 when Robert McNamara instructed the Programming and Budgeting Department (P&B) to evaluate “the contribution of the Bank’s operations to the development of member countries.” Without dignifying their exchanges and memos with the formal title of evaluations, the Bank operating departments had learned vastly from their own extensive experience of project implementation. A very stimulating study of the larger potential effects that projects may have (and may need to have for their own effective operation) on their countries’ managerial practices, bureaucratic behaviors, and decisionmaking capacities was published by Albert Hirschman in 1967. He based his study on thorough examination of 11 of the earlier projects the Bank had helped finance. In 1969, the Bank itself had published a thorough economic reappraisal, by its Economics Department, of a major road project completed in Iran in 1964. But Mr. McNamara’s decision elevated evaluation from a topic for occasional formal research and frequent ad hoc analysis to a technique for regular application in identifying lessons that would improve future Bank policies and procedures.

So began a period of intensive experimentation that was to benefit from suggestions and reactions from many sides. It took nearly five years to build the skeleton of an evaluation system that seemed commensurate with the complexity of the Bank as it then was. I try here to trace the travails of our gradual evolution over those five years, to give due recognition to the main formative influences, and to identify, like any retrospective evaluator, a few ways in which we should probably have done better.

P&B, established soon after Mr. McNamara’s arrival at the Bank in 1968, was a main instrument of the more active management style he introduced. Led by John Adler, P&B developed the elements of program budgeting for the Bank. So-called Country Program Papers (forerunners of today’s Country Assistance Strategies) were introduced in 1969. Monthly reviews of progress of operations were an important activity. P&B was intimately involved in the introduction of staff time sheets, to secure a more accurate picture of what things really cost. Two issues dominated: (i) effectively delivering the enlarged and more strategically focused lending that Mr. McNamara had committed the Bank to, and (ii), more generally, increasing the quantity and quality of output relative to staff input. In developing a system for more strategic management of the organization, it was recognized from the earliest stages that feedback loops, enabling plan revisions on the basis of assessments of actual outcomes, had to be introduced once the foundations had been laid. By early 1970, P&B papers were referring explicitly to “systematic evaluation and reassessment of our past operations – projects financed, lending conditions imposed, economic reports produced, supervision undertaken, etc.” as tools that could help improve policies and staff time allocations, thus increasing efficiency.

In addition to such lesson learning, Bank management also needed information to help convince the financial markets – source of the funding for the rapidly growing lending – regarding the quality of the loans the Bank made. Expected economic rates of return, as calculated in appraisal reports, were meaningful to investment bankers and bondholders. These numbers were compiled and cited, but management sought some reassurance as to what extent these expectations were achieved in reality.
The task assigned to P&B was thus to create a new internal management tool, a confidential and objective information flow about how the Bank was actually doing in the field. Recognizing the fears that could arise – for instance, that the aim was not only to identify mistakes but to fix personal responsibility for them – Mr. McNamara gave great attention in the early days to nurturing the new function, discussing possible approaches, and encouraging support for the work from his associates. But he was always at pains to make clear that P&B should reach its own conclusions about whatever it examined, on the basis of objective analyses not constrained by his own views or those of other Bank staff members.

First Initiatives

By early 1971, it had been agreed that the pilot phase should consist of two fairly ambitious but very different studies – a deep one of everything the Bank had done in one country and a wide one covering loans to a broad spread of borrowers in one sector. The country chosen for the deep study was Colombia; the sector was electric power. Key Bank staff responsible for these areas accepted P&B’s selection with grace and, despite the inevitable occasional controversies, patiently maintained cooperation and support through long succeeding months as P&B importuned them for advice, documentation, and comments. A small staff of two Bank economists, three graduating Young Professionals, and several research assistants was gradually brought together to lead the work.

Colombia was uniquely suitable because of the extent of the Bank’s involvement in its development efforts. A first loan had been made in 1949, immediately followed by the fielding of a major General Survey Mission, whose report the Bank published. For many years since then, a substantial flow of sectoral technical assistance had been maintained and a wide variety of projects financed. Since the mid-1960s, the Bank had negotiated annual Memorandums of Understanding with the government on macroeconomic policies, as a framework for its own lending and that of other members of the Consultative Group it had set up for the country. Colombia had thus been the testing ground for numerous new Bank initiatives. Its government graciously consented to be the guinea pig for the new experiment, and considerable technical support was provided by its agencies, as well as by Colombian research institutes and individual consultants.

