



2000–2001  
Annual Report on  
Operations Evaluation  
Madhur Gautam

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## OPERATIONS EVALUATION DEPARTMENT

### ***ENHANCING DEVELOPMENT EFFECTIVENESS THROUGH EXCELLENCE AND INDEPENDENCE IN EVALUATION***

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# FOREWORD

**T**he Annual Report on Operations Evaluation (AROE) fulfills OED's statutory obligation to assess the adequacy of the Bank's operations evaluation system. Following a suggestion by the Vice President & Controller, this year's AROE uses, for the first time, the Internal Control–Integrated Framework (COSO), adopted by the Bank with a view to contributing to a coherent, Bank-wide, integrated risk review process.

The COSO framework is designed to identify areas of risk in an organization's internal controls system. Applying this framework, the AROE notes key areas of strength and recent progress but gives particular emphasis to risks and vulnerabilities. Thus, the AROE does not claim to present a balanced scorecard of the overall quality of the development effectiveness risk assessment system. Instead, it gives pride of place to the remaining challenges that face the Bank as it goes about strengthening its development risk control and evaluation follow-up system.

Considerable progress has in fact been achieved. The reforms of the last few years have increased the Bank's development rewards through stronger country focus, improved responsiveness, and higher operational quality. Evaluation and control systems have contributed to the improvement as they evolved to fill in many earlier gaps in development effectiveness oversight and quality assurance. Specifically, the Quality Assurance

Group now provides real-time quality assessment, the Quality Assurance and Compliance Unit seeks to improve compliance with safeguard policies, and Regional quality assurance teams provide ex-ante quality control. In parallel, the Internal Auditing Department has improved its oversight of management controls, and a new Department of Institutional Integrity has been set up to investigate allegations of fraud and corruption.

These additions to the Bank's evaluation and control activities are complemented by an independent Inspection Panel, which provides a voice to local communities potentially affected by Bank interventions and by the independent Operations Evaluation Department (OED), which has renewed its processes and practices to take account of changes occurring in the Bank. These activities, while adding to the responsibilities of already highly stressed operational staff, have delivered significant corporate benefits by strengthening accountability and organizational learning.

Changes in the Bank's product mix—particularly toward programmatic lending, knowledge services, collaborative programs, and global public goods—are continuously generating new demands for evaluation and control. Thus, even with the major strides already made, challenges remain. Many of the Bank's internal incentives and processes need to be realigned to promote desired organizational behaviors in line with the new Bank's vision and operational approaches. In particular, the still unbalanced matrix structure has not been able to close the gaps between evolving corporate priorities and country strategies. The assessment and management of development risks need further strengthening—in lending operations, Country Assistance Strategies (CASs), and Sector Strategy Papers (SSPs). With the objective of becoming a “Knowledge Bank,” non-lending activities have grown rapidly in recent years, but without an agreed evaluation framework, with the notable exception of economic and sector work, for which there is an ongoing program of self-evaluation based on an established methodology.

The process of recasting and updating policies, especially for adjustment lending and social safeguard policies, has been complex and challenging. The new demands posed by the CDF/PRSP process and the HIPC initiative present considerable challenges to the evaluation and control functions. More generally, the increasing involvement of partners in the Bank's work offers significant benefits, but also potential risks. Progress has been substantial with regard to partnerships receiving support from the Bank's Development Grant Facility, but criteria for evaluating other partnerships remain to be developed.

Monitoring and evaluation, a long-standing concern reflecting weakness in borrowers' evaluation capacities, has become even more important. In CDF and PRSP countries, initiatives are underway to strengthen borrower monitoring and statistical systems. It is important now to complement these efforts by mainstreaming evaluation capacity development.

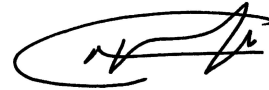
The AROE recommends that action be taken on four broad fronts to ensure the relevance and effectiveness of the Bank's evaluation and control processes. Of these, three concern actions by management and one requires action by OED:

- *Enhance the evaluation and control framework to encompass emerging priorities and initiatives:* To keep pace with the Bank's emerging operational modalities, management should ensure that coherent evaluation processes are in place for the new Knowledge Bank; develop guidelines on evaluation standards for partnerships; and mainstream evaluation capacity development.
- *Complete the process of converting and updating the Operational Policies:* Maintaining up-to-date and clear policies and guidelines is important to minimize development and reputational risks. Even though the conversion process is complex and time-consuming, it is important to establish a timeframe and clear norms for public consultations to guide the process. Updating policies, especially safeguards, and completing ICR guidelines for new instruments, such as APLs and LILs, need to be done expeditiously.
- *Ensure that CASs are consistent with priorities as set out in SSPs:* An important but avoidable source of development risk is the continuing gap between the corporate sectoral priorities and country programs. Actions can be taken at three levels. First, in the development of SSPs, sector boards should be held responsible for including explicit implementation plans, providing strategic directions based on the Bank's comparative advantage, and giving guidance on managing tensions between client and Bank priorities. Second, Regional sector managers should be held accountable for ensuring the consistent application of sector priorities in operational work. Third, CASs should include indicators to monitor progress in priority sectors, and country directors should be held accountable for the consistency of CASs with corporate priorities.



- *OED should strengthen its methods and procedures:* To keep abreast of changes in the Bank and enhance its influence, primarily through learning, on the Bank's development effectiveness, OED should review and improve its procedures for evaluating adjustment lending and ensure new instruments are fully covered. OED also needs to review and simplify project evaluation instruments and test and refine the country evaluation methodology. It should further increase the

transparency of the data sources, the evaluation approach, and assumptions used in its evaluations.



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## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Services
APL	Adaptable Program Loan
ARDE	Annual Review of Development Effectiveness
AROE	Annual Report on Operations Evaluation
ARPP	Annual Review of Portfolio Performance
BP	Bank Policy
CAE	Country Assistance Evaluation
CAI	Core Accountability ICR
CAS	Country Assistance Strategy
C & P	Corporate and Process
CDF	Comprehensive Development Framework
CIF	Country Information Form
CODE	Committee on Development Effectiveness
COSO	Internal Control-Integrated Framework
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CSA	Control Self-Assessment
CTR	Controllers' Vice-Presidency
DEC	Development Economics Vice-Presidency
DGF	Development Grant Facility
DGO	Director-General, Operations Evaluation
ECD	Evaluation Capacity Development
ECG	Evaluation Cooperation Group
ECWG	Evaluation and Control Working Group
ED	Executive Director
EDP	Executive Development Program
ERM	Enterprise Risk Management
ES	Executive Summary
ESSD	Environmentally and Socially Sustainable Development
ESW	Economic and Sector Work
HIPC	Heavily Indebted Poor Country
IAD	Internal Audit Department
ICR	Implementation Completion Report
IDG	International Development Goal (now the Millennium Development Goals)
IFC	International Finance Corporation
ILI	Intensive Learning ICR
ISR	Information Systems Renewal
LIL	Learning and Innovation Loan
M&E	Monitoring and Evaluation
MAR	Management Action Record
MD	Managing Director
MDG	Millennium Development Goal
MIS	Management Information System
OD	Operational Directive
OED	Operations Evaluation Department
OP	Operational Policy

OVP	Operations Vice Presidents
OPCS	Operations Policy and Country Services
PAD	Project Appraisal Document
PAR	Performance Audit Report
PRSP	Poverty Reduction Strategy Paper
PSR	Project Supervision Report
QACU	Quality Assurance and Compliance Unit
QAG	Quality Assurance Group
QBR	Quarterly Business Review
QEA	Quality at Entry Assessment
QER	Quality Enhancement Review
QET	Quality Enhancement Team
RSB	Research Support Budget
RVP	Regional Vice-President
S&T	Sector and Thematic
SSP	Sector Strategy Paper
WBI	World Bank Institute

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# 1

## INTRODUCTION

The *Annual Report on Operations Evaluation* (AROE) assesses the adequacy of the Bank's operations evaluation system and performance management practices.<sup>1</sup> The Bank adopted the Internal Control-Integrated Framework (also known as the COSO framework, described in Annex A) in 1995 to guide the establishment of effective internal controls. One of the objectives of a control system is to provide a reasonable level of assurance to management and the Board of Directors regarding the efficiency and effectiveness of operations. Evaluation is a part of the overall control framework, and the Operations Evaluation Department

(OED) has the mandate to assess the adequacy of the Bank's evaluation processes. This report assesses the status of those processes, broadly referred to as the Bank's evaluation and control system for development effectiveness, and makes recommendations for its improvement. This year, for the first time, the AROE uses the five interrelated COSO components as its organizing principle. The Bank's actions in response to evaluation findings are tracked by OED.

