

Report No. 2190

Third Annual Report on Operations Evaluation

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August 28, 1978

Operations Evaluation Department

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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

August 28, 1978

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Third Annual Report on Operations Evaluation

Attached, for information, is a copy of a report entitled "Third Annual Report on Operations Evaluation". The report reviews the current status of the system by which the Bank, in its continuing search for ways to improve the effectiveness of its development assistance, evaluates the results of its operational activities and communicates the fruits of this experience to member countries. The report also contains a summary of the current status of the recommendations in OED major policy reviews and evaluation studies issued from July 1972 to June 1978.

Attachment

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By Shiv S. Kapur

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THIRD ANNUAL REPORT ON OPERATIONS EVALUATION

I. Introduction

1. This is the third annual report on the World Bank's evaluation system. The principal features of this system and its evolution are described in the document "Operations Evaluation: World Bank Standards and Procedures" published in June 1976 and in the two previous annual reports. 1/

2. This report reviews developments in the evaluation process over the past year and begins with a brief description of the Project Performance Reporting System as it has developed within the Bank. 2/ This is followed by a description of the links between this system and evaluation procedures in member countries and projects and then by a section on follow-up describing the method by which the findings of the evaluation system are fed back into the Bank's operational procedures. The report concludes with a summary of the work of the Operations Evaluation Department (OED) during FY78 and an account of other evaluation activities proceeding within the Bank Group. Summaries of the status of recommendations contained in OED major policy reviews and evaluation studies issued over the period July 1972-June 1978 are given in Annex A.

II. The Project Performance Audit Reporting System

A. The System Within the Bank

3. The evolution of the PPAR system within the Bank has been described in previous annual reports and its principal features are now well established. A project performance audit report (PPAR), consisting generally of a project completion report (PCR) prepared by the operational staff, and a project performance audit memorandum prepared by OED, is produced, normally for each project, shortly after final disbursement. The views of the borrowing country are sought and taken into account prior to the distribution of any PPAR. Sometimes a PPAR can deal with more than one project - for example, two consecutive loans to the same borrower - if this seems appropriate. The system is comprehensive which requires that, in order to use staff time to maximum advantage, distinctions be drawn between those straightforward projects where a simple check of the major costs, time schedules, output and rate of return is sufficient for audit purposes, and more complex projects, or projects which fall seriously short of their objectives or whose objectives appear to have been inadequately formulated, for which a deeper investigation is

1/ First Annual Report on Operations Evaluation (R76-245), October 12, 1976 and the Second Annual Report (R77-256), September 28, 1977.

2/ For the purposes of this report, "Bank" includes "IDA" and "loan" includes "IDA credit".

warranted. This form of selectivity is beginning to be applied not only to the audit memoranda, but also to the PCRs. The precise topics investigated in any particular project are decided in the light of the nature and circumstances of the project itself.

4. One specific area for post-evaluation deserves mention since it has only recently begun to be taken into account, namely, the environmental and health impact of projects. During this past year, arrangements were introduced to subject the environmental effects of Bank projects to systematic post-audit. Henceforth, in consultation with the Bank's Office of Environmental and Health Affairs, project completion missions will arrange for environmental impact audits where appropriate and report the findings in their completion reports. These findings would appear in the project performance audit reports on these projects and would be subject to the usual OED review in each project audit and in OED's annual overview of project performance audit results.

5. The PPARs provide the details of the Bank's experience which is put together and analyzed in the Annual Review of Project Audits, prepared by the OED. They also contribute to other more specialized OED reports, such as those on Bank operations in the agricultural sector in Indonesia or in the review of lending for education. They are reviewed by the appropriate Departments of the Central Projects Staff, which are responsible for ensuring that the lessons drawn are applied in future operations (see below under "Follow Up").

6. The growth in the number of completed projects reviewed by PPARs has continued, although the rate of growth has slowed as was anticipated in last year's report. OED issued project performance audits on 124 projects in FY78. The comparable figures for FY77 and FY76 were 113 and 68 respectively. While it is expected that a somewhat larger number of projects will be covered by the audit system in the current fiscal year than in any previous year, the continued comprehensiveness of this system is not being sustained at the expense of special evaluation studies. Some 40% of OED's total manpower budget for FY79 has been allocated for such studies.

7. As indicated in last year's report, the ability of OED to continue comprehensive coverage of completed projects and devote an increasing amount of its resources to special studies and operational reviews is based on the premise that the Bank's self-evaluation procedures continue effectively with the production of sound project completion reports. The trend towards an improvement in quality of PCRs has continued, and the proportion available for inclusion in PPARs increased significantly in FY78 as against FY77. Of the 101 PPARs issued in the last fiscal year, 94% included PCRs, while in the preceding year the corresponding proportion was 78%. The availability of good quality PCRs is one factor that has led to the reduction of OED's average unit costs of PPARs from 10.7 man-weeks in 1974 to 4.2 in 1978.

B. The Role of the Borrower

8. The most important direction in which the PPAR system is evolving is towards a greater involvement of the borrowers. The borrowers have an important interest in the PPAR system from two different points of view. First, for some projects, particularly those in the fields of agriculture and rural development, urban development, population and nutrition, and education, the evaluation of their impact on beneficiaries requires special arrangements for establishing baseline data and developing indicators which permit effective monitoring of project implementation and evaluation of project impact. In the absence of such borrower-managed information systems, effective impact evaluation is not possible. Secondly, borrowers are, or should be, principal consumers of evaluation results: assessments of the extent to which projects are achieving their objectives are essential for the effective management of projects and for the planning of follow-up initiatives in these sectors. Reflecting those two aspects of borrower's involvement, the Bank has taken up the question with borrowers in two ways.

9. The first and, so far the most significant way is that, for projects in the fields referred to above, the Bank is now requiring that adequate monitoring and evaluation (M&E) arrangements be made to permit monitoring of the progress of the project and the eventual evaluation of its impact. Within the Bank, the Rural Operations Review and Support Unit (RORSU) and the Urban Projects Review and Support Unit (UPRSU) in the Central Projects Staff are responsible for supervising and assisting the establishment and operation of M&E units in rural and urban development projects. However, it is clear from the experience gathered by these units and from OED's first report on monitoring and evaluation, ^{1/} that providing for arrangements to be made, even when this includes the finance for M&E units, is only a first step. Practical experience, thus far mostly in agriculture and rural development projects, reveals a number of problems faced by newly established M&E units.

10. The principal issues which have arisen seem to revolve around two related questions, namely, where in the administrative machinery the unit should be located and the relative emphasis to be placed on evaluating the economic and social impact of the projects, on the one hand, and assisting the project management's day-to-day needs on the other. In practice, units which have been located within the project organization have tended to give more attention to the Project management's needs. Sometimes this means that M&E staff have been asked to do tasks which go beyond the functions of M&E itself, as, for example, assisting in the preparation of new projects. More significant is the fact that the proper evaluation of the economic and social impact of a project requires the

^{1/} "Built-in Project Monitoring and Evaluation: First Review",
SecM77-745, dated October 17, 1977.

collection of data by means, for example, of farm surveys. Since this can be costly and many project managers have construed their responsibility to be much more the delivery of specified inputs than the achievement of specified impact, the time and money involved has sometimes been regarded by project managements as excessive. In addition, when there are a number of similar projects in a country, it may well be more efficient to have the surveys necessary for impact evaluation studies carried out by a central organization rather than by the project entities. Thus the relative roles of M&E units operated by the project authorities themselves and those working for central authorities are still evolving.

11. There have also been problems where data collected has exceeded the local capacity to process it. Sometimes this has been due to the fact that too much data is collected, but it has also reflected the fact that the staff responsible for processing it were occupied with other tasks. It seems clear, nevertheless, that care has to be exercised to collect only the data that can be usefully and promptly processed.

12. There is as yet little experience available concerning M&E in urban projects, since they represent a more recent phase of Bank operations. However, studies are underway which will assess the progress being made towards the objectives of this part of the Bank's program. The Urban Projects Department is preparing a report on the Bank's urban project experience to date, which is expected to be available towards the end of the calendar year. In addition, there is the major research project, financed jointly by the Bank and the International Development Research Center of Canada, originally designed to evaluate the impact of urban projects in El Salvador, Senegal and Zambia. This study was subsequently expanded to include the Philippines and Indonesia. A report on the findings of this study and their implications for M&E in urban projects is scheduled for the Fall of 1979.

13. The second way in which member governments should be, and are, gradually becoming involved with the PPAR system is as users of its output. To this end, a number of member governments are establishing internal procedures to permit them to participate more actively in the evaluation of Bank-financed projects. All these governments regard this initiative as a step towards systematic evaluation of the effectiveness of other projects in their development programs. For this reason, the Bank's efforts to introduce M&E units, as appropriate, in Bank projects have been complemented by direct contact with some member governments to encourage them to develop their own more comprehensive M&E systems.

14. Discussions between Bank staff and member governments on this subject have now taken place in some 25 to 30 countries. Almost all have expressed a positive interest in establishing some form of domestic

evaluation system. A number have already done so. These systems vary considerably in their nature, their coverage and their position in the Government organization. Most of them are part of a Ministry with larger responsibilities such as planning, finance or budget. The Table below lists the countries by region, where a central counterpart for the Bank PPAR system has been identified by the Government and the name of the agency responsible.