A crucial issue for P&B in undertaking a country study covering a long period of time was to define the development to whose achievement the Bank’s contribution was to be assessed. It was finally decided, since the purpose of the exercise was to identify lessons useful for the future, to adopt what was considered a modern definition of development, consistent with the rising emphasis that Mr. McNamara was giving to poverty reduction as the central development challenge and raison d’être of the Bank. Thus, development was characterized as “movement of the whole social system in such a way as to provide increasing opportunities to a growing proportion of the population of the country to realize more fully their mental and physical capabilities.”

Measured against this yardstick, the evaluation finally concluded that the Bank had contributed greatly to opening new possibilities for the country by its substantial lending for trunk infrastructure (mainly roads and electricity, with almost all projects in those fields showing satisfactory rates of return) and by its advice on macroeconomic policy. Management in these areas had substantially improved, and this had benefited not only those already better off, but a significant proportion of the large numbers who had moved from the countryside to the major cities.
But the Bank’s work had so far contributed very little to resolving the major problem of severe rural poverty highlighted in the General Survey Mission report and directly affecting more than a quarter of the national population. For that, the institution-building and policy advice techniques so effectively developed needed to be applied in projects and programs that would directly address the country’s weaknesses in mobilization of its own resources and its people. Closer attention was needed to national policies affecting use of the loan funds channeled into private manufacturing and agricultural investments. To orient its operations, the Bank needed to develop and maintain a longer-term strategic framework showing how the resources available could be combined to enable the problem of rural poverty to be overcome within a generation. More aggressive pursuit of land reform seemed to be a much needed component, and, if that were politically impossible, clear alternative directions had to be defined to raise employment and productivity.

The electric power study, which was eventually extended to incorporate the main Colombian power borrowers and an overview of the Bank’s total lending for power, showed that it was also possible to cover a large volume of lending (some US$1.5 billion, or 40 percent of the Bank’s cumulative lending to developing countries for electric power) and still reach useful conclusions and suggestions for future improvements. While less deep than the Colombia study in considering possible alternatives to what had actually been done, it could provide reasonable reassurance on the main questions, especially the efficacy of the institution-building efforts and the economic validity of the plant choices made. It was also able to explore some other questions about Bank interventions, such as the cost-effectiveness of withholding loan commitments pending borrower/government reform actions.

A Second Round of Experimentation

By early 1972, it was clear that such major studies took a long time. Also, quite independent of the initiative Mr. McNamara had taken, the U.S. Congress and its audit arm, the U.S. General Accounting Office (GAO), began to press for evaluations from the Bank, or press to undertake them on its own. Mr. McNamara decided to release the two studies to the Board, where they received almost universal acclaim. The exception was the executive director representing Colombia. He felt, in many ways quite understandably, that it was unfair and politically oversimplified to assess past actions using the Bank’s modern definition of its objectives; he may have also resented that his government had not been given an opportunity to review the draft of the overall summary report before finalization.

Some important conceptual distinctions were also becoming clearer in the minds of the staff, in light of their experience and discussions with Bank colleagues and GAO staff. Three basic criteria appropriate for assessing Great Society programs in the U.S. could also be used with interpretations directly related to the Bank: (i) effectiveness (extent to which objectives were fulfilled); (ii) efficiency (cost-benefit analysis); and (iii) economy (reasonableness of unit costs). But these three dimensions needed to be looked at for three different functions: the physical project; institution-building aspects; and use of the Bank’s administrative budget (the last named covering most of what is included, in OED’s modern terminology, under the rubric of a project’s relevance as well as Bank performance). This could be done either in a relatively simple way, covering the extent to which objectives stated in appraisal reports had been fulfilled, or in a variety of deeper ways, reassessing the objectives against possible alternatives that might have done more for development. The term “performance audit” was introduced for the first type of study; “evaluation” was increasingly reserved for studies of the latter type.
An important objective of the second round of experimentation was therefore to try out the concept of individual project performance audits, applying it to a variety of projects whose construction had been completed in earlier years. But the bulk of the staff power available was to be devoted to three sectoral evaluations, covering fewer cases in greater depth than in the electric power study. Work was also to start on an aspect that Mr. McNamara had always been greatly concerned about: review of operating department actions in response to the recommendations of the Colombia and electric power reports.

**Firm Attatchmenit to the Board of Directors**

While the second round of experiments was under way, intensive discussions continued with the U.S. government regarding the constitutional position of the operations evaluation service. It was eventually decided that, to reduce the risk of conflict of interest for Bank management – or even the appearance of potential conflict – operations evaluation should be removed from P&B and set up as a separate unit under the charge of a vice president who would have no operational responsibilities but would also supervise the Internal Audit Department. It was also decided that the operations evaluation work program should be approved by the executive directors’ Joint Audit Committee, created in 1970 to supervise Bank and IFC internal and external audit arrangements.