The focus of this report is the development effectiveness of the Bank's operational work (lending and nonlending services, research, and training). As such, it is concerned with evaluation and control processes that directly affect the outcomes of Bank development activities. It complements the annual COSO report from

the Controller's Vice-Presidency (CTR) and the annual report on the World Bank's internal controls from the Internal Audit Department (IAD) on the efficiency and effectiveness of the Bank's internal control processes in managing operations and business risks. The financial and business operational control issues discussed in these reports also critically affect the overall development effectiveness of Bank operations. This AROE is based on information from a wide variety of sources, including reports from OED, the Bank's Quality Assurance Group (QAG), other oversight units, and recent task force reports. It also draws on interviews with selected staff and managers involved in (or affected by) evaluation and risk management activities.

## The Bank's Evaluation and Control System

The World Bank is improving its performance despite an increasingly challenging environment and a mandate that has both broadened and deepened over the past decade. The *2000 Annual Review of Development Effectiveness* (ARDE 2000)<sup>2</sup> described the progress achieved in Bank lending performance since the initiation of the Strategic Compact. The ARDE also found that the Bank's agenda is increasingly ambitious and that, in allocating Bank resources, it must manage tensions between (a) client and corporate priorities, (b) global prescriptions and local conditions, (c) country performance and poverty incidence, and (d) short-term efficiency and a long-term, holistic vision of development. The ARDE concluded that the Bank can further improve its development effectiveness and reduce current levels of stress by being more selective; making better use of partnerships; and adapting its organizational structure, business practices, and operational instruments.

The Bank has a long history of evaluation and control for its operational work, but new challenges and shifting priorities pose novel and unprecedented risks. The current system is appropriately grounded in self-evaluation activities. These, together with independent evaluation, fiduciary functions, and the formal guidelines and procedures for staff, constitute the overall framework. Evaluation and control functions have changed in response to the Bank's evolving operating environment and mandate. IAD has improved its oversight of management controls. The Inspection Panel now provides a voice to local communities that may be adversely affected by Bank-supported activities. Other enhancements include the establishment of QAG, entrusted with real-time assessment of operational work; the Quality Assurance and Compliance Unit (QACU), which seeks to improve compliance with safeguard policies; and the Regional quality assurance teams, which are charged with ex-ante assurance on all aspects of operational quality. The Oversight Committee on Fraud and Corruption oversees the implementation of the Bank's

anti-corruption policies and strategies, and the new Department of Institutional Integrity investigates allegations of fraud and corruption.

By and large, these arrangements provide an adequate control framework for project lending. But the Bank is repositioning itself to become a stronger "Knowledge Bank." And it faces new and more complex demands at the country and global levels. With increasing transparency and a rapidly changing authorizing environment, the pressure to demonstrate results has never been greater, especially in reducing poverty. To manage development and reputational risks, it is imperative to ensure the adequacy and sufficiency of the Bank's controls over the entire results chain. The *Comprehensive Development Framework* (CDF), the *Poverty Reduction Strategy Paper* (PRSP) initiative, and the *Heavily-Indebted Poor Countries* (HIPC) debt-reduction program have improved the Bank's support for country ownership and enhanced its capacity-building and aid coordination roles in low-income countries. A revised approach toward middle-income countries is being developed. Interest is growing in the Bank's contribution to collaborative programs focused on the provision of global public goods. These changes have intensified the need for new skills, instruments, processes, and relationships, as well as for a revamping of the risk-management framework.

## The COSO Framework

The COSO model has been adopted by the Bank as the appropriate standard for the assessment of the Bank's internal control system. It is broadly serviceable for all aspects of risk management, including development effectiveness. (Box 1.1 gives a brief description of the COSO components. A detailed description is in Annex A.) Adapting the framework from financial objectives (profitability and preservation of financial assets) to development effectiveness (and, hence, the Bank's reputational assets) is conceptually straightforward. In practice, however, the increased reliance on partnerships in Bank operations involves special challenges. To

**Box 1.1****Components of the COSO Framework**

- **The control environment provides an effective organizational and incentive structure for the promotion of desirable behavior. It is focused on results and on acting in consonance with well-defined, clearly articulated, and well-communicated objectives.**
- **Risk assessment mechanisms identify, analyze, and manage emerging problems at each stage of operations to ensure timely achievement of relevant development objectives.**
- **Control activities ensure that management directives are carried out and operations comply with established standards and policies, consistent with Bank priorities; meet agreed technical, economic, and financial standards; and suit country social and institutional circumstances and reflect their priorities and needs.**
- **Monitoring is essential to ensure that control systems are adequate and effective and are properly aligned to ensure achievement of operational and corporate objectives.**
- **Information and communication encompass the other four components, and access to timely and accurate information and effective communication up, down, and across the organization constitute a necessary condition for the efficient conduct of the Bank's business and the discharge of staff responsibilities.**

ensure accountability, the distinctive responsibility of partners must be delineated and attribution of development outcomes assigned among them so that sources of control failure can be identified and remedied. This is a tough challenge given the weaknesses of monitoring and evaluation arrangements and the often inadequate capacity for monitoring and evaluation

among partners and in developing member countries.

Chapters 2–6 of this report are organized around the five components of the COSO framework. Chapter 7 discusses the OED agenda, and Chapter 8 provides conclusions and recommendations. Attachment 1 provides the management response to the OED recommendations.





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# 2

## CONTROL ENVIRONMENT

The institutional environment is the foundation of a sound control framework, because the effectiveness of control activities depends on the accountability and governance of the organization as a whole. The Bank's control environment can be seen as having four dimensions: its mandate, structures, functions, and internal culture. The Bank's fundamental mandate, once somewhat taken for granted, has been challenged—and thereby refined and sharpened—over the past few years to reach a clear focus on poverty reduction. The organizational arrangements, with oversight from the Board of Directors

and senior management, constitute the structural dimension of the Bank's control framework. The basic chain of accountability is well defined and has been tested over time. This structure is complemented by a variety of specialized functions designed to improve controls. QAG, IAD, the Inspection Panel, OED, and QACU form an evaluation "family" that has taken on new or broadened functions for ex-ante, real-time, and ex-post quality assurance and evaluation. Finally, the organization's culture—its values, incentives, and behaviors—determines the nature of interactions among staff and between management and staff, and is critical for controls to function effectively.

These elements of the Bank's control environment have served the institution well in an

increasingly complex setting. Management's consistent emphasis on improving the quality of Bank operations and efforts to improve institutional learning through improved self-evaluation, as noted in different parts of this report, have raised the control consciousness of staff. As a result, both lending and nonlending activities continue to register improving performance, meeting or exceeding the targets set by management. The increasing complexity of Bank operations and the significant changes of the past few years have increased stress on staff and stretched institutional capacities, including that of the evaluation framework. To ensure that progress is sustained, some concerns warrant close attention. This chapter focuses on five emerging issues in the control environment.

### **Selectivity and Strategic Focus**

The Bank's evolving operating environment has widened its mandates, resulting in an expansion of activities. Recent evaluations (ARDE 2000; Aid Coordination<sup>1</sup>) have observed that a lack of selectivity can pose development risks. An assessment of the Strategic Compact found that the recent initiatives have resulted in unanticipated changes in the allocation of budget, including lower than expected expenditures on economic and sector work (ESW) and lending, which may affect sustainability of the gains that have been made.<sup>2</sup> A 2000 CAS retrospective identified a lack of selectivity at the country level as well. Few Country Assistance Strategies (CASs) use selectivity as an analytical tool to focus on particular sectors or themes, and few indicate why given instruments were chosen. This can inhibit the implementation of a CDF approach focused on core competencies and comparative advantage.