Member Government Counterparts
for Bank PPAR System as of June 30, 1978

<u>Country</u>	<u>Review Agencies</u>
<u>East Asia & Pacific</u>	
Indonesia	Ministry of Development Control; Ministry of Planning (Bappenas Project M&E System)
Korea	Economic Planning Board (Project Evaluation Unit)
Malaysia	Prime Minister's Department (Implementation Coordination Unit)
Philippines	National Economic Development Authority
Thailand	National Audit Council (Special Audit Division) Budget Bureau (Evaluation Division)
<u>Latin America & Caribbean</u>	
Brazil	Ministry of Planning
Peru	Ministry of Economy & Finance (Department for Investment Analysis)
<u>Western Africa</u>	
Senegal	Ministry of Planning
<u>Eastern Africa</u>	
Burundi	Ministry of Planning
Kenya	Ministry of Finance and Planning
<u>Europe, Middle East & North Africa</u>	
Yugoslavia	Social Accounting Office (SDK)

15. There are a number of other countries which are considering how best to evaluate completed projects. Since many of them, particularly the smaller ones, find themselves short of staff sufficiently experienced to undertake such a function, the Bank has begun to make arrangements for on-the-job training by inviting local staff to be associated with Bank project completion missions, as a first step towards moving responsibility for completion reports to member governments. Bank loan agreements now stipulate that the borrowing agency should prepare its own completion report after the project is completed. In addition, the Bank's Economic Development Institute is increasing the emphasis placed in its various courses on the post-evaluation phase of the operations cycle.

16. The difficulties in initiating a function of this kind are severe where competent staff and adequate funds are in short supply throughout the public sector; but they are most severe in countries or agencies where the bureaucracy is not results-oriented, as where program and project managers feel more accountable for controlling expenditure than for achieving agreed objectives. Nevertheless discussions with numerous member government officials and other observers suggest that the design of the Bank's evaluation system may well be relevant to their situation.

17. Building the first stage evaluation of results right into the operational cycle can help significantly to orient all stages of an operation towards the achievement of purpose rather than just expenditure. Objectivity in these first stage evaluations can readily be ensured by subjecting them to a systematic second stage external review. This is the central feature of the Bank's two-tier evaluation system design.

18. The integrity of the second stage review can be reinforced by requiring that all preliminary findings be reviewed by each of the principal actors in each operational experience, as is done in the Bank where the views of the lender, the Borrower government, and the project agency are brought to bear on every performance audit. This two-stage system design is being adopted by one of the governments listed in the Table on page 5 of this report and is being considered by others, to help improve the effectiveness of public sector management in these countries.

19. It was foreseen in last year's annual report that small regional meetings of representatives of member governments might be held in order to exchange views and experience among themselves and with the Bank on operations evaluation and lay a basis for follow-up in these countries by OED and operational staff. The first meeting of this kind was held in Abidjan, Ivory Coast, on January 31 and February 1, 1978, and was attended by 21 officials from ten French-speaking African member governments and the African Development Bank. A short report on this meeting was circulated to Executive Directors on March 16, 1978 (SecM78-207). The participants were emphatic on the desirability of establishing and strengthening national post-evaluation functions for all projects, not only those financed

by external lenders, and on the need for staff training and contacts between national evaluation staff and visiting Bank operational and post-evaluation missions. A second regional meeting for English-speaking African member governments is planned to be held in Nairobi, Kenya early in 1979.

20. Visits to the Bank by officials in the above-mentioned evaluation counterpart agencies have been encouraged. During the past year, officers from three member Governments made such visits. Programs of meetings with selected Bank staff in Regional Operations, Central Projects, EDI and OED were arranged for them by OED.

III. Follow-up

A. Project Audits

21. Paragraph 25 of last year's Annual Report described the procedure by which the results of the PPAR system are assessed and disseminated to operational staff by means of periodic reviews of audits in specific sectors prepared by the Central Projects Staff and discussed with regional staff. This exchange of views serves to relate the significant PPAR findings to current operational experience and identify ways of addressing problems which are still current. The highlights of this year's cycle of reviews are given below.

22. In the transport sector as a whole, discussions were held to highlight the training element of transport projects in view of post-audit findings and to stress the need for a fuller definition of training components bearing in mind the staff constraints in various countries. In addition, attention has been drawn to audits which suggested that more emphasis on the sectoral context of some individual transport projects would have been desirable.

23. The focus on highways was mainly directed to the higher than expected car traffic that had characterized many of the recently audited highway projects, the widespread shortfalls in highway maintenance and road user charges. The review meeting agreed that more attention needs to be given to road transport services and their adequacy, vehicle supply and maintenance problems, and Government policies affecting private motorization. So far as road user charges are concerned, the structure of charges (and particularly the adequacy of the contribution of heavy trucks) was discussed and it was agreed that more research and policy work is needed in this area. The difficulties of traffic forecasting for highway projects is a subject that has been raised in the past. The wide variations between actual and expected traffic in most projects would seem to indicate (i) that there is scope for improving techniques for traffic forecasting--deriving traffic estimates from broad growth projections in the absence of adequate micro-data has normally proved inadequate--and (ii) that there are inevitable margins of uncertainty which should be taken explicitly into account in the highway design.

24. A pervasive problem in highway projects is that of ensuring adequate maintenance, various aspects of which were identified as needing attention at appraisal and on supervision. These included the adequacy of funding, staff incentives and the need for more refined and precise assessments of the quality of maintenance across the network. For the poorest member countries, inadequate maintenance of valuable assets raises urgent questions about how the recurrent costs of maintenance should be financed. A paper arguing the economic importance of highway maintenance and drawing on project experience to show how it can be successfully built up is under preparation by the CPS.

25. Railway projects have revealed the over-optimism that seemed to have characterized the appraisal of the projects covered regarding, for example, traffic growth, improvement of operating efficiency and financial performance. Railways often have not attracted the amount of traffic which was expected, sometimes because the demand did not appear but sometimes because the railways themselves could not increase their efficiency to respond adequately to this demand which sometimes led to their finding it difficult to compete with road transport. Particular attention was given at the review meetings to the problems of spare parts supply, control and use. The interaction of disappointing traffic growth and operating performance contributed to the chronic financial problems of railway borrowers. It was agreed that these issues be given special attention in appraisal, as well as the mechanism for a periodic adjustment of railway tariffs in an inflationary situation.

26. The review of audits for port projects pointed to four matters requiring greater attention in future projects: more complete detailed engineering before loans are made, port operating efficiency, relating port projects with inland networks, and the appropriateness of the port authorities promoted by the Bank. On the first two issues, measures have already been taken; on the third and fourth, appraisals should pay special attention to links between ports and inland distribution systems and to the adaptation of the often useful port authority concept to particular local circumstances.

27. Loans to development finance companies have been generally successful in encouraging industrial investment and in establishing the borrower as a sound financial agency. Certain institution-building objectives have been achieved, notably improved sub-project appraisal, supervision and management; the use of economic analysis in sub-project appraisal has increased substantially. However, progress toward achieving such financial objectives as the development of secondary markets for securities and improved DFC resource mobilization has been generally below expectations.

28. Audits for education projects have revealed significant achievements in several areas, particularly in quantitative enrollment targets, in the establishment of diversified secondary schools and technical/vocational schools.

Some of these projects have revealed persistent problems in management. These can be addressed with appropriate technical assistance which, experience shows, is most effective when the nature and objectives of the assistance are clearly determined through close consultation between the borrower and the Bank.

29. As a result of the Bank's growing experience with education projects, a Bank research project on "The Bank's experience in diversified general secondary schools: an assessment" has been started and a workshop on institutional development in education projects, using material from the PPAR system, was conducted by Central Projects in April 1978. The OED is also conducting an in-depth review of the Bank's education operations in a number of countries; the results will be issued shortly.

30. The problems of agriculture in developing countries are probably more varied, complex and difficult to deal with than in any other sector, and are reflected in several general findings of the audit system so far. The difficulties and risks inherent in many agricultural projects have not always been assessed adequately, with the result that the intended effects of projects have at times been overestimated. Project analysis has accordingly become much more explicit about risk and uncertainty in these projects, and cautious in assessing likely results. Some agricultural projects have been designed to concentrate on increasing production of a single cash crop, without paying adequate attention to other smallholder activities. In analyzing future agricultural and rural development projects based on rainfed annual crops, Bank staff have been alerted to the need to examine the range of possible cropping alternatives and farmer responses to these options.

31. A matter which has generated considerable discussion is the problem of taking into account the local social and cultural traditions which may have a decisive influence on a project. For example, livestock projects in East Africa have encountered widespread difficulties, some of which seem to have arisen because the projects do not pay due attention to the local cultural milieu. One way in which the Bank is moving to cope with sociological problems is by making more use of sociologists and anthropologists in its project work.

32. In telecommunications, there is fairly consistent evidence of under-investment, which has resulted in a failure to take full advantage of economies of scale. Demand in this sector has usually been underestimated. One explanation is that historic data are misleading where there has been a substantial suppressed demand. As with the transport sector, the scope for improved demand forecasting, including analysis of the possible impact of differential tariffs, merits attention for future projects.