The Operations Evaluation Department (OED) was born on July 1, 1973, taking over the staff who had previously been working on the subject in P&B, and came under the supervision of Mohamed Shoaiib, a vice president of the Bank who had long been Finance Minister of Pakistan and had a deep interest in management auditing.

In early 1973, The Bank’s vice president in charge of projects instructed the operating departments to prepare Project Completion Reports (PRCs), which correspond to what are now, more accurately, called Implementation Completion Reports. The PRCs were to appear within one year of completion of loan disbursements, on all projects for which disbursements were completed after July 1, 1972. (A few such reports had already been prepared on earlier projects, at the initiative of individual staff and departments.) Assisted by this decision as well as by its own initial experience in preparing audit reports on individual projects, the new department committed itself to issuing a Project Performance Audit Report (PPAR) on all loans and credits within a year or two of their closure. This was in line with Mr. McNamara's strong feeling that such a standard was essential, both to fulfill the Bank’s accountability responsibilities and to provide a useful gauge of the Bank’s performance, recognizing that its profits were a much less meaningful indicator than in the case of most stock corporations.

During the third round of experiments, OED also developed an entirely new kind of study. This innovation, the first under Joint Audit Committee surveillance, focused on the Bank’s own procedures and policies and did not limit the history studied to completed projects approved many years before. With this new approach, issues such as delays in loan effectiveness and delays in project preparation, for example, could clearly be studied from a sample of more recent cases, with the hope of reaching useful suggestions for their reduction. Christened Management Policy Reviews (MPRs) and very much inspired by Mr. Shoaiib, these studies could deal with aspects of the Bank’s effectiveness that might be of particular concern to the developing member countries. They were the forerunners of what I believe are now called Process Reviews.
By the end of 1974, OED had not issued more than three dozen reports, the large majority of them PPARs. A major concern was to find ways of making these reports more accessible so that Bank staff members could quickly identify what past lending experience indicated about any issue that arose. The need for a solution was heightened by the efforts Bank management was already making to ensure that any relevant past experience would be reflected in proposals regarding new loans or policies. The best we were able to come up with, given the technology of the day, was yet another report, a Concordance, which would try to list all issues that had been touched on in the reports and cite the specific references. The first such Concordance was issued in 1974.

At Length, an Emerging System

Continuing discussion with the GAO and Board members about the constitutional position of OED led to agreement late in 1974 that, upon the forthcoming retirement of Mr. Shoaib, OED's independence should be further institutionalized by placing it under the sole charge of a director-general, Operations Evaluation. The director-general would hold the rank of vice president, be selected by the executive directors from a short list provided by the president, be removable only by the executive directors, and be ineligible for reappointment to the Bank Group staff except in unusual circumstances. The director-general would normally hold office in five-year terms, like the president of the Bank (but not of course coterminous). OED would report, through the director-general, to the executive directors but retain an administrative link (reflected by a dotted line on the organization chart) to the president.

At last in 1975, the main elements of a possible system of evaluation for the Bank began to emerge from all this experimentation. This system could be handed over to the director-general as a starting point. The figure presents these elements as an extension of the Bank's then standard project cycle.6

Main Elements of a Possible Evaluation System, as envisaged in 1975

| Evaluations / Econ. Impact / Bk. Pol. to Sector | Follow-up |
| (Monitoring)---»PCR---»PPAR---»PPAR Review | Reviews on |
| \ | / Recommendations |
| \ | \ Procedures |
| \ | | Bank Policy |

By 1975, PCRs were coming forward from the operating departments. Because they were both of increasing quantity and of growing quality, more of them could be attached to the PPAR, which in turn could ideally confine itself to an attestation of apparent quality, on the basis of limited file research, and some elaboration of points of particular interest, especially connected with Bank performance.
The PPAR Review was first issued in September 1975. Planned as an annual report, its purpose was to summarize results of all the PPARs produced since the last review, provide a relatively simple, comprehensive scorecard of the performance of completed Bank-assisted projects, and highlight important lessons emerging from comparative review of the whole population.

Trends or problems identified in the PPAR Review would be one important source of ideas, themes, and relevant cases for the more evaluative work that would remain OED’s principal occupation. Sectoral and subsectoral reviews, based on deep study of a few cases within the context of the general Bank policy regarding the sector or subsector, seemed to be most productive of useful lessons sufficiently broadly founded to be actionable at Bank-wide level. Further country studies were also expected to be useful, but only after some time, if and as the Bank deepened its country programming and increased the macroeconomic aspects of its advice and loan conditionality. MPRs seemed, from the initial work on them, to be very promising ways of dealing with Bank-wide procedural and process issues.