This said, the selectivity and results orientation of CASs have improved considerably, and the CDF and PRSP initiatives have begun to address issues of strategic selectivity among donors. Management has recently taken additional steps toward addressing selectivity with the establishment of a new Management Committee "to provide corporate guidance and to take up issues of priorities and strategy."<sup>3</sup> The Committee's main role is to align corporate strategies, ensure institutional selectivity and development effectiveness, and manage tensions between corporate priorities and country programs. Bank management has identified operational emphases grouped into Corporate Advocacy Priorities, Global Goods Priorities, and Core Competencies, and the proposed FY02 budget has been prepared within this framework. A new Partnerships Council has also been formed to provide oversight to the diverse and proliferating list of collaborative arrangements that have been created over the past few years.

### **Matrix Management**

Matrix management has added new dimensions to the Bank's accountability structures. It has altered the responsibilities of managers and staff, with implications for the internal control

environment. The resulting structure has been a subject of debate since its introduction. It was adjusted in October 1999 to better balance network and Regional resource allocation and to clarify roles and responsibilities.

Matrix management has helped increase the country focus, improve the technical capacity and response capability (e.g., financial crises, natural disasters, and post-conflict situations) of the Bank, and reduced the fragmentation of technical staff across Regional administrative units. A continuing concern, though, is the role of the networks in quality assurance, which is largely limited to advisory and support functions. Anchor units and sector boards have insufficient budgets and inadequate authority to influence the quality of individual operations and to ensure alignment with the Bank's sectoral strategies and priorities. This presents a challenge in aligning the Bank's corporate priorities and commitments at the sectoral and thematic levels with individual country assistance programs (as also noted in an assessment of the Strategic Compact).<sup>4</sup>

The new development approach adopted by the Bank is thematic and crosscutting, demanding coordination across sectors. In general, however, professional groups continue to be compartmentalized along sectoral lines, partly because of the limited role played by the network councils. For example, in the area of water resources, most operations continue to focus on individual projects and issues within traditional water subsectors, even though the Bank's strategy emphasizes comprehensive water resource management. This weak integration at the sector-wide level means that operational integration has to take place at the country level. To achieve this, the functioning of country teams needs to be improved. An assessment of the Compact found that country teams are not seen to be attending sufficiently to the sector strategies or providing strong enough feedback for input into the network/sector board strategies. The increasing number of country departments has also intensified the challenge of fostering cross-country learning.<sup>5</sup>

Management is aware of the issues and has recently reconfigured the Matrix Steering Group to better understand the functioning of the

matrix and address remaining challenges. The group will focus on ensuring that all sector boards, country teams, and sector units—including their staff in field offices—function effectively, and it will also provide the needed support through reforms in budgeting and human resource systems. The group's FY02 program is focused on convergence of best practices for sector and country management, country teams, and sector boards, and expects the Operations Vice Presidents (OVPs) to provide the correct incentives to managers and staff in support of those objectives. Management is also in the process of rationalizing the span of control for Regional sector management units.

### **Overload**

Credible and efficient evaluation is an essential component of the control environment. A perception of excessive or poorly planned evaluation and control activities can weaken the desired impact on accountability and stunt institutional learning. Growing concern about “overload” led management to establish in 1999 an Evaluation and Control Working Group to address the issue. Acting on its recommendations, the Bank has made substantial progress in better coordinating evaluation and control units (QAG, OED, IAD) to minimize overlap. Rules are in place to avoid evaluating the same activity twice in the same year. OED has reduced the number of its major products, while enriching their content. QAG has implemented changes in its sample selection procedures to minimize impact on individuals and proposes to broaden its quality assurance role with the networks, while reducing the frequency of its lending and supervision quality reviews. At the same time, explicit resourcing of staff time for evaluation and control activities has not yet been provided, although the ongoing budget reform process is expected to address this issue.

The perception of overload continues despite these changes. In response, the evaluation and control units plan to further review and coordinate their activities and develop an integrated evaluation and control program. This would help improve systemic efficiency and the ability of the

overall system to utilize individual findings for scaled-up, higher-level analyses.

The evaluation and control units also need to improve their ability to communicate the rationale for current evaluation activities to the staff. As noted by the Evaluation and Control Working Group, many staff may not fully understand the mandates and activities of the different evaluation and control units (OED, QAG, QACU, Operations Policy and Country Services [OPCS], Inspection Panel, IAD, Investigation Unit, and Regional quality assurance teams). There is also the need to communicate to managers and staff the proven value of evaluation and control activities in their contribution to improved quality, better outcomes, and reduced corporate risks.<sup>6</sup> Senior management leadership is critical to ensure that evaluation and control activities contribute to organizational learning.

### **Internal Culture**

The culture of an organization is important for the effective functioning of controls. Transparency and trust influence the interaction between staff and managers, staff perceptions of decisionmaking, and the identification of risks through honest and effective feedback. Based on recent Control Self-Assessments, the Controller notes continued staff perceptions that those in leadership positions do not consistently set a good example. Feedback from Executive Development Program (EDP) graduates at the Strategic Forum also raised the issue of internal culture and the lack of candid interaction between managers and staff. Management has responded by making internal culture a priority concern, and the President has made personal efforts to elicit candid feedback directly from staff. A new office of Internal Communication has been established to promote direct links between managing directors and working-level staff. Better communication, greater clarity on operational priorities, clear lines of responsibility, and appropriate incentives to support desired organizational behaviors should help promote a culture that allows for honest feedback and better morale.

### **Aligning Incentives with Results**

The *results orientation* principle of the CDF and the centrality of poverty reduction in all Bank activities demonstrate the Bank's commitment to a results-based development paradigm. The focus on performance measurement under the Strategic Compact has also encouraged progress toward results-based management. For example, human resource policies were significantly revised and a new Overall Performance Evaluation system introduced to help increase the focus on results. Significant progress has been made as a result of the close attention by management to monitoring of work programs. For example, the *Dashboard* has been added to the management information system to track expenditures and deliverables. These steps have improved the control environment, although the transition to a fully results-oriented institution is not yet complete. The Bank's internal incentives and processes need to be further aligned with the Bank's vision and operational approaches. As identified by an assessment of the Strategic Compact, the link to development results could be made stronger and

the formal personnel evaluation/incentives and budget allocation criteria could be more closely tied to performance. The recasting of the policy framework needs to keep pace with the Bank's needs, especially with regard to safeguard policies. Sector Strategy Papers (SSPs) have started to lay out specific program and success benchmarks, and it is important to make sure this is consistently done. The evaluation of the CDF and PRSP will be made more challenging by their focus on process rather than measurable outcomes.

A key area for improving the Bank's focus on results, and currently a source of vulnerability, is in transparently setting out verifiable performance indicators for progress against poverty. The Bank's adoption of the Millennium Development Goals (MDGs) heightens the need for improvements in this area. The *2000 Annual Review of Development Effectiveness* (ARDE), supported by QAG and other Bank data, has identified the need to link the Bank's objectives and policies more explicitly to poverty reduction and to set up monitorable outcomes within CASs, SSPs, and project appraisal Documents (PADs).<sup>7</sup>

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# 3

## RISK ASSESSMENT

The identification and analysis of risks that could jeopardize the achievement of organizational objectives is central to the objective of the evaluation and control framework. Systematic risk assessment provides the basis for managing risks. The increasing complexities of the Bank's operating environment and the demandingness of the new operational initiatives make rigorous and continuous risk-assessment processes critical.

The Bank's assessment of development effectiveness risks improved considerably with the establishment of QAG, and more recently QACU and the Regional quality assurance teams. The fragmentation of risk-management activities led management to commission the Risk Management Task Force in 2000. The work of the Task Force highlighted current weaknesses and offered sensible recommendations. A follow-up working group is currently working on operational risk management, and a report is due shortly with recommendations on strengthening the operational risk-management framework.

The new Management Committee will also serve as the Risk Management Committee, as recommended by the Risk Management Task Force, and will address all types of risks, including those to the Bank's reputation, development effectiveness, and financial and business operations. In addition, through the quarterly business review (QBR), the Vice-Presidential units are expected to provide an assessment of risks and

mitigation steps at the business-unit level. The Bank has adopted the Control Self-Assessment (CSA) approach in implementing COSO through two main processes. The CSA workshops have a strong focus on operational teams and behavioral risks, and their potential impact on business objectives. In finance, the Enterprise Risk Management (ERM) tool is being used, and the methodology is planned to be piloted in the Regions. ERM ensures a comprehensive and rigorous approach to financial risk management and ensures that risks are mitigated, with accountabilities clearly assigned. A corporate risk management structure is thus taking form, but some aspects need additional attention.