B. Special Studies

33. The first two such studies, on electric power operations and on Bank operations in Colombia were followed by "Closing Reports" (SecM75-247 and SecM75-641 respectively), which gave an account of the Bank's reaction to the recommendations contained therein. It has become clear, however, that a single closing report, which can give only a once-for-all account of developments after a specific period of time, is not the most adequate instrument for following-up on the Bank's responses to these reviews, since the significance of many responses cannot be assessed except by continuous observation of their impact on subsequent Bank operations.

34. As a first step towards following-up more systematically on responses to operational experience reflected in the findings of past studies, Annex A to this report summarizes the status of the recommendations of the major OED policy reviews and evaluation studies prepared from July 1972 to June 1978, with the exception of the two for which closing reports have been issued. Many of these recommendations were so "qualitative" in nature, e.g., that more attention be paid in future to a certain aspect of the project cycle, that follow-up on them can only be carried out as an integral part of the project performance audit system. Procedural innovations can constitute an interim response to some aspects of the Bank experience reflected in these "qualitative" recommendations, the most obvious being the introduction of the Project Brief system to improve the early stages of project preparation. Whether the effects intended are actually produced, however, will only be revealed in due course through the project audit system.

35. Other recommendations have invited more explicit reaction by the Bank. For example, the report on development finance companies recommended that the Bank and the DFC agree upon a strategy statement which would clarify the objectives of the loan. This recommendation was accepted and has now become normal operating practice. The substantive impact of this practice on DFC operations will eventually be revealed in the reviews of completed DFC projects. The most recent example is the study by OED on "The Role and Use of Consultants in World Bank Projects" (SecM77-865 dated December 9, 1977). The Bank's interim response to it was made by the Vice President, Projects Staff (SecM78-464 of May 25, 1978) at the conclusion of the Board discussion of this report and of the recommendations of the Joint Audit Committee thereon (JAC/M78-3).

36. The follow-up evidence in Annex A indicates that Bank operations and practices are responsive to the lessons of its operational experience. An updated but abbreviated version of Annex A will be included in all future annual reports (see Introduction to Annex A).

IV. The Operations Evaluation Department

37. During FY78 the PPARs issued by OED covered 124 projects, an increase of 10% over the previous year. The Third Annual Review of Project Performance Audit Results (SecM77-601) was issued in July, and the Second Annual Report on Operations Evaluation (R77-256) in October, 1977. The Third Annual Review, with only the names of the particular countries and projects removed, was published for the general public in February, 1978. The most recent Annual Review was issued on August 28, 1978.

38. As foreseen in the last Annual Report, a computerized memory and retrieval system is now in place. The findings of 286 project performance audits on which reports were issued by OED until December 31, 1977 have been classified and entered into the system. The first computerized Concordance to Project Performance Audit Reports will be issued shortly. It is proposed to issue updated versions every six months in the future to provide a more differentiated and timely access to the findings of the PPAR system. The memory bank will be kept up to date, and an instant search capability has been provided in the computer terminal located in OED offices.

39. The OED also issued a first review of built-in project monitoring and evaluation systems (SecM77-745), which presented the findings of OED missions to six rural development projects in Africa. The study on the Role and Use of Consultants in Bank Group Projects (SecM77-865) was issued in December, 1977.

40. One study was issued dealing with Bank operational experience in a specific sector, namely, on agricultural operations in Indonesia. A more general study of Bank experience in education is nearing completion at the time of this writing, for issue in early fall.

41. Work is now underway or planned to review Bank project supervision, delays in project implementation, a second set of built-in monitoring and evaluation systems in Bank-financed projects, and DFC and industrial lending in one country. It is also proposed to take a second look at the development effect of some projects for which PPARs have been prepared but at a stage when the full development impact was not yet visible; the first of such "second look" reviews is now underway and will assess the impact of an agricultural project completed some years ago. The program also includes studies of training in Bank-financed projects, of the effectiveness of research components in projects, a second case study of technical assistance, and a study of institution building experience in transport and public utility projects.

42. Last year's Annual Report mentioned that the General Accounting Office (GAO) of the United States Government had undertaken a review of the Bank's evaluation system. This review has since been completed. The report made to the United States Congress was published on June 5, 1978.

43. The staff of OED now consists of 22 professionals, 2 research assistants and 16 other staff. All but one of the professional and research assistant positions are now filled. During FY78 six new professional staff joined the Department and three moved to other positions in the Bank.

V. Country Economic and Sector Work

44. Last year's report described the procedures whereby economic and sector reports are reviewed internally by staff panels of senior reviewers to check and improve quality. It also referred to proposals to assess the usefulness of these reports to their main internal and external audiences.

45. The internal review process has continued. Since January 1, 1977, there have been eleven reviews of Basic Economic Reports and eighteen reviews of other types of economic reports, sector reports and special reports, the latter at the initiative of the Regions concerned. However, the intended first evaluation of the quality and usefulness of economic and sector reports will not be forthcoming for sometime yet. The Regions are now working on in-depth reviews of their reporting over the last few years, including detailed studies on certain countries. In addition, DPS^{1/} is working on an independent evaluation of the effectiveness of economic and sector work in selected countries. This is the exercise referred to in last year's Annual Report as a "Pilot Study" to test the adequacy of the Bank's response to the requirements of the audiences for its economic and sector reports. These studies will be concerned with the usefulness of the output to the Bank itself, and especially in relation to its lending program for individual countries, to the Bank's borrowers and to other donors. Such questions as the method of organizing and planning economic and sector work, the type of report produced and whether or not more reports should be tailored to specific audiences will also be addressed by these studies. One country study has been completed and others are underway. These initiatives, supplemented by more rigorous budgetary control over these activities recently introduced, constitute the beginnings of a process of self-evaluation of the efficiency and effectiveness of this important category of Bank 'output'.

VI. Research

46. The Bank's Research program (R78-18) was discussed by the Joint Audit Committee early in CY78 and by the Executive Directors on March 7, 1978. A review of the entire research program of the Bank is to be conducted by external advisory panels of experts in order to assist the management of the Bank in determining the size and nature of the program for the next five years. An overall panel has been constituted, with Sir Arthur Lewis as its chairman. Five specialized panels have also been established and are focussing on (i) Agriculture and Rural Development, (ii) Industrial Development and Trade, (iii) Commodities, (iv) Transport, and (v) Utilities.

^{1/} Development Policy Staff

These panels have begun their work and expect to have draft reports available by early 1979. A panel reviewing income distribution and employment has already reported (SecM78-493 of June 6, 1978), and another panel on education research and operations is currently conducting its review. It is hoped that reports on the full review process will be completed by the end of FY79.

47. In 1977, in accordance with the established review procedure, eight research projects were evaluated. The effectiveness of these projects in influencing Bank operations and the lessons to be drawn from their experience are summarized in the report entitled "World Bank Research Program" referred to above.

48. Included in the research program are a number of studies which are concerned specifically with evaluating in depth one or another aspect of Bank operational experience. In the agricultural sector, an evaluative study of the Lilongwe Land Development Program in Malawi is underway, which is intended to assess the extent to which benefits can be ascribed to the services provided under the program. Another study is on the impact of different types of agricultural development on employment and poverty in India. There are also three studies, in Ethiopia, Yemen and Madagascar, designed to assess the contribution made by feeder roads to rural development. In the field of education, a study in evaluation methodology is concerned to devise better methods of measuring learning in Bank education projects. Another study, using case studies in Nepal and Thailand, is intended to evaluate the contribution which education can make to rural development. These are examples of the components of the research program which complement the other components of the Bank's evaluation process. Questions for research which are suggested to OED by its evaluation and project performance audit findings are discussed from time to time with the Bank's senior research officers. Consideration is now being given to how this consultation process may be made more effective and its results included in future annual reports.

VII. International Finance Corporation (IFC)

49. In the light of IFC's special role within the Bank Group and the very different nature of its operations, OED has continued discussions with IFC on how IFC operations should be evaluated in conjunction with OED. Recognition of the need for this was given in Part VII of the document "IFC's Five-Year Program, FY79-83" dated March 27, 1978 (IFC/R78-18). IFC has since finalized a new supervision procedure for its projects, which is expected to produce, as an end-product of the process, evaluative project completion reports on selected projects. The system also envisages eventual analysis of groups of IFC projects on a country or sector basis for combined evaluation. The new system is now beginning to come into operation and the first reports for Executive Directors should thus begin to appear within the coming year.

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Abbreviations:

CPS	Central Projects Staff
CPM	Central Projects Memorandum
DFC	Development Finance Company
OMS	Operational Manual Statement
PPAR	Project Performance Audit Report
PCR	Project Completion Report

ANNEX A

THE CURRENT STATUS OF RECOMMENDATIONS OF OED POLICY REVIEWS AND EVALUATION STUDIES

ISSUED FROM JULY 1972 TO JUNE 1978

Introduction

Attached as Annex A-I to IX are summaries of the recommendations made in the major OED reports on aspects of the Bank's operations issued from July 1972 to June 1978; the reports are dealt with in reverse chronological order, with the main observations of three Annual Reviews grouped at the end. This Annex does not include information on the studies on electric power operations and on Bank operations in Colombia for which closing reports have been already issued (SecM75-247 and SecM75-641 respectively).