Major studies had recommended that the operating department take certain actions to improve its performance. Follow-up reviews assessing the department’s progress in those areas were felt to be an essential element of a sound system that ensures evaluation findings are not forgotten and that the evaluation effort ultimately earns its keep in terms of operational improvements. Spring 1975 saw distribution to the Board of the first two such reports, respectively, for the main recommendations in the Colombia and electric power reports, first steps towards OED’s modern Management Action Record.

Hopes

The fruits of such an evaluation system were expected to take three forms:

1. A somewhat oversimplified but comprehensive and objective running report card on what Bank/IDA lending was actually accomplishing, which would reassure the Bank’s funding sources and help identify areas where improvements were needed

2. A variety of deeper feedback analyses that would accelerate and improve learning from experience and outside criticism and would spread the learning effectively, thereby enabling the Bank to be less risk-averse in selecting projects, as recommended in the Colombia report and as required to improve its contribution to reducing poverty

3. A more profound assessment of the Bank’s contribution to development, particularly from the latter type of studies, that would increasingly supplement and strengthen the report card and facilitate further improvements on the ground.

Our first hope was, therefore, that we – along with the early writers of PCRs – had established a tradition of thoughtful and self-critical inquiry into past operations, not hampered by the fears prevalent at the outset of our work but, on the contrary, conducive to lesson learning. This was essential to the integrity and utility of the system, for there were limits to the cross-checking that OED would be able to do with the rapidly increasing number of loans completing disbursement.

Draft reports were widely circulated within the Bank – first of all to solicit comments from all in the Bank who might be particularly interested in the project and from the borrower; but also to increase the likelihood that people would actually read evaluation products and not lose them in their in-boxes. In the case of the Colombia report, checking with the borrower had been possible
only to a limited extent because of its very novel nature. However, drafts of almost all subsequent reports were discussed with, or sent to, the borrowers and governments concerned, and it became standard practice to include their written comments as an annex to the final report.

The operating departments also increasingly asked borrowers to prepare their own PCRs, and sometimes this produced outstanding documents. It would have been desirable had this been much more widely the case, but most countries had too few appropriate staff to do more than provide essential data, discuss the evolution of the project, and comment on the Bank/OED drafts.

One of the first important achievements of Mervyn Weiner, who became the first director-general, Operations Evaluation in October 1975, was to systematize these processes, with much heavier emphasis than before on the self-evaluative aspect of the PCRs. This would enhance lesson learning within the operating departments. It would also make for a more efficient division of labor between them and OED, which was expected to be able to ratify the large majority of PCRs produced without intensive work — though it would always retain the right to go into detail on any project that it deemed in need of more thorough assessment. Attention also began to be given to assisting in the development of self-evaluation capacities within interested member countries' governments. A first formal statement of the Bank's Standard and Procedures for Operations Evaluation, covering in particular the content of PCRs and PPARs and processes for their preparation and review, was submitted to the executive directors and approved in April 1976 and then widely disseminated.

Performance audits and evaluation reports produced by the end of 1975 indicated quite impressive overall economic results. They covered a combined total of 170 projects, about 20 percent of them completed with Bank/IDA financial assistance up to that time. More than 90 percent of this large sample appeared likely to yield economic returns above the 10 percent minimum sought by the Bank, or an approximate qualitative equivalent in sectors where returns could not be soundly quantified. Overall estimates of the average economic return on the more than US$10 billion investment involved in all 170 projects suggested a figure of around 15 percent.

But a cautionary note was also in order. A few of the projects, and in particular six on which audit reports had been issued in 1975, showed satisfactory returns only because deficiencies in the forecasts for such factors as costs and crop yields were offset by unexpected increases in the value of project output, resulting essentially from OPEC's 1973 oil price increases. In these six projects, that event appears to have redeemed what might otherwise have proved poor investment decisions by the Bank. This was one of the reasons why it seemed so essential to us to focus, even in project performance audits, as much on the performance of the Bank as on the performance of the project and its implementation by the borrower. Other reasons were the permanent doubts that arose as to how far the funds being provided by the Bank were releasing resources for expenditures other than those the project ostensibly financed; the widespread evidence that the aspect on which outside help was most needed, especially in the case of poverty-reducing development, was weakness of institutions and broad policies, and, as mentioned at the outset, previous preoccupation with the efficiency of use of Bank staff resources.