### **Project Design**

For informed decisionmaking, management and the Board need a good assessment of project risks, their likelihood and consequences, and benchmarks to compare and aggregate risks across projects. QAG quality at entry assessments (QEAs)

find that the overall project quality at entry has steadily improved from 82 percent satisfactory or better in CY97 to 89 percent in CY99. But it notes that risk assessment remains one of its weakest aspects. At the level of individual operations, the quality of risk analysis has not improved over the past three years. Both QAG and the Risk Management Task Force point out that risks are not candidly discussed in the PAD. Thus, although the use of log-frames has increased, with a wholesome impact on project design, it has not as yet had a significant impact on the quality of risk assessments. Past QAG reviews have found risk assessments to be weak in adjustment operations. While the latest QEA shows that the risk assessment ratings for adjustment operations (79 percent) are now higher than for investment lending (69 percent), QAG cautions that with the short time available between tranches, the ability to adapt to changing circumstances can often be substantially compromised.<sup>1</sup> Also, despite the improvements found in the successive QEAs, the adjustment lending record points to the need to explore a more consistent risk management framework, as well as the increasing complexity of adjustment operations. Given the rising importance of adjustment lending in the Bank's portfolio, these findings warrant closer attention to risks in adjustment lending operations.

The Regional Quality Enhancement Teams (QETs) aim to address this problem by focusing on the identification of risks at the project concept and appraisal stages. Regional Safeguards Coordinators have been appointed to deal with safeguard issues and, with assistance from QACU, they identify special-risk projects (projects with potential reputational risks to the Bank). But there are no standard criteria for these assessments. Each Region has its own system.<sup>2</sup> While attention to safeguard and fiduciary compliance dimensions of risk has improved considerably, the assessment of the broader development risk of the project failing to achieve its objectives or of being misaligned with corporate priorities remains weak.

A separation of the assessment of compliance from that of program implementation is crucial for risk management. QAG effectively performs

this function for approved projects and QACU helps with regard to safeguard issues. In general, ex-ante risk management is heavily dependent on self-assessment. The networks offer a potentially objective source of advice to ensure that Regional strategies and operations are consistent with corporate priorities and policies, but their role is currently limited. New organizational solutions are needed to ensure both adequate risk management and the independence of networks' oversight functions without adding to internal transactions cost. One example is the centralized unit for safeguard compliance assessment in the International Finance Corporation (IFC). Good practice examples from other elite public sector organizations and private companies should be explored.

An innovative approach to risk profiling is QAG's portfolio-at-risk ratings. These ratings have helped to focus the attention of Regional and corporate management on selected projects and sectors. But the reliability of these ratings depends on the quality of the project supervision reports, and—as noted below—these self-evaluation reports are often overoptimistic. QAG's periodic assessments of project quality should, in due course, help to bridge the gap, provided Regional managers take action on QAG recommendations.

### **Project Implementation**

The supervision process, as captured in the project status report (PSR), is the Bank's main means of identifying and managing development risks during project implementation. QAG's assessment of supervision quality in FY00 (QSA4) found a steady improvement in the quality of supervision since FY97, with an increased focus on development effectiveness and sustainability, and increased attention to safeguard and fiduciary requirements. Almost 92 percent of the sample was rated satisfactory or better on overall supervision quality. This represents a significant strengthening of the risk-assessment framework. At the same time, QSA4 found the realism of supervision reporting and the tracking of development outcomes to be the weakest aspects of supervision, with no improvement since FY97.<sup>3</sup> An analysis of the differences

between PSR and Implementation Completion Report (ICR) assessments of project performance (in Chapter 4) is consistent with this finding. QSA4 identified weaknesses in Bank inputs and processes that can contribute to development risks. Supervision budgets were found to be inadequate for 25 percent of the sample by QAG panelists, and almost 40 percent of the TTLs surveyed expressed the same concern. QSA4 finds that this is partially the result of the failure of management to provide sufficient budgetary resources for the complexity, degree of difficulty, and array of problems faced by supervision teams. This suggests that some aspects of supervision may not be fully covered (see box 3.1). The assessment also found some dissatisfaction on the part of TTLs with management support for supervision, with about a third of the TTLs indicating they were not getting timely decisions or guidance by their managers at critical stages. There is no independent field verification for PSR findings, including those on safeguard and fiduciary issues, either by Regional or network quality teams. Filling the gaps in the real-time risk assessment framework calls for a careful review of the cost-effectiveness of additional risk mitigation arrangements.<sup>4</sup>

### Beyond the Project Level

Countrywide risks can affect individual projects' development outcomes. According to a 2000 CAS retrospective, slightly over a third of the CASs analyze the impact of key risks satisfactorily and fewer than a third classify risks according to their perceived importance—high, medium, and low. There is no standard methodology or cri-

teria for risk identification and/or assessment. As noted in ARDE 2000, OED country evaluations have found a pattern of overoptimism about the receptivity of government to Bank advice, its willingness to undertake reforms, and its capacity to implement recommended measures. Inadequate tools for risk analysis have contributed to a tendency to underestimate risk and overestimate the influence of proposed risk mitigation measures. Based on evidence from Country Assistance Evaluations (CAEs) and the CAS retrospective, ARDE 2000 also notes that CASs rarely state the strategic rationale for choosing one instrument over another.

The introduction of the SSP has improved corporate strategies at the sector and thematic levels. But weaknesses in self-evaluation have persisted, inhibiting an accurate assessment of strategic risks. An ongoing stocktaking of SSPs by OPCS has identified some best practice examples, but found their analytical quality to vary considerably. And while most SSPs build on general lessons of experience and their integration of OED sector evaluations is improving, few SSPs try to derive criteria for instrument choice from lessons of experience in the sector. To strengthen the Bank's overall risk management framework, OED has recommended enhancing risk profiling and classification, and stressed the need for the Bank to explicitly address strategic risks and monitor performance against strategic objectives. The failure of some strategies to identify the Bank's comparative advantages in relation to partners and the lack of output and outcome performance indicators were seen as deficiencies. ARDE 2000 notes that few SSPs thoroughly analyze country

#### Box 3.1

#### Trading One Risk for Another?

**Greater awareness of reputational risks associated with failure to comply with the "do no harm" policies and increased focus on fiduciary issues has made operational staff keenly aware of the need to address these risks during supervision. But attention to risks in other operational quality dimensions may need to be strengthened. A survey of Task Team Leaders (TTLs) in QAG's FY00**

**assessment of supervision quality found that 71 percent of the TTLs would use an incremental \$10,000 for either more frequent missions or longer field visits (37 percent) or to hire additional technical inputs (34 percent). Safeguard and fiduciary issues ranked lower. This suggests that budget allocation decisions may be affecting quality control on development risk matters.**

strategies to identify risks in reconciling Bank priorities and client objectives.

### **Partner Risks**

The transformation to a “full service” Bank; the need to make operations more effective, that is, putting the country at the center of development programs; and an increasing role of the Bank in global public goods have made partnerships and global programs an important part of the Bank’s work. These partnerships present significant benefits, but also potential risks. These risks include reputational risk (being associated with a partner engaged in activities or practices inconsistent with the Bank’s policies or strategies); inefficiency (costs of partnership are more than outcome benefits or resources are diverted to nonpriority areas); and conflict of interest (of upstream advisers with subsequent roles as consultants or for procurement opportunities, or partnering with private sector or NGO groups in activities that are linked to the expansion of their services or markets for their products).

To better prioritize and manage rapidly expanding partnership links, the Bank established the Development Grant Facility (DGF) in FY98 and the Partnership Council in FY00. The DGF

has established criteria to guide decisions on grant programs, and the process involves sector boards and networks. The Partnership Council provides support for more proactive management of partnerships while ensuring that accountability and approval lie with individual Regional Vice-Presidents (RVPs) and Managing Directors (MDs). The Bank has also recently established criteria for engaging in partnerships.