Each part of the Annex indicates the status of the various recommendations of a review or a study and, when appropriate, places them in broad categories to show where action has been taken to implement or reject them (wholly or partially), and also lists those of a general nature where their implementation can only be assessed by reference to the development of projects as observed through Project Performance Audit Reports, the annual CPS reviews, or by a further OED study. The statements appearing after specific recommendations represent the response of the Central Projects Staff.

This is the first time that an attempt has been made to deal in a comprehensive manner with the recommendations contained in OED reports and the Bank's response to them. Subsequent annual reports will deal with the status of recommendations set out in this Annex where action is possible but has yet to be taken as well as with recommendations in reports issued after June 1978.

The sequence of the recommendations set forth in the attachments is not necessarily as in the Reports themselves.

I. REPORT ON
THE ROLE AND USE OF CONSULTANTS IN
WORLD BANK PROJECTS

(SecM77-865, December 9, 1977)

A response to the findings of the OED report and to the recommendations based thereon of an informal sub-Committee of the Joint Audit Committee (SecM78-244) on this report was made by the Vice President, CPS, in a statement to the Executive Directors on May 16, 1978 (SecM78-464 of May 25, 1978). References to that statement in this Annex are indicated by the acronym "CPSVP".

A. Recommendations Where Action Has Been Taken

- (i) Bank staff should be circumspect about suggesting management assistance and sector studies and, to avoid inadequate co-operation between borrowers and consultants, there was a need for early discussion and understanding between the Bank and borrowers concerning the need for consultants for such assistance and studies.

Accepted by the Bank (CPSVP). The early discussion and understanding referred to in the Recommendation should emerge from the project brief system.

- (ii) Clarification is needed of the Bank's assistance to borrowers in preparing short lists of consultants.

The Bank acknowledges (CPSVP) the need to do more to assist borrowers in this connection and is considering ways of doing so. In mid-August, a draft Operational Manual Circular detailing interim procedures for providing assistance to borrowers in preparation of lists of consultants was circulated to Regional and CPS Projects Directors for comment. Essentially, the circular recognizes that there is, in some cases, a real need by borrowers for assistance in the preparation of short lists. The draft envisages that the provision of lists would still be on an exceptional basis, but such assistance would be provided after the borrower has demonstrated, and Bank staff have confirmed, that it is unable to prepare a list. The draft procedures are interim in anticipation of the installation of a computer based information system (DACON), which will hold information on all consultants on file, enable searches under field of specialization to be made, and will also allow for random or

semi-random selection of consultants for short lists. When the system is operational (anticipated in mid-1979), procedures will then be set up to improve the assistance which the Bank can give borrowers.

- (iii) The evaluation of consultants' performance has not been regularly included in supervision reports and steps should be taken to remedy this.

The Bank (CPSVP) acknowledges that this is a correct observation and that the situation has been apparent to Bank staff for some time. The problems associated with evaluation of consultants, such as its qualitative nature and the limited amount of Bank work undertaken by most consulting firms in relation to their total business, are spelled out in the CPSVP. Nevertheless, a new confidential filing system holding confidential reports on consultants' performance is now in operation. All comments on consultants' performance made in supervision reports are now routinely extracted and filed, as are the final evaluation reports. CPS is currently revising the procedures on evaluation of consultants' performance, and it is anticipated that new procedures reflecting the CPSVP statement will be in use early in 1979.

- (iv) The Bank needs to take steps to encourage local consultants and to increase their exposure to the international market.

The Bank (CPSVP), as a matter of policy, endeavors to assist in developing local consulting capability and several steps designed to accomplish this are described in the CPSVP including, for example, encouraging joint ventures between local and expatriate consultants and arranging seminars for local firms on how to improve their ability to work on Bank projects. Indeed the policy goes further in endeavoring to develop local capacity to plan, prepare and implement projects (see OMS 2.18). As stated in the OED study, local consulting firms account for about 20% of disbursements of Bank-financed consulting services. In addition, local consultants benefit indirectly from Bank projects which may increase this amount to about one-third. So far as the international market is concerned, the Bank has advised firms to develop their home base first, with appropriate Government assistance. The Bank is, however, proposing to expand its knowledge of developing country consulting firms registered with the Bank, and, thus, give suitably-qualified local firms a better opportunity to be selected for short lists being given to borrowers.

- (v) The Bank should improve the definition of consultants' tasks especially training.

The CPSVP did not address the recommendations on training. However, CPS has examined training in consultants' contracts, and intends to pursue the matter with the CPS Education Department. The following steps are contemplated: (a) staff will be reminded of the policy on training and practical guidance laid down in the appropriate OMS and CPM; (b) a series of workshops for projects staff on training problems and their solution will be held; (c) prior to inviting consultants' proposals, staff will discuss with borrowers any training requirements and ways of meeting them; (d) consultants will be reminded that their proposal time and financial budget should provide for agreed training; and (e) where training plays a large role in consultants' services, agreement between the Bank and the borrower on the borrower's counterparts, their functions and future employment will be more specific than in the past and, as a minimum, will be recorded in an exchange of letters.

- (vi) The Guidelines on consultants should be brought up to date.

Work on this is underway.

- (vii) In seeking proposals from consultants the "second envelope" procedure (i.e. a price for the work) should become standard procedure.

The Bank (CPSVP) has indicated that it will consider ways to improve this system and enhance the relevance of price and the way in which it is taken into account without having it override qualitative considerations.

B. Recommendation Where No Action Has Been Taken

Alternatives to the Agricultural Projects Management Unit in Africa (APMU) should be explored.

C. Recommendations of a General Nature

- (i) Bank staff should be reminded that Bank funding of consultants' services includes local consultants.
- (ii) Borrowers should be encouraged to specify in consultants' contracts the work to be carried out in the borrowing country and that in the consultants' home country.
- (iii) Implementation schedules for consultants should be realistic and clearly specified and, where a training element is involved, adequate provision should be made for it in the schedule.

- (iv) Consultants' terms of reference should be unambiguous so that tasks are clearly understood and monitorable.
- (v) In suggesting weights to borrowers in evaluating consultant proposals, experience in the country concerned or in a similar environment should be distinguished from general experience.
- (vi) Weight should be given, in the evaluation process, to the qualifications of the individuals proposed for the work as well as the firm itself.
- (vii) Key consultant staff should attend contract negotiations.
- (viii) The entity which will use consultant services should be represented at loan negotiations.

II. REPORT ON BUILT-IN PROJECT
MONITORING AND EVALUATION: FIRST REVIEW
(SecM77-745, October 17, 1977)

In the Second Annual Review of PPAR results OED recommended that the Bank pay special attention to "the capacity of the borrowers' information gathering and retrieval systems, particularly on project benefits". In the light of this and the growth of the Bank's contribution to monitoring and evaluation (M&E) units in projects it helped finance, Executive Directors requested OED to evaluate the effectiveness of such units in relation to the purposes they are intended to serve. This "first review" was the result of the evaluation undertaken by OED of six small farm rural development projects in Africa each of which includes such a unit. The report noted that broad conclusions on design, implementation and performance of M&E units could not be drawn from a review covering only six projects all in one continent and one sector. It concluded that, while a number of issues were involved which need to be borne in mind when building M&E functions in projects, the objective of establishing these functions remains worthwhile and likely to contribute to improved project performance.

While this report does not contain recommendations, it does draw some preliminary conclusions which will be further explored in subsequent reviews. These conclusions are summarized below. No attempt is made to indicate the status within the Bank regarding the conclusions since considerable work on this subject continues to be done, including a second review by OED in the current fiscal year, reviews in their respective fields by the Rural Operations and Support Unit (RORSU) and the Urban Operations and Support Unit (UPRSU) and the holding of workshops by CPS to assist designers of M&E units implement suggested improvements.

Summary of Conclusions

- (i) Countries are not taking full advantage of information generated by some M&E units for lack of processing facilities which might be the result of over-design;
- (ii) The Bank seems to experience similar difficulties in processing information from M&E units and should stress, in future M&E technical assistance, more focused and economical data collection and give more attention to effective analysis of information produced by the units.
- (iii) At the time of the samples studied the Bank approached unit design with excessive emphasis on on-going and ex-post evaluation of project impact, with insufficient attention to monitoring as a

management tool during project implementation. However, in actual implementation support to project management was stressed.

- (iv) At appraisal, greater care should be taken in assessing the objectives of M&E units, specifically at two levels: the implementation level and the national, regional or sectoral level.
- (v) The role of M&E units in the preparation of projects was not foreseen by the Bank. Given country staff constraints the Bank should either strengthen units to provide for project preparation or give separate technical assistance for such preparation with the latter appearing the better alternative.

III. REPORT ON
DISTRIBUTION OF PORT BENEFITS -
CASE STUDIES OF LA GOULETTE, PISCO,
DOUALA AND KARACHI
(SecM77-440, May 20, 1977)

The report notes certain implications for future port projects, which have been brought to the attention of staff and are being borne in mind in the preparation of port projects in appropriate cases.