We were thus always trying to answer the question: "What difference did the Bank make?" And we were looking forward to the days when improved time recording in the Bank would generate more accurate information about Bank staff expenditures on different aspects of a project and enable more precise analysis of the relationship between the differences the Bank made and the
staff expenditures involved. It would be an important complement to project rate-of-return analysis.

Gaps

Many of our reports identified a strong need for a carefully selected set of indicators capturing project and program performance and changes in its economic environment, as a key means to improving management and facilitating Bank supervision. We urged identification and targeting of such outcome indicators at appraisal, and establishment of monitoring systems that would show what was really happening. We tried to help by proposing illustrative sets of indicators for different types of projects. In 1974, the idea got some support in a Bank-wide staff instruction, and a unit was formed in Operations to promote such effort, especially for rural development projects where the job was most difficult. However, when our follow-up reviews on both the Colombia and electric power studies indicated disappointing progress, specifically, and almost solely, in the development and use of project monitoring systems, we made what was probably a serious mistake. While we offered more substantive recommendations for factors other than those the reviews had pointed out, we treated the monitoring systems problem as a relatively minor bureaucratic matter instead of trying to reinforce our support.

Because we were stimulated by Mr. McNamara to devote much thought to the problems of poverty, and because effective poverty reduction projects have proved so difficult to design, we should probably also have given more attention to specific audit and evaluation arrangements for projects and parts of projects aimed particularly at this purpose. Instead we strongly promoted “maximizing development impact,” especially for projects in countries’ backward areas, by complementary investments and initiatives, the opportunity and need for which had been shown by many cases studied — as well as by a few projects where environmental and social side effects appeared actually to have been negative. We probably bear a bit of the responsibility for the fact that, in the later 1970s, multiple complementary actions were sometimes incorporated in project design without sufficient attention to beneficiary views and local institutional capacities, and some of the resultant projects proved unimplementable or at least unsustainable.

Had we instead promoted more analysis of what experience showed about the relative importance of different complementary investments in different situations, ways of organizing them, and the costs involved — both to the country, and in terms of Bank staff time — we would have come closer to helping solve a still outstanding problem. Only in very recent years has much attention been given, for instance, to assessing the impact of infrastructure projects on poor people specifically, as opposed to on poor areas.

Conclusions

As regards our expectation that OED’s work would enable the Bank to be more aggressive in testing new approaches by systematically analyzing actual results and facilitating quick adjustment or abandonment, some no doubt would question its realism. They would point to the usually long time required for disbursing loans, clarifying results, and generating and disseminating studies — by the end of which large volumes of similar loans might have been committed. Our experience indeed suggested that the most productive use of OED was in assessing results of work already done, rather than trying to second guess those responsible for current work (except, to a degree, in follow-up reviews). But this did not mean that attention had to be limited solely to activities fully “completed.” Study could focus, for instance, on one or two
carefully selected forerunner projects, plus early stages of more recent projects. Where applied, the improved monitoring systems mentioned above facilitate effective coverage of the latter.

Certainly in some periods since 1975, and perhaps in most, the World Bank has moved into and out of different types of activity — among them subsectors, sector studies, project designs, and emphasis on conditionality — at a greater pace than prevailed before 1970. The broad evidence is that OED studies played a part, along with research studies, policy papers, and the continual absorption of experience by Bank management and staff, in bringing about these changes. Sometimes, however, the changes may have been slower than they could or should have been — and occasionally they may even have been faster than what in retrospect seemed wise. OED’s contribution would be expected to be most important in connection with abandonments (or major adjustments) of past approaches. It might be useful for OED to consider evaluation of the process of policy change in the Bank itself by reviewing a sample of cases of this type, in part to identify whether and how it could improve its contribution to such an important process.

* Christopher Willoughby has been, successively, Unit Chief, Division Chief, and Department Director for Operations Evaluation, 1970-76. He is very grateful to former colleagues for comments on an earlier draft of this paper, particularly John Blaxall and Robert Picciotto.


7 The first MPR study, Delays in Loan and Credit Effectiveness, was distributed to the Executive Directors in July 1975, and the second one, Delays in Project Preparation, in February 1976.


10 The late Arturo Israel, who was our invaluable principal collaborator through all the early years, moved on to other work but produced in the 1980s a very thoughtful, practical book on many of these issues: Arturo Israel, 1987. Institutional Development: Incentives to Performance. Baltimore: Johns Hopkins University Press. Another example of pinpointed issue-focused monitoring and evaluation, which could help accelerate refinement of the Bank’s advice in difficult areas, would be followup on cases where his suggestions were applied to projects addressed mainly to poor people.