The DGF has made significant advances in addressing OED’s previous recommendations. The DGF has moved to fill an important gap: the need for a high-quality, independent evaluation to draw strategic lessons. Six independent evaluations have been conducted in FY00 and FY01, and evaluations for all major programs have been planned over FY02–04.<sup>5</sup> Additional steps are needed to address remaining risks in governance and the implementation of exit criteria. The Partnership Council is in the process of prioritizing and rationalizing the list of Bank partnerships, and it is also developing criteria for exit strategies. The monitoring and evaluation of outputs, outcomes, and impacts remains a challenge. Some of these issues will be reviewed in the forthcoming OED evaluation of global programs.



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# 4

## CONTROL ACTIVITIES

Control activities are the policies, rules, and procedures established to make sure that management directives are carried out. They support actions to ensure the achievement of development objectives and to effectively address the risks identified through the risk-assessment processes. The Bank has long had manuals for staff conduct and for Operational Policies and procedures. The internal processes have been substantially revised and continue to evolve to keep pace with the new operating environment of decentralization and matrix management.

### **Operational Policies and Strategies**

The Bank's Operational Policies form the basic set of controls to direct Bank operations. These policies embody corporate priorities and provide guidance on the implementation of the Bank's development strategy. The process of converting Operational Directives (ODs) to definitive Operational Policies (OPs) and Bank Procedures (BPs) began in 1993. By 1998, a majority of the ODs had been recast, with the notable exception of six policies where the conversion was considered to be complex.<sup>1</sup> Of these, the OD on environmental assessment has since been converted. The three social safeguard policies are in the process of conversion, as are the policies and guidelines on adjustment lending and poverty reduction.<sup>2</sup> The conversion process for the social safeguard policies has been complex and slower than expected, involving extensive internal and external interactions, but without clear norms for

public consultations. Another challenging area has been the application of fiduciary and safeguard standards to adjustment lending, although substantial progress has been made on developing a consensus on the fiduciary side. The planned conversion and update of OD8.60 (in FY02) on adjustment lending is expected to address these issues comprehensively. Beyond the conversion of ODs, 29 of the 71 OPs are considered "current."<sup>3</sup> The 1998 review by OPCS recommended maintaining and monitoring progress against timelines for the stages of the policy revision process. This recommendation remains valid today.

A common issue across several recent OED evaluations is the need to strengthen and clarify operational policies.<sup>4</sup> The 2000 ARDE notes that ambiguities or gaps in the policy framework have made Bank staff, management, clients, and partners uncertain about expectations and requirements. The fact that important policies are not

up-to-date and well understood by staff constitutes a development effectiveness risk. While there has been notable progress in providing guidance to staff on safeguard policies (as noted in the next section), and work is also progressing on other policies, it is important for this work to quickly culminate in the issuance of unambiguous policy statements to guide operational work.

The introduction of the SSPs in 1996 was aimed at addressing the previous weaknesses in sector strategy development. As ARDE 2000 notes, early sector strategy documents evaluated by OED lacked explicit plans for implementation, self-evaluation had been weak, and they generally did not provide strategic direction based on the Bank's comparative advantage. Few SSPs analyzed the country strategies and tradeoffs between client and Bank priorities, or the relative strengths of lending and nonlending services. There has been improvement in the FY98–01 cohort of SSPs. Although an ongoing stock-taking by management is identifying areas for further work—given the complexity of the remaining issues and new expectations about the role of SSPs—it is beginning to have an impact on SSP quality, as demonstrated in the recent preparation of a sector strategy for information and communications technology (ICT).

### **Quality Assurance**

QAG's periodic and systematic assessments of quality at entry and quality of supervision have helped identify areas of weakness and improve operational quality over time, as noted earlier. To complement these assessments of approved projects, management has taken steps to enhance ex-ante quality assurance for lending operations by establishing Regional QETs and the use of ex-ante quality enhancement reviews (QERs). The QET and QER functions and procedures vary across Regions and networks, but generally they respond to demand and self-identified issues from within a Region. QER and QET activities tend to focus on the individual project design, and less on the alignment between the goals of the project, the CAS, the underlying analytical and advisory activities (AAA), and corporate objectives. Since QERs are undertaken mainly on a volun-

tary basis, or for high-risk projects, better incentives are needed for staff to identify a project as high risk.<sup>5</sup> Stronger participation by the networks along with the Regions in monitoring the supervision of these projects would help to evaluate and record lessons learned.

In safeguards compliance, management has recognized the need to strengthen oversight. Substantial resources have been allocated to QACU. All Regions have appointed Regional Safeguard Coordinators, with dual reporting requirements to the Regional Safeguards Directors (also the Regional economically and socially sustainable development [ESSD] managers) and QACU. Several steps have been taken to improve the identification of projects with safeguard issues and ensure compliance with policies, including the introduction of the integrated data sheets, issuance of safeguards policy matrices, short guidance notes for staff, training activities, and resources to guide operational staff. ESSD and Regional Vice-Presidents have joint sign-off on corporate risk projects. Finally, QACU has started to undertake a systematic Bankwide aggregation of information relating to safeguard issues, which should be a valuable input in the recasting and updating of policies.

These changes are a significant improvement over a relatively short period of time. However, some issues remain. While corporate risk projects are closely monitored, there is in general little safeguard monitoring of other projects during supervision. There is no mechanism for field verification—the initial notion of a sample “audit” of the portfolio was dropped. The Regional safeguards staff, the first line of defense against noncompliance, faces a potential conflict of interest. Without full-time commitments to safeguard issues, the Regional safeguard coordinators act both as monitors for safeguard compliance and as technical specialists with Regional operational responsibilities. The introduction of dual OPEs for Regional safeguards coordinators will be introduced in FY02 and are expected to address this issue. Finally, there is a continuing need to harmonize safeguard requirements with those of client countries and international partners.

### Quality Assurance for ESW

The importance of ESW, which has long underpinned country strategies, policy dialogue, and project design, has further increased to complement the evolution of CDF/PRSP processes and of the Knowledge Bank. Accordingly, management has paid considerable attention to improving the quality of ESW through periodic assessments of ESW quality by QAG and in-depth self-assessments. Management formally launched an ESW reform effort in July 1999, which led to the adoption of quality enhancement action plans in all Regions. The impact of these efforts is shown in QAG's assessment of ESW—the quality of ESW was found to be much improved in FY00, with 86 percent rated satisfactory or better, up from 73 percent in the previous two assessments. The gains have been seen on several dimensions of ESW quality, but there are some key areas where more attention is needed.

QAG's assessment of ESW found both the quantity and quality to be lower in countries with weak policy and institutional frameworks, as measured by their Country Policy and Institutional Assessment (CPIA) ratings. Quality was rated as uneven for two “due diligence” products, Poverty Assessments and Public Expenditure Reviews. The analysis of implications for the poor and for gender sensitivity was also an area of weakness. The assessment notes that the improvement in quality is not mirrored in a commensurate gain in the effectiveness of Bank processes, including sustained attention by operational managers. Peer review has long been a cornerstone of ESW quality assurance, but despite the improved quality of peer reviews, the quality at entry assessment concludes that their advice does not often have an impact on the final product. The task teams also do not adequately draw upon the analytical expertise or the knowledge base in the networks, Development Economics (DEC), or the World Bank Institute (WBI). The networks' current “support” role does not fully exploit their comparative advantage.

Overall, these assessments point to the need to strengthen the quality control and supervision functions for ESW. There is also a need to adjust the evaluation methodology for ESW to (a)

account for capacity-building objectives and (b) address ESW impact at the program rather than at the project level.<sup>6</sup>

### Project Self-Evaluation

The ICR is the Bank's main self-evaluation and learning tool. It is central to the Bank's evaluation system and integral to its knowledge management system. OED periodically evaluates the quality of the ICR process (the findings from OED's fifth ICR process review are given in Annex B). The quality of the ICRs remains high, with 94 percent rated satisfactory or better in FY99, with improvements in several dimensions. A problem area identified by the previous reviews, and a source of risk for the sustainability of projects' development outcomes, is the failure to include a plan for future operations (renamed the *transition arrangements*). The share of ICRs with a satisfactory discussion of transition arrangements improved from 24 percent to 45 percent over the past year, leaving ample room for further improvement.<sup>7</sup> The quality of ICR ratings for project outcomes has also improved: The number of ICR ratings changed after OED review has declined from 8 percent in FY96–97 to 4 percent in FY98–00. The realism of supervision (PSR) reporting shows less improvement. Ratings changes between the final PSR and ICR remained at 11 percent between the periods FY96–97 and FY98–00. The total ratings changed between the PSR and OED review have declined from 14 percent in FY96–97 to 12 percent in FY98–00, which is large enough to cause concern about the realism of self-evaluation.