- (i) The need for a broader approach in appraising port projects so that the port is viewed, not in isolation, but as part of a transport system.
- (ii) Studies are important on actual cargo losses and also on changes expected from the introduction of new handling methods.
- (iii) In appraising port projects, benefits from faster ship turn-around time are usually estimated on the basis of the full distribution cost of a ship-day. An alternative approach could be to adjust such cost to reflect the general state of the shipping market and its likely evolution.
- (iv) Allowance to be made, in project appraisal, for a time lag in assessing the benefits from improved shipping operations accruing to the host country.
- (v) Project appraisals should bring out the implications of the benefits of congestion surcharges to a national shipping line.

IV. REPORT ON
AGRICULTURAL CREDIT PROGRAMS
(SecM76-784, November 18, 1976)

A. Recommendations Where Action Has Been Taken.

Many of the recommendations implicit in the report have been adopted by the Bank and reflected in Sector Policy Papers and ongoing operations. These include the participation of commercial banks in agricultural credit projects, a study of the administrative costs of credit programs in India which has been completed and will provide guidance for future project design, and improvement of farm modelling systems. Other recommendations have also been adopted, namely:

(i) Accelerated in-service training in quantitative project analysis.

Training on this topic has been introduced for Bank staff members.

(ii) Program staff should be more closely involved with pre-appraisal and appraisal work.

The Bank has moved towards greater participation by Program staff in various phases of the project cycle with regard to all projects and not just those for agricultural credit. This applies both to Economists and Loan Officers.

(iii) The Bank should expand risk analysis in promotional projects.

The analysis of risk factors in such projects is carried out as a routine procedure.

B. Recommendations of a General Nature Where Action is Ongoing.

(i) The Bank should seek to redefine its credit and promotional projects whereby the latter should be concerned with the use of new technologies by farmers.

The Bank is moving rapidly in the directions recommended with a series of projects characterized by lines of finance to appropriate institutions, such as the ARDC ^{1/} in India, unrestricted with respect to farm technologies. It has also designed and financed increasing numbers of projects which provide credit for specific on-farm targets associated with the use of appropriate new technologies.

^{1/} Agricultural Refinance and Development Corporation.

- (ii) Proposals of credit projects should include discussion of (a) availability of profitable technical packages; (b) further projects that will substitute for other financial resources; and (c) the margin of profits for the credit channel to ensure its behaviour is consistent with project objectives.

Increasing attention is being paid to the analysis and discussion of the profitability of technical packages for which credit is proposed. Substitution effects of credit project proposals are taken into account in project design and provision for credit is not made where it is perceived that farmer groups have savings or access to other acceptable sources of finance. Channel margins proposals seek to ensure that credit channels can perform efficiently and consistently with project objectives. However, as the Indian cost of credit study (referred to above) has shown, assessments of appropriate margins are difficult to establish with precision and considerably more country and institution research is required on this subject.

- (iii) A farm strategy sheet could be prepared for each promotional project to summarize key inputs and productivity coefficients.

The principal objectives of the recommendation for a farm strategy sheet are being pursued through the establishment of basic data sheets and the monitoring of key indicators established for promotional projects. These tools enable verification of the validity of basic assumptions and provide an early warning of the need for possible changes in plans for project execution.

- (iv) The Bank should expand its supervision of farm and credit channel performance and supervision missions would be expected to report fully on impact issues for promotional projects.

This recommendation follows on from (iii) above with supervision missions reporting on impact issues using project key indicators as points of reference. As monitoring systems are improved in design and efficiency, then, with increasing experience, supervision reporting on impact issues can be expected to increase in both depth and accuracy. Additionally, in-depth reviews of the impact of credit projects, taking into account such factors as costs of credit administration, profit margins to credit channels, delivery and recovery mechanisms are to be initiated by the CPS Agriculture and Rural Development Department in the coming months.

V. REPORT ON
DELAYS IN PROJECT PREPARATION
(SecM76-100, February 18, 1976)

Following are the Recommendations of this report divided into the same categories as in the report itself. All recommendations are reflected in current Bank procedures except to the extent noted under each Recommendation or group thereof.

I. The main elements of the Bank's project preparation system should include:

- (i) A project timetable system to ensure adequate forethought is given to the Bank resources required for project preparation support to borrowers and appropriate timing of such support.
- (ii) Sectoral guidelines to show what the Bank will require (e.g. maps, level of engineering design, type of studies, etc.) to support a project.
- (iii) Timely review by Bank and borrower of project objectives and arrangements needed to achieve them as well as definition of responsibilities.
- (iv) Timely review within the Bank of issues as they arise during the implementation of the preparation plan.

The report acknowledges that some of these elements were already in place at the time the report was prepared. Subsequently, the introduction of the Project Brief System has helped to focus the attention of Bank staff on the various aspects of project preparation, including, for example, the sectoral context of and the establishment of a critical path for a project. The system provides the basis for expediting the work of preparation both by the Bank and the potential borrower.

In addition, the Project Preparation Facility, established in December, 1975, has been designed to assist borrowers in certain aspects of project preparation where other sources of finance are not available; a total of forty-four advances to twenty-four countries had been approved under the Facility to February 28, 1978.

II. The following are identified by the Report as subjects for further consideration:

- (i) The importance of borrowers' planning units, and their treatment in appraisals, is stressed.
- (ii) Financing by the Bank of project planning units in borrower countries should be expanded especially for agriculture.

The Bank has long been active in assisting member countries in developing and improving their capacities for economic planning and has provided both financial and technical assistance to this end. It also regards the development of the capabilities of individual borrowers to plan, design and carry out development projects and programs as a matter of the highest priority in project work. The development of such capabilities is taken into account in all phases of the project cycle, not only in appraisal, and projects frequently include various kinds of technical assistance for this purpose. Several recent technical assistance loans or credits have specifically aimed at creating national or sectoral project generation capabilities as, for example, in Ecuador and Somalia.

- (iii) Consideration should be given to the early determination of the depth to which particular appraisal questions should be pursued.

Since the issuance of this report, other reports to the Executive Directors have focused on the "trade-off between preparation and implementation," including the Report on Project Implementation and Supervision (R77-72 of March 24, 1977) and the Report on State of Project Preparation Necessary for Loan Approval (SecM78-590 of July 14, 1978). These various recommendations are reflected in OMS 2.12: Project Generation and Design as revised in August, 1978, OMS 2.13: Project Brief, and a forthcoming OMS on the State of Project Preparation Necessary for Loan Approval.

- (iv) Bank procedures, especially the data required, for assisting in the preparation of education projects seem to require review.

In education, as in other software sectors, agreement between the Borrower and the Bank on objectives and user requirements before project preparation starts is now a general procedure. Increasingly this requires the preparation of preliminary designs prior to project appraisal. The subject is one of the matters under review by the external panel on education operations and research. An in-depth study by OED of the Bank's education operations in a number of countries is also underway.

III. Particular Points.

- (i) Whenever the Bank reduces or interrupts its lending operations in a particular country, a determination should be made of the implications of a corresponding interruption in the Bank role in further project preparation.

The circumstances under which the Bank interrupts or reduces its lending operations in a country may arise from a variety of factors including such matters as a lack of IDA resources, the failure of a borrower and the Bank to agree on overall economic strategy or defaults in the execution of particular projects. The reasons for the interruption or reduction will play a large part in determining the extent to which the Bank continues to advise on further project preparation.

- (ii) The Bank should establish a more direct relationship between a consultant and borrower where the former is expected to contribute to training and institution building.

The objective of this recommendation is for greater local involvement with outside consultants, specifically where the Bank is the executing agency of a UNDP financed project. In fact, local involvement is always sought and OMS 2.18, issued in April 1978, spells out the Bank policies towards the development of local capabilities by the use of consultants, whether foreign or local.

- (iii) Care should be exercised by the Bank in requiring, late in the project cycle, the study of the economics of alternative approaches to a project.

While it is not always possible or desirable to avoid the study of project alternatives at a stage where project preparation is already well advanced, especially in areas where technological advances are rapid or where a different approach or design can result in substantial savings, the normal process of identification and preparation (e.g. the Project Brief System) calls for the early identification and comparison of alternatives and the elimination of all but the most attractive.

- (iv) The Operational Manual should contain a statement on project preparation and the scope for Bank assistance therein.

Operational Manual Statement No. 2.00 describes the various stages of the project cycle including project preparation (paragraphs 10-13) and the principal ways of preparing projects

and the roles of main participants (Annex III). OMS 2.12 "Project Generation and Design" revised in August 1978 expands on the former OPM/OMS 2.12 "Assistance in Project Identification and Project Preparation"; OMS 2.13 "Project Brief System" and OMS 2.15 "Project Preparation Facility" provide additional guidance.

VI. REPORT ON
DELAYS IN LOAN AND CREDIT EFFECTIVENESS

(SecM75-539, July 22, 1975)

Since the publication of this report, the Project Brief System (PBS) has been introduced by the Bank. The effective operation of that system should result in the implementation of several of the recommendations contained in the report; the resulting improvements can be observed only over time.

A. Recommendations Where Action Has Been Taken

- (i) The Section in the Operational Memorandum dealing with conditions of effectiveness should be revised to reflect the report's findings.