There has been no improvement in the realism of ratings in the key quality dimensions of institutional development and sustainability. Between the ICR and OED review, these ratings were changed for 20 percent of the projects reviewed in FY98–00 in both dimensions (virtually the same as the 19 percent of FY96–97).<sup>8</sup>

In FY00 the Bank introduced a significant program to reform the ICR process, introducing the Intensive Learning ICRS (ILIs). About 30 percent of the projects were to have ILIs, and the rest a Core Accountability ICR (CAI). In the partial sample of the FY00 ICRs received by

OED (to July 2000), 15 percent were ILIs, 10 percent followed the previous guidelines, and the rest were CAIs (see Annex B). The initial results are inconclusive as to the difference in the quality of ILIs and CAIs.

### **Corporate Self-Evaluation**

The Bank has significantly increased self-evaluations for major institutional products and services in recent years. A particularly noteworthy achievement is the just-completed assessment of the Strategic Compact, which was recognized by the Board as analytical and fair, offering important lessons that can help the Bank move forward. It provides a comprehensive assessment of not only how the Compact initiatives fared but also how the Bank works, identifying several weaknesses that the management has swiftly moved to address. The Bank has also made effective use of task forces to address systemic issues. The regular budget retrospective should adopt a similarly rigorous and objective stance in order to institutionalize learning and improve efficiency in resource allocation and use.

The Bank also undertakes regular stock-taking or retrospective exercises on major issues, products, and processes. For example, the CAS retrospectives have provided important insights on CAS quality and process, identifying areas for improvement. Other retrospectives have played important roles in improving ESW quality, focusing attention on adjustment lending and other portfolio issues. The leadership of the OPCS Vice-Presidency has been critical to the inculcation of a self-evaluation culture in Operations.

### **Evaluation for New Initiatives**

During the Strategic Compact period, the Bank has expanded and strengthened in-country partnerships and introduced new lending instruments to provide flexibility and promote innovation and learning. The evolving emphasis on country focus in the Bank's work, particularly in the context of the CDF/PRSP approach and the HIPC initiative, will place new demands on the control framework, because accountability for results is shared between the Bank and the borrower. The

HIPC and PRSP initiatives require substantial improvements in client countries' statistical and monitoring systems to track the poverty impact of interventions. The Bank and other partners are supporting these improvements. Initial efforts have focused on the countries' monitoring activities, and these must now be complemented by attention to their evaluation capacities. OED is planning to undertake process evaluations of these initiatives.

A particular challenge for the CDF is that it focuses on process improvements and neither baseline data nor an evaluation framework was included at the outset. Management has put in place a program to monitor progress in implementing CDF principles in CDF/PRSP countries. In addition, OED and DEC, together with several other donor and client partners, have jointly initiated a process evaluation of the CDF, which will be completed in FY03.

### ***Adaptable Lending Instruments***

From their introduction in 1997 until mid-June, 2001, the Board has approved 87 Adaptable Program Loans (APLs) and 85 Learning and Innovation Loans (LILs). A particular challenge to the control framework of APLs is the development of appropriate performance triggers and the monitoring of the incorporation of lessons between phases. The APLs do not require special ICRs; that is, each phase is evaluated individually and it is expected that the ICR will be undertaken six months ahead of the last disbursement. The ICR guidelines need to be amplified to include performance triggers for approval of the next phase. LILs can make an important contribution both for learning and as risk-management tools upstream of operations addressing complex or difficult development issues. A development risk for LILs is failure to reach their learning objective (affecting the quality of a follow-up operation or, conversely, the suppression of a good idea). Sound monitoring and evaluation (M&E) arrangements, quality, and realistic requirements and procedures are critical dimensions for effective LILs.

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# 5

## MONITORING

**F**or effective management, the evaluation and control system requires regular and systematic monitoring to assess its quality and for the prompt identification and resolution of problems. Monitoring is also essential to ensure that appropriate actions are taken in time to address emerging risks to the efficiency and effectiveness of operations.

The Bank's system was significantly enhanced with the establishment of QAG for real-time monitoring of operational quality. This provided a much-needed complement to the ex-post independent evaluation function of OED. Similarly, QACU has filled an important gap in the monitoring of ex-ante safeguard policy compliance. The networks are also monitoring the portfolio to ensure quality in their respective thematic areas or sectors more systematically and regularly. The PREM Network, for example, produces an annual progress report on poverty reduction.<sup>1</sup> This enables monitoring of progress in the overall poverty reduction effort, although it still falls short of scrutinizing progress on poverty reduction dimensions of individual sector assistance efforts.

### **Portfolio Monitoring**

At the corporate level, QAG's annual review of portfolio performance is the primary operational monitoring tool. The findings of the review are presented to CODE and the Board at the same

time as OED's ARDE to allow Board members to consider performance trends in both the ongoing and closed portfolios. The portfolio performance review is a valuable analytical tool, addressing key emerging issues and identifying actual and potential risk areas in need of management attention. It is constructed primarily from materials from regular portfolio monitoring functions (including QAG quality assessments), supplemented by data in the Bank's management information system. The analysis at the country level uses the Country Portfolio Performance Reviews (CPPR). The CPPR is used by the Regional Management Teams to engage the borrowers in high-level discussions about the Bank's portfolio performance. These discussions are important, both to address the accountability issues that affect the performance of individual operations and those that are systemic in nature.

### **Monitoring and Evaluation**

M&E is essential to track development outcomes, to identify emerging risks, and to achieve results.

As a tool for performance measurement and management, it is a critical feature of the evaluation and control framework. The M&E in Bank operations has been chronically deficient. Thus, despite indications of increasing operational quality and project performance, the Bank does not have a solid foundation to convincingly demonstrate results on the ground.

To address this issue, in 1999 the Bank established a working group to develop a comprehensive action plan to achieve sustainable improvements in M&E in Bank-financed projects. The working group dealt only with investment projects. It recommended a two-pronged approach phased over a four-year period: to pilot results-based M&E in 8 countries and 4 sectors and to build the Bank's internal capacity through a cadre of an equivalent of 16 full-time senior M&E specialists to support task teams and borrowers.<sup>2</sup> The action plan is being implemented: Diagnostic work is underway in six pilot countries, and two M&E specialists are in place in OPCS. The Regions have adopted different strategies to identify and build in-house capacity to fill the need for M&E expertise.

The pilot approach recommended by the M&E working group has found support in the Bank, provided M&E was applied across the board in accordance with current Bank policies. The need to address evaluation concerns for systemic issues such as adjustment lending to make M&E more effective has also been identified as a priority area. The findings of the latest QAG assessments for both quality at entry and quality of supervision indicate that M&E continues to be weak relative to other dimensions of quality.

M&E is important for improving borrowers' management of investment programs and for better controlling the risks to the development effectiveness of Bank operations (by enhancing supervision quality as well as learning).<sup>3</sup> The significance and duration of the problem warrants a more comprehensive and accelerated approach. This is especially true for PRSP countries. A recent study on tracking poverty-reducing public spending noted that most of the HIPC countries could not track poverty expenditures, a particularly risky situation for the Bank as one of the primary

sponsors of the program. On fiduciary issues, as part of a broader governance approach, the Bank's support for more effective public expenditure management and accountability has increased considerably in recent years through greater and more effective fiduciary ESW and institution building efforts. For development outcomes, there are several efforts under way to build up monitoring and statistical systems, but, as noted earlier, there is a need to complement them by mainstreaming evaluation capacity development.

### **Corporate and Sector Scorecards**

Challenges remain in completing the corporate and sectoral scorecards. An assessment of the Strategic Compact found that there is a corporate scorecard, which is balanced and impact-focused—but it lacks data, particularly on Bank country and sector assistance, and is not being used meaningfully. The assessment also notes that the scorecard is reasonably complete for Tier III (Bank internal measures), which is expected to translate into an overall improvement in the Bank's effectiveness in achieving poverty reduction. Efforts to fill in Tier II (the performance or impact measures for Bank performance at the country and sector levels) of the scorecard are ongoing. A joint OED-OPCS task force is developing a common view on how to measure Bank performance at the country level. OED is developing a template for the Country Information Form (CIF) to evaluate the outcome of Bank assistance, which could serve as a starting point for this effort. Management has commented on earlier versions of the CIF, and OED has revised the CIF to incorporate those comments. Early in FY02, based on the outcome of this work, the task force will convene to agree on how to implement the CIF, on a pilot basis, as an input for the corresponding module in the scorecard. The Tier II indicators will eventually be linked to the Tier I indicators, the results dimension of the scorecard as embodied in the MDGs.

### **Inspection Panel**

The Inspection Panel was created in September 1993 by the Bank's Board and is an independent mechanism to enhance the transparency and

accountability of Bank operations. It serves as a valuable instrument for the Board to independently verify whether the Bank is following its own policies and procedures, particularly those intended to protect the environment and the interests of the people affected by Bank projects. Inspection is triggered by a written complaint, which gives an effective voice to local communities that may be adversely affected by Bank operations.<sup>4</sup>

So far the Panel has received 19 requests for investigations. All but the one received in FY01 have been completed. As an instrument of last resort, the Panel reports provide useful insights for improving policy implementation and

operational processes. The Inspection Panel findings point to important control failures, including inappropriate incentives for staff and managers, lack of clarity and the misinterpretation of policies, and a preoccupation with inputs and outputs instead of adequate attention to impacts. These findings confirm some of the conclusions of this report. Thus, the Inspection Panel is helping the Bank improve its development effectiveness and reduce its reputational risks. At the same time, however, steps need to be taken to ensure that concerns about the potential impact of Inspection Panel investigations on the careers of Bank managers and staff do not lead to excessive risk avoidance.





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# 6

## INFORMATION AND COMMUNICATION

**P**ertinent, timely, and accurate information and effective communication are necessary for management and staff to carry out their responsibilities. Decentralization of work, the matrix structure, and increased partnerships and consultative processes make efficient and reliable communications critical. For the Bank's development work, the role of information goes beyond financial and administrative reporting. Information and knowledge management are inextricably linked. To improve the efficiency and effectiveness of development activities, it is important that the Bank not only have the "hardware" to

communicate information but also the "software," or the knowledge, to contribute to the content of what is being conveyed. Harnessing development knowledge has been a comparative advantage of the Bank. To build on this asset, the Bank committed itself to becoming a Knowledge Bank in 1996, and the Strategic Compact made "retooling the Bank's knowledge base" one of its four priorities for change.

### **Information Systems**

The Bank has invested substantially to upgrade its information technology, communications, and Management Information System (MIS). The progress on the Information Systems Renewal (ISR) Program, including the integrity of the information and security systems and the financial

information system, is tracked and reported by IAD and CTR.

The enhancement to information technology systems and MIS should address the initial gaps, such as underemphasis on useful management reports and difficulties in recording and accessing relevant information. Overall, the ISR succeeded in streamlining processes, instituting electronic workflow and approval systems, improving internal processing efficiency, effectively linking the Bank's worldwide telecommunications and computer networks, and contributing to the smooth decentralization of Bank activities. Better access to knowledge and information by staff has no doubt contributed to the improvement in operational quality and the Bank's development effectiveness. Further changes are expected

following the recent work by management on better measurement of products and services, which has identified problems in tracking even the inputs and expenditures on several products and specific initiatives, such as AIDS, financial and leveraged products such as HIPC, country-based and network-based nonlending services such as the PRSP, and additional cost drivers such as fiduciary and safeguard policies and crosscutting thematic issues. This information will be critical in evaluating these efforts.

### **Knowledge Management**

The Bank's knowledge management activities have grown significantly in the last few years. They include sharing knowledge internally and with the external development community, a rapid expansion of knowledge communities or thematic groups, and increased client training. The Bank has made considerable investment in technology, including in the Global Development Learning Network, the Development Forum, the Development Gateway, websites, and databases. The basic infrastructure for documenting and disseminating knowledge is in place.

The focus under the Strategic Compact was on knowledge sharing, a previously neglected dimension, to maximize benefits from the Bank's accumulated development knowledge. The Bank has not yet had an explicit strategy for pursuing its vision of the Knowledge Bank, nor is there a framework to evaluate current activities. Indicators to monitor output or outcomes have not been well specified, and there has been no assessment of impact or cost-effectiveness. An assessment of the Compact found that much of the knowledge is not easily or intuitively available, and there is little quality control on its content. It also found that the current knowledge management system is fragmented and not well integrated with operational processes, and that there is little evidence of systematic learning or rationalization.

Management is in the process of articulating a strategy for the Knowledge Bank and a stronger governance system to best serve client and operational needs. It has just finalized its strategy on Information and Communications Technology. The definition of the Knowledge Bank includes

the full "knowledge cycle," from creating, to sharing, to applying knowledge, and the process is expected to result in a framework to guide investment, instruments, and evaluation of the program's impact. The management of such a system will be challenging, and it will be particularly difficult to monitor and evaluate the activities of the new Knowledge Bank. There is a pressing need to set up a coherent evaluation and control framework.

### **Creating Knowledge**

The Bank has traditionally invested heavily in knowledge creation through ESW and research. Issues related to ESW are discussed in Chapter 4. For research, the Bank-wide Research Committee is responsible for increasing the value of Bank research through allocation of central Research Support Budget (RSB) funds. All RSB-supported activities are subjected to evaluation. Since RSB funds are often used in combination with other funds for research, the RSB evaluation covers a larger share of the Bank's research expenditures than are supported by the RSB alone. The non-RSB-supported research by DEC is subject to formal professional review procedures, since an important individual performance evaluation criteria in DEC is publication in refereed journals. DEC has recently introduced a quarterly assessment by the Research Committee to rate all of its research reports for "pertinence" to the Bank's operational work. A questionnaire asks the members of the Research Committee to rate the listed projects submitted for their relevance to Bank policy and operations. Another indicator of relevance is the feedback from biennial surveys conducted by DEC.

### **Imparting Knowledge: Training**

As part of a broader capacity building effort, the Strategic Compact increased support for staff and client learning programs. Client training is conducted through WBI. About 15 percent of staff training is through WBI; networks and Human Resources deliver the rest. WBI also evaluates the training activities. Since 1997, the evaluation of learning activities has been significantly

strengthened. Most client training events are evaluated to assess their usefulness and effectiveness, with less focus on behavioral change and impact. Evaluations of strategic initiatives, such as the Distance Learning and Partnership Program, have also been conducted.

About 30 percent of classroom training for staff is currently evaluated. The evaluation of Sector Weeks and nonformal learning events (lectures, seminars, clinics, action-learning workshops) has increased, but the coverage of the latter is ad hoc. The results indicate that Sector Weeks need better organization to increase their value to participants. Nonformal events are less interactive than

expected. Impact evaluations of staff learning started in FY00 (with both leadership and decentralization) courses. Such evaluations are expected to increase in the future.

The Bank's new staff learning framework aims to shift training away from individual technical skills to managerial, behavioral, socio-political, and professional skills suited to the Bank's emerging needs and products. To assist program development, ensure consistency of learning activities with corporate goals and needs, and evaluate impact, a comprehensive evaluation framework is needed with a clear strategy and an enhanced feedback loop to the Knowledge Bank.



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# 7

## THE OED AGENDA

In addition to independently evaluating the development effectiveness of Bank operations, the Director-General, Operations Evaluation (DGO), is responsible, through OED, for promoting the incorporation of evaluation assessments and findings into recommendations that will help improve the efficiency and effectiveness of the Bank's programs and activities, and their responsiveness to member countries' needs and concerns. To ensure continued relevance of independent evaluation and to increase its impact on Bank performance, OED adopted a comprehensive renewal program in 1997 (box 7.1).

Consistent with this strategy, OED shifted resources to accommodate new priorities. It has given high priority to evaluation capacity building in client countries (Annex C), investing in knowledge (Annex D), and outreach and dissemination (Annex E).