OMS 3.18 issued in April 1977 contains, inter alia, a description of the types of special conditions of effectiveness which are suitable for inclusion in the loan agreement.

- (ii) A draft project start-up plan should be prepared as soon as possible.

Pursuant to instructions issued in June, 1975 detailed project implementation schedules are discussed with the borrower during appraisal and are incorporated in all appraisal reports.

- (iii) The procedure for obtaining legal opinions should be discussed with the borrower and models provided when needed.

This is done whenever possible and appropriate (see OMS 3.18, para. 43).

- (iv) Bank approval of individual nominees to management positions in project entities should be required only in exceptional cases.

The Bank's general practice is to require that persons appointed to key positions be suitably qualified and that the Bank be given an opportunity to review and comment on their qualifications prior to appointment.

B. Recommendations Rejected or Partially Implemented

- (i) The agreed minutes of negotiations should reflect the timetable for achieving effectiveness.

An agreed written timetable is frequently prepared during negotiations and incorporated in the letter sent to the borrower after loan signing.

- (ii) There should be earlier involvement of the Bank's legal department in the project cycle and the Operational Memorandum amended to reflect this.

The legal department has been playing a more active role in the early stages of the project cycle and the PBS facilitates this.

- (iii) Appraisal missions should settle "agreed minutes" for their final meetings in the field.

Whenever practical, appraisal missions furnish the borrower with a summary of the principal findings which highlights any issues which need to be resolved or action taken before the loan can be presented to the Board and made effective. It is always emphasized that the mission's findings are subject to review within the Bank and later confirmation.

- (iv) Appraisal reports should contain an estimate of the cost to development of a one-year delay in project completion.

Where the rate of return is sensitive to completion delays such estimates are presented as part of the economic analysis of the project.

- (v) The appraisal report and other documents should be made available to the borrower as soon as possible after Loan Committee clearance.

Loan documents are normally given to the borrower as far ahead of negotiations as time permits.

- (vi) Costs involved in meeting conditions of effectiveness and in furthering a project (e.g. consultant studies) should be financed by the Bank out of the Project Preparation Facility or alternatively out of the loan after signature.

The Project Preparation Facility can be and is being used in meeting certain conditions of effectiveness and in carrying out project work in certain cases within the limits set by OMS 2.15, but it is not appropriate in all such cases.

- (vii) The commitment charge should not start until the agreed target date for effectiveness.

The commitment charge is intended to compensate the Bank for the cost of holding funds pending disbursement and the existing practice of having the commitment charge start 60 days after loan signing is considered justified.

- (viii) A thorough review should be undertaken of any loan where conditions of effectiveness have not been fulfilled two months beyond the specified date.

Delays in meeting conditions of effectiveness are given priority attention by Bank staff and consultations with the borrower, by means of special supervision missions where necessary, are a standard procedure where such delays have arisen.

- (ix) Where a condition of effectiveness only relates to part of a project, withdrawals should only be restricted as regards that part of the project until the condition has been met.

This is now normal practice where there are conditions of effectiveness pertaining to project components whose delay would not critically affect the viability of the remainder of the project and the achievement of the project's overall development objectives.

- (x) Whenever the specified date for effectiveness has been extended the borrower should be notified of the cost, especially as regards the commitment charges.

As noted in item (iv) above, appraisal reports frequently contain estimates of the cost of delay in project implementation. However, the need to extend the date for meeting conditions of effectiveness does not necessarily mean that project implementation is being similarly delayed or that the borrower is incurring additional commitment charges.

VII. REPORT ON
DEVELOPMENT FINANCE COMPANIES
(SecM74-529, July 26, 1974)

A. Recommendations Where Action Has Been Taken

- (i) More attention should be given to a DFC's short- to medium-term strategy.
- (ii) Appraisal Reports should outline and assess a DFC's short-term strategy and how it relates to, inter alia, the country's industrial problems.

A strategy paper is required from each DFC at the time a new loan is made. An assessment of this paper is normally included in the Appraisal Report.

- (iii) The Operational Policy Memorandum on DFCs should be revised to reflect the Report's Findings.

The Operational Policy Memorandum has been revised (see OMS 3.73 dated September 1976). The revision reflects some but not all of the recommendations contained in the Report as a reading of this Annex will demonstrate.

- (iv) Industrial Sector Work should be broadened especially to link it with a country's DFC(s).

The number of industrial sector and related studies undertaken by the Bank since 1974 has increased from 13 in FY1974 to 30 in FY1978. In addition, the responsibility for industrial sector work has been reorganized and located primarily in the Regions, with coordination by the Industrial Projects and Industrial Development and Finance Departments of CPS. Liaison between the Regions, the CPS Departments and IFC is close and continuous.

- (v) The training of DFC personnel by the Bank should be expanded.

DFC staff have, for many years, been seconded to the Bank Group (especially IFC) and this practice has continued. Moreover, the number of participants in EDI courses on industry and development banking, both in Washington and overseas, has increased from an estimated 332 through FY1973 to 576 from FY1974 to FY1978. EDI is formulating training courses in development banking for Latin America, Africa and Asia.

- (vi) The Bank's increasing support of small-scale industry is very desirable, but commercial banks and other institutions appear to be more appropriate channels for assistance to this sector than the typical DFC.

The Bank's support for small-scale industry has in fact continued as is evidenced by increased lending--from an average of \$30.5 million in FYs1975/77 to \$218.2 million in FY1978. In certain countries channels other than DFCs have been used for this purpose including commercial banks and small enterprise promotion agencies.

- (vii) Appraisal Reports on follow-up lending to DFCs should assess progress made on points raised in prior Appraisal Reports.

This in fact is done and is complemented by the PCRs.

- (viii) The Bank should be circumspect about pressing DFCs which it has financed to seek foreign resources from others to avoid duplication of effort and, where other donors do become involved, should try to coordinate the reporting requirements.

The increased level of activity of the regional development banks has frequently resulted in a regional bank financing the same DFCs as the World Bank. This is an inevitable and welcome development. Coordination between the World Bank and other donors, especially the regional development banks, is close. Some duplication of effort occurs when other donors are involved but this is offset by the increased availability of funds to the beneficiary.

- (ix) The Bank should allow some part of the later maturities of its loans to DFCs to be used for the purchase of shares or project feasibility studies.

DFCs may use the proceeds of Bank loans to finance:

- a) investments in share capital provided the policy agreed with the Bank on a DFC's total equity holdings is observed and, normally, a full appraisal submission is given (OMS 3.73-58). However, in view of the exchange risk involved, this facility has been rarely used. Examples of countries where institutions have used the proceeds of Bank loans to purchase share capital are Colombia, Mexico and Sri Lanka.

b) the cost of staff or studies directly related to the purpose of the loan and the execution of the project (OMS 3.73-62).

- (x) Increased emphasis should be placed on following-up performance, both as regards a DFC's strategy and the targets set in a DFC's appraisal of sub-projects.

This is being done and it is planned to introduce early in January 1979 a monitoring system for sub-projects.

- (xi) Supervision missions should give close attention to the targets expressed in the Appraisal Report.

This is being done.

- (xii) The use of the simplified economic rate of return methodology developed by the Bank should be promoted for use by DFCs.

This has been done and efforts are being made to develop an even simpler approach, although some Project Performance Audit Reports have noted a mixed reaction by DFCs to Bank attempts to introduce economic criteria to their appraisal methods.

- (xiii) Support should be given by the Bank to "mixed" banking (commercial and development).

The Bank is giving such support by making loans to commercial banks for term lending. Countries where such support has been given include Indonesia, the Philippines, Bangladesh, Costa Rica and Mexico.

- (xiv) Simplified reporting procedures by DFCs to the Bank should be introduced.

Reporting procedures have been simplified and efforts are being made to simplify them further.

B. Recommendations Rejected or Partially Implemented

- (i) Greater use should be made of "directed" lending such as for a specific type of project or with a limit placed on Bank funds that may be used for particular enterprises.

Since one of the objectives of lending to DFCs is to develop the institution's independent capacity to appraise projects, directed lending has not been generally adopted by the Bank.

The imposition of a free limit /see (ii) below/ gives the Bank generally sufficient control over the operations of a DFC. However, in a few cases the Bank has "directed" lending when it seemed appropriate as, for example, for such areas as small-scale enterprises, export-oriented industries and tourism.

- (ii) The Bank should examine, within three to five years of association with a DFC, whether it is possible to eliminate "free limits" on sub-loans made out of funds provided by the Bank.

The Bank periodically reviews the amount of the free limit /in the case of Industrial Credit and Investment Corporation of India (ICICI), for example, it began at \$100,000 and is currently \$4 million/. However, the elimination of the limit is undesirable since its continuance serves both as a form of check for the Bank and at times can be useful for the beneficiary in its relations with Government.

- (iii) The Bank should further explore its sponsorship of an International Industrial Advisory Committee with the object of linking Bank-financed DFCs with manufacturers in the developed countries.

The activities envisaged are best undertaken by individual DFCs which are aware of the potential in their own countries. (UNIDO, of course, fulfills this role to some extent.)

- (iv) Special attention should be given to the equity market in the country where a DFC operates and the measures that might be taken to make it more effective.

As the Report points out, the IFC Capital Markets Department has given this subject fuller attention than it had received before the Department was created in 1971. This matter is primarily one for IFC, although it also impinges on and is considered in Bank lending to DFCs.

- (v) Bank Appraisal Reports should discuss the policy of a DFC which has to lend on the basis of accounts known to be falsified for tax evasion purposes.

This subject is best left to the judgement of the DFCs themselves after discussions with Bank appraisal/supervision missions.

- (vi) DFCs which have a strategy agreed with the Bank should be offered the option of a fairly long repayment schedule on Bank loans (about 20 years) and be able to rollover funds before repaying the Bank.

As already noted, all DFCs wishing to borrow from the Bank must agree upon a policy statement. Normally, the amortization schedule of the Bank loan to a DFC is a composite of the schedules for the sub-loans. In certain cases (especially in loans for small-scale industry), the Bank may allow a rollover of its funds provided the DFC is covered on the foreign exchange risk.

- (vii) The Bank should relax its rule that its funds be used by DFCs only for the import content of sub-projects, provided the exchange risk is covered.

The Bank continues to expect that a DFC will obtain funds for local currency financing from local sources and use Bank funds for foreign exchange costs. Financing of local costs out of Bank loans to DFCs is subject to the Bank's general policy regarding such financing. It is interpreted liberally in the case of small-scale industry projects. Since the import content of individual sub-projects is often difficult to identify, an average foreign exchange percentage, estimated for a DFC's total lending, may be used as the basis for disbursing Bank funds.

- (viii) (a) Lending rates of Bank-financed DFCs should not be based on the "real cost of capital," but the rate which would provide a small spread over the cost to the DFC of raising resources domestically and DFCs should be encouraged to charge different interest rates according to the risks involved.
- (b) Under certain circumstances the Bank should orient its project appraisal toward a focus at loan negotiations on the industrial financing system as a whole rather than on the DFC alone which may lead to lending on a broader basis than to a DFC.

The Bank's guidelines on interest rates to be charged by DFCs are not intended for mechanical application across the board (see OMS 3.73-30). However, they do state that interest and related charges should be commensurate with the opportunity cost of capital in the country as a whole. While preferential

interest rates are not favored, they may be justified in the context of a country's overall industrialization strategy. The guidelines also state that "... as Bank support of a country's industrial sector rises to a sizeable volume, financial mobilization and allocation, and hence interest rate issues, can be expected to take on increasing importance."

C. Recommendations of a General Nature

- (i) Time devoted to review of sub-project appraisals should be reduced.
- (ii) More attention should be given to the adequacy of a DFC's capitalization to enable the fulfillment of its promotional role.
- (iii) Encouragement should be given to DFCs financing large scale industries to give attention to the scope for links with feeder plants in the country.
- (iv) DFCs should be encouraged to organize projects which would gear production to the needs of firms in the developed world.
- (v) DFCs should continue to be encouraged to pass on the foreign exchange risk to sub-borrowers and try to distribute the risk of exchange rate fluctuations among sub-borrowers.
- (vi) In an effort to help planning and internal evaluation, DFCs should be assisted in placing their budgeting and administrative accounting on a simple program basis.

These recommendations have differing implications for the various DFCs, but have been accepted as desirable by the staff and applied as appropriate.

VIII. REPORT ON
COMPARATIVE EVALUATION OF SELECTED
HIGHWAY PROJECTS

(SecM74-152, March 11, 1974)

A. Recommendations and Current Bank Lending Practices

- (i) The Bank should consider identifying projects on a regional and multi-sectoral basis, especially in the case of feeder and penetration roads, rather than concentrating on road projects per se. Special emphasis should be given to the agricultural sector in regional development and to encouraging planning units in highway departments to undertake regional mobilization studies.

The above is a summary of six recommendations contained in the Report. At present about three-fourths of Bank lending for rural roads is undertaken as part of agriculture and rural development projects; changes in the structure of Bank lending has thus involved a positive response to the recommendations (without explicit action). Also for the remainder of rural roads which are being financed as part of highway lending, there is, in addition to institution building objectives, a strong emphasis on development of firm action plans to support the realization of the estimated benefits (development impact).

- (ii) Highway department institution-building projects should be monitored through a series of key indicators as with road construction.

Monitoring of highway projects has developed along with other aspects of monitoring the Bank's activities. However, the introduction of key indicators for institution building has yet to be undertaken.

- (iii) Management improvement programs should be designed with the active participation of local highway department officials and bear in mind local conditions.

This is done.

- (iv) For highway maintenance, the Bank should seek the borrower's commitment, by way of an action program agreed to at negotiations, not only to devote adequate funds for the purpose, but also to have a well specified program.

The Bank does seek to implement this recommendation, although borrowers often fail to adhere to certain aspects of it, especially as regards making necessary funds available for maintenance purposes.

- (v) Bank institution-building efforts in highways should (except when road construction is central and institution-building minor) be treated when possible as technical assistance projects with the same elements of the project cycle as a road construction project.

Institution-building is normally treated as part of an overall highway project and, as such, is subject to the usual elements of the project cycle.

- (vi) CPS should prepare a typology of highways having different characteristics indicating appraisal methods to be followed with alternatives where data or cost constraints prevent the application of too elaborate techniques.

Given the wide diversity of road projects financed by the Bank, it is not practical to establish any detailed typology, but work is underway to develop simplified procedures for selection and appraisal of low cost rural roads.

B. Recommendation of a General Nature

The Bank should give more attention to ensuring that basic data for economic planning of highways is not only collected but is fully used in highway design.

IX. ANNUAL REVIEWS OF
PROJECT PERFORMANCE AUDIT RESULTS

These annual reviews form part of the continuing annual review process and the response to the points raised in them, all of which have been accepted by the Bank, can be observed, as in the case of recommendations of a general nature in other OED reports, by reference to the development of projects as observed through PPARs or further OED studies.

A. First Annual Review (SecM75-692, September 26, 1975).

Four broad lessons emerged from this first report on PPARs:

- (i) Broader project preparation, particularly on the economic side, to ensure a project was well adapted to its market and that complementary investments would take place, would be beneficial.
- (ii) More attention to planning project start-up to ensure the borrower knew what had to be done and to convince him of the need to do it would have cut implementation delays.
- (iii) A more systematic approach to institution-building including greater emphasis on working out specific programs with borrowers and more training of staff in the Bank would have improved project design and implementation.
- (iv) More thorough supervision of project execution and institution building could have helped the Bank be more flexible in adjusting projects during execution and more effective in institution building.

B. Second Annual Review (SecM76-481, July 6, 1976).

As with the first Review, the second concluded with four points for consideration:

- (i) Project Monitoring: special attention appears essential to the capacity of borrowers' information gathering and retrieval systems to produce periodic inputs tailored to key objectives of the main focus of a project, with financial and technical assistance to be provided when appropriate.
- (ii) Forecasting: clear and specific statement of important forecasts and regular comparison with monitoring results will help ensure project design is revised when necessary.

- (iii) Staffing and Training are very crucial areas to which more attention should be given in projects.
- (iv) The Bank should increase the staffing provision for projects with borrowers having weaker economic and administrative systems and for projects of a more experimental nature.

C. Third Annual Review (SecM77-601, July 22, 1977).

This review noted two points which emerged with some force from the project experience so far reviewed and which merit continuing attention to further improve the effectiveness of Bank operations:

- (i) Understanding Local Conditions: Although not typical, cases were noted where failure to appreciate local conditions on the part of those charged with implementing projects (especially consultants) resulted in failure to achieve institutional objectives.
- (ii) Strategy and Time Horizon: Failure to achieve over-ambitious development objectives (especially institutional ones) can lead to a mistaken belief that a project has not succeeded, whereas more time should have been allowed and a graduated approach adopted to achieve these objectives.

OED REPORTS ISSUED DURING FY 1978

Project Performance Audit Reports

Public Utilities

Ghana Accra/Tema Water Supply & Sewerage (Credit 160-GH)	SecM77-617	08/01/77
Mexico Fourth Power Sector Program (Loan 834-ME)	SecM77-760	10/26/77
Jamaica Kingston Water Supply (Loan 598-JM)	SecM77-876	12/13/77
Nepal First Telecommunications (Credit 166-NEP)	SecM78-2	01/03/78
Brazil Jaguara and Volta Grande Hydroelectric (Loans 442/566-BR)	SecM78-34	01/16/78
Tunisia First and Second Water Supply (Loan 581/Credit 209-TUN)	SecM78-115	02/13/78
Thailand South Bangkok Thermal Unit #4 (Loan 790-TH)	SecM78-189	03/10/78
Singapore Second Sewerage (Loan 918-SI)	SecM78-196	03/14/78
Yugoslavia First Telecommunications (Loan 657-YU)	SecM78-247	03/28/78
Colombia First Bogota Water Supply (Loan 536-CO)	SecM78-260	03/30/78
Honduras Fourth Power (Loan 692/Credit 201-HO)	SecM78-489	06/05/78
Malawi Second Power (Credit 426-MAI)	SecM78-548	06/29/78

Transportation

Senegal First Highway (Credit 198-SE)	SecM77-704	09/22/77
Jordan First Highway (Credit 262-JO)	SecM77-748	10/18/77
Trinidad & Tobago First Highway (Loan 497-TR)	SecM77-752	10/21/77
Benin Highway Maintenance & Engineering (Credit 215-DA)	SecM77-758	10/25/77
Niger Highway Maintenance and Second Highway (Credits 128/231-NIR)	SecM77-823	11/22/77
Central African Empire - First Highway and Highway Maintenance (Credits 146/199-CA)	SecM77-873	12/13/77
Senegal Dakar International Airport (Loan 867-SE)	SecM77-875	12/13/77
People's Republic of The Congo - First Railway (Credit 297-COB)	SecM78-7	01/04/78
Mauritania Highway Maintenance (Credit 159-MAU)	SecM78-97	02/06/78
Chad Highway Maintenance (Credit 125-CD)	SecM78-92	02/06/78
Mali First Highway (Credit 197-MLI)	SecM78-133	02/21/78
Colombia Fifth Highway (Loan 550-CO)	SecM78-152	02/28/78
Cyprus - Port of Limassol (Loan 628-CY)	SecM78-192	03/13/78
Iceland Fishing Harbours Rehabilitation (Loan 941-IC)	SecM78-211	03/16/78
People's Democratic Republic of Yemen First Highway (Credits 240/S-12-YDR) and UNDP Grant (PDY71/513)	SecM78-242	03/27/78
Nepal First Highway (Credit 223-NEP)	SecM78-299	04/07/78

Transportation - continued

Paraguay Second Road Maintenance (Loan 652-PA)	SecM78-331	04/14/78
China Fourth Railway (Loan 750-CHA)	SecM78-346	04/19/78
Kenya Third Highway (Loan 639-KE)	SecM78-427	05/12/78
Costa Rica Second Highway and Highway Studies (Loans 664/872-CR)	SecM78-508	06/13/78
Sierra Leone First Highway (Loan 710/Credit 218-SL)	SecM78-509	06/13/78
Nigeria Transport Rehabilitation (Loan 694-UNI)	SecM78-520	06/19/78
Indonesia First Highway (Credit 154-IND)	SecM78-524	06/20/78
Tunisia First Railway (Loan 606/Credit 150-TUN)	SecM78-535	06/26/78
Zaire First Highway (Credit 152-ZR)	SecM78-536	06/26/78
Venezuela Third Highway (Loan 616-VE)	SecM78-554	06/30/78
Guyana Second Sea Defense (Loan 765-GUA)	SecM78-555	06/30/78

Agriculture

Spain First Livestock Development (Loan 633-SP)	SecM77-651	08/23/77
Gambia Agricultural Development (Credit 333-GM)	SecM77-705	09/22/77
Cameroon - Cameroon Development Corporation - Camdev I (Credit 100/Loan 490-CM) and Cameroon Oil Palm - Socapalm I (Loans 593/886-CM)	SecM77-736	10/12/77
Colombia First Agricultural Credit (Loan 624-CO)	SecM77-828	11/23/77
Colombia Atlantico Irrigation (Loan 502-CO)	SecM78-15	01/06/78
Peru San Lorenzo Irrigation and Land Settlement (Loan 418-PE)	SecM78-43	01/18/78
Nigeria Western State Cocoa (Loan 764-UNI)	SecM78-52	01/20/78
Iran Ghazvin Development (Loan 517-IRN)	SecM78-75	01/31/78
Papua New Guinea Second Agricultural Development Project (Part) (Credit 175-PNG, Part)	SecM78-102	02/09/78
Jamaica First Agricultural Credit (Loan 719-JM)	SecM78-106	02/10/78
Ivory Coast First Cocoa (Loan 686-IVC)	SecM78-113	02/10/78
Honduras First Livestock Development (Credit 179-HO)	SecM78-134	02/21/78
Bangladesh Irrigation Engineering (Credit S-14-BD)	SecM78-204	03/15/78
Paraguay Third Livestock Credit (Credit 156/Loan 620-PA)	SecM78-248	03/28/78
Indonesia First & Second North Sumatra Estates (Credits 155/194-IND)	SecM78-352	04/20/78
Benin Zou-Borgou Cotton (Credit 307-BEN)	SecM78-353	04/20/78
Korea Dairy (Credit 234-KO)	SecM78-354	04/20/78
Indonesia First Irrigation Rehabilitation (Credit 127-IND)	SecM78-403	05/05/78
Dominican Republic Livestock Development (Credit 245-DO)	SecM78-423	05/12/78
Niger Agricultural Credit (Credit 207-NIR)	SecM78-424	05/12/78
Senegal Casamance Rice (Credit 252-SE)	SecM78-426	05/12/78
Cameroon Semry Rice (Credit 302-CM)	SecM78-430	05/15/78

Agriculture - continued

Benin Hinvi Agricultural (Credit 144-BEN)	SecM78-451	05/19/78
Sierra Leone Integrated Agricultural Development (Credit 323-SL)	SecM78-453	05/22/78
Afghanistan First Agricultural Credit (Credit 202-AF)	SecM78-540	06/27/78
Malaysia Jengka Forestry (Loan 673-MA)	SecM78-553	06/30/78
Colombia Caqueta Land Colonization (Loan 739-CO)	SecM78-556	06/30/78
Malaysia Jengka Triangle I (Loan 533-MA)	SecM78-558	06/30/78
Pakistan Third Credit for the Agricultural Development Bank (Credit 157-PAK)	SecM78-559	06/30/78
Philippines First Livestock (Loan 823-PH)	SecM78-561	06/30/78

DFC and Industry

Ireland Industrial Credit Company (Loan 744-IRE)	SecM77-587	07/15/77
Brazil Banco do Nordeste do Brasil (Loan 656-BR)	SecM77-614	07/28/77
Colombia Program Loan (Loan 842-CO)	SecM77-709	09/23/77
Colombia Third & Fourth DFC Loans (Loans 625/742-CO)	SecM77-728	10/06/77
Nigeria The Nigerian Industrial Development Bank (Loans 588/705-UNI)	SecM77-733	10/10/77
Morocco Banque Nationale pour le Developpement Economique (Loan 736-MOR)	SecM77-829	11/23/77
Dominican Republic Falconbridge Ferronickel (Loan 646-DO)	SecM77-857	12/05/77
Kenya Program Loan (Loan 1117-KE)	SecM77-889	12/21/77
Sri Lanka - The Development Finance Corporation of Ceylon (Loan 634-CE)	SecM77-894	12/21/77
Trinidad & Tobago Development Finance Company (Loans 819/1056-TR)	SecM78-21	01/11/78
Iran Industrial Credit Bank (ICB) (Loan 1002-IRN)	SecM78-135	02/22/78
India Ninth Industrial Imports Program Credit (Credit 474-IN)	SecM78-136	02/22/78
Bangladesh Import Program Credits (Credits 345/458-BD)	SecM78-137	02/22/78
Morocco Credit Immobilier et Hotelier (CIH) (Loan 704-MOR)	SecM78-141	02/23/78
Indonesia Pusri II Fertilizer (Credit 193-IND)	SecM78-164	03/03/78
Indonesia First, Second & Third Technical Assistance (Credits 135/216/275-IND)	SecM78-300	04/07/78
Pakistan Program Credit (Credit 629-PAK)	SecM78-402	05/05/78
Yugoslavia IMT Expansion (Loan 965-YU)	SecM78-523	06/20/78
India - Indian Iron & Steel Co., Ltd. Coal-Mining (Loan 307-IN)	SecM78-526	06/21/78
Mauritius - Development Bank of Mauritius (Credit 313-MAS)	SecM78-527	06/21/78

DFC and Industry - continued

Yugoslavia Kikinda Iron Foundry (Loan 947-YU)	SecM78-528	06/21/78
Pakistan Industrial Credit & Investment Corporation (Loan 590-PAK)	SecM78-537	06/26/78
Bangladesh Third Imports Program Credit (Credit 515-BD)	SecM78-546	06/29/78
Korea Second Program Loan (Loan 1219-KO)	SecM78-547	06/29/78
Ethiopia Agricultural & Industrial Development Bank (Credit 304-ET)	SecM78-557	06/30/78

Education

Spain First & Second Education (Loans 699/832-SP)	SecM77-576	07/13/77
Somalia First Education (Credit 247-SO)	SecM77-787	11/07/77
Korea First Education (Credit 141-KO)	SecM77-824	11/22/77
Guyana First Education (Loans 583/139-GUA)	SecM77-902	12/28/77
Tanzania Second Education (Credit 149-TA)	SecM78-310	04/11/78
Dominican Republic First Education (Credit 235-DO)	SecM78-311	04/11/78
Chile Second Education (Loan 666-CH)	SecM78-513	06/14/78

Operational Policy Reviews and Other Studies

Third Annual Review of Project Performance Audit Results	SecM77-601	07/22/77
Concordance and Directory to Project Performance Audit Results Issued by Operations Evaluation Department - March 1972 to December 1976	SecM77-660	08/29/77
Built-In Project Monitoring and Evaluation: First Review	SecM77-745	10/17/77
Study of the Role and Use of Consultants in Bank-Financed Projects	SecM77-865	12/09/77