Because OED provides independent evaluation of Bank operations to the Board, it has a special obligation to evaluate its own effectiveness and impact, and to reflect the results in its work. The following sections describe how OED's inputs, outputs, outcomes, and impacts are currently evaluated, and conclude with the implications for OED's agenda going forward.

### **OED Work Program and Outputs**

Annex F presents the indicators used by OED to measure its inputs and deliverables for the past year. These measure both the number of

products delivered and their timeliness in relation to operational milestones.

Regular CODE and Board oversight of OED's work program is a key element of the control framework for OED itself. While OED's renewal strategy and strategic objectives continue to remain relevant in responding to Bank priorities and the evolving operational agenda, there are three areas in need of attention. On *harmonization of evaluation*, the emphasis on evaluation capacity development (ECD) and collaborative evaluation efforts is well placed, but OED should ensure against the possible impact of evaluation partnerships on the quality and reliability of OED's work: OED needs to maintain its independence as it engages in more participatory and global joint evaluations. OED also needs to clarify its plans to evaluate the impact of *programmatic lending*. More generally, in the area

**Box 7.1****OED's Renewal Strategy (1997)****Mission:**

To contribute to development effectiveness through excellence and independence in evaluation.

**Objectives:**

1. Move to a higher evaluative plane; that is, from projects to country, sector and thematic, and global evaluations.
2. Shorten the feedback loop to ensure relevance.
3. Build evaluation capacity within and outside the Bank to promote self-evaluation.
4. Invest in knowledge and partnerships to maintain OED's intellectual leadership and develop alliances as instruments of strategy.
5. Manage for results, since evaluations that influence behavior and contribute to the overall success of the Bank's strategy add value.

of *methodology*, OED needs to focus on developing evaluation methodologies and establishing benchmarks to underpin eventual evaluations for new products and initiatives (e.g., PRSPs, sector-wide approaches). A more systematic assessment of the strategic impact of ESW and upstream nonlending services remains a priority, as does revisiting the inclusion of impact evaluations in the work program.

### Harmonizing Evaluation Methodology

Internally, OED and OPCS have made substantial progress toward a common evaluation framework for the project cycle, and focusing on results. Progress on achieving consistency between the methodologies used for ex-post project evaluation between the ICR and OED is reflected in the declining disconnect for project performance between the two. Some additional work is needed to develop consistent guidelines for the *relevance* and *institutional development* aspects of performance measurement. Progress in these areas has been slower than expected. The persistent difference in the ratings for sustainability is also puzzling and warrants further action. At the supervision stage, there is less consistency, as reflected in the persistent difference in project performance ratings between the PSRs and the ICR, which currently accounts for the major share of the disconnect between supervision and OED ratings.

Over the past five years, OED has evaluated the development impact of the Bank's country assistance programs in nearly 40 countries. With this broad experience at hand, CAEs have gradually

become more standardized in scope and methodology. But there is still room for improvement, which is why OED has begun consulting an ever-widening circle of stakeholders, inside and outside the Bank, to develop a common methodology that could be utilized to assess the effectiveness of *all* external assistance.

To this end, OED and OPCS established a joint Task Force on Country Assistance Methodology in August 2000. Considerable progress has been made toward development of a common methodology between Operations and OED in evaluating country assistance. A shortened version of the CIF (a standardized method of rating the performance of the Bank and Bank assistance) has been drafted, and is expected to go to the Joint Task Force in June. At that time, OED will seek agreement to pilot the CIF with a small group of country directors, asking them to assess their own programs prior to their next scheduled CAS. Ultimately, the CIF is expected to serve as the precursor to a standard set of country assistance evaluation criteria that will be integrated into the CAS design, analogous to what has already occurred at the project level with shared ICR/PIF guidelines. OED used an early version of the methodology as the framework for its FY01 CAEs.

OED actively participates in efforts to harmonize evaluation standards across partners. This fosters greater use of partnerships and upgrades the global standards of evaluation. A Multilateral Development Bank Evaluation Cooperation Group (ECG) report in December 1999 on harmonizing evaluation criteria led to an agreed set of eight main criteria, and work is ongoing to

harmonize and improve evaluation methods for private and public sector evaluations.<sup>1</sup> Efforts in harmonizing completion reporting and performance review processes are also under way. The public sector group is working on developing a paper on Good Practice standards, and one for private sector operations is already available.

### **OED Outcomes and Impact**

OED has traditionally measured outcomes indirectly in terms of the improved quality of the self-evaluation process; the adoption rates for its recommendations; and in the improved development effectiveness of Bank operations, as measured by the improvement in the quality of the Bank's portfolio. Overall, management's adoption of OED recommendations is relatively good, and improving. The review of CAS discussions summarized below reveals that they are amply reflected in CASs and in the Board's discussion of them.

A key recommendation that emerged from OED's work program review last year was for the department to undertake a systematic review of its impact on the Bank to guide its future work program. This section reports on the findings of this review, which assessed three specific dimensions of OED's work:

- The reach, quality, and usefulness of OED products, as measured by client surveys
- OED's influence on policies and thinking in the Bank, as measured by a qualitative study tracing the influence of three major products
- OED's influence on country and corporate strategies, as evidenced in CAS documents and records of Board discussions.

### **Reach, Quality, and Usefulness: Results from Client Surveys**

OED surveyed Bank staff and borrowers about their views on OED's major products. Between February and March 2001, 10 surveys were administered to more than 1,800 Bank staff.<sup>2</sup> (Annex G describes the survey design and more detailed results.) One set of surveys was sent to staff working in Executive Directors' offices ("EDs' staff"), knowledge managers ("quality group"), and a random sample of operational staff ("random

group"). Another set was sent to staff associated with specific products: recent project Performance Audit Reports (PARs), recent CAEs, members of relevant thematic groups on topics related to recent sector and thematic studies, and staff working on CASs for countries with no CAE. The main findings are as follows.

#### **Reach**

OED's reports are widely read by its general client groups: 91 percent of respondents have read at least one product in the last six months. ED staff frequently read all products, particularly CAEs, sector and thematic (S&T) studies, and corporate and process (C&P) evaluations. The random and quality groups are less likely to have read an OED product in the last six months. Executive summaries (ES), S&T studies, and, to a lesser extent, PARs and CAEs are popular among these readers. This may partly reflect the specificity of these reports to countries, sectors, and projects, while the samples were from across the spectrum. Readership is higher among those associated with a specific OED study. More than three-quarters of the targeted respondents read the CAE and PAR. The CAE also finds readers beyond immediate audiences, with half of the CAS (without CAE) task managers having read a CAE in the last six months. The surveys for S&T studies were much more broadly targeted than those for the PARs and CAEs. They are read by about one-third of the respondents.

The use of OED databases more than tripled when compared with findings from Bank staff surveyed last year (53 percent, up from 14 percent). The OED website is by far the preferred source of OED information and an efficient vehicle for information delivery, with the majority of users rating the site as both accessible and user-friendly.

#### **Quality and Learning**

The overall quality of OED reports is rated satisfactory, particularly by the ED staff, but also by the quality and random groups. The satisfactory ratings for PARs are also quite high (75 percent), but for CAEs, fewer than half of those responding rated overall quality as satisfactory (45 percent). The relatively lower ratings by those directly

involved in the evaluations, as for CAEs and PARs, is a matter of concern for OED and need further investigation.<sup>3</sup> Among the individual dimensions of quality, the weakest aspects of OED evaluations are seen as their timeliness, rigor, and methodology. The two products for which timeliness is rated high are CAEs and S&T evaluations, reflecting their direct link to the timetables for CASs and SSPs. OED’s objectivity and relevance are generally well-rated (about 80 percent on average), attenuating possible concerns about bias in OED work.<sup>4</sup> The quality of CAEs is rated more favorably by CAS task managers in countries without a CAE: They are more likely than CAS task managers in countries with CAEs to find CAEs to be objective, methodologically sound, and offering conclusions based on the evidence provided.

OED evaluations and findings appear to play a positive role in staff learning. Three-quarters of the quality group, who have a leadership role in knowledge management, indicate that OED evaluations have helped increase their knowledge of their sector and of Bank operations generally. Among CAE respondents, almost half indicate that

the evaluation influenced their current thinking and helped change their minds on an issue. A larger (83 percent) number of non-CAE CAS task managers acknowledged the CAE’s role in changing their mind on an issue.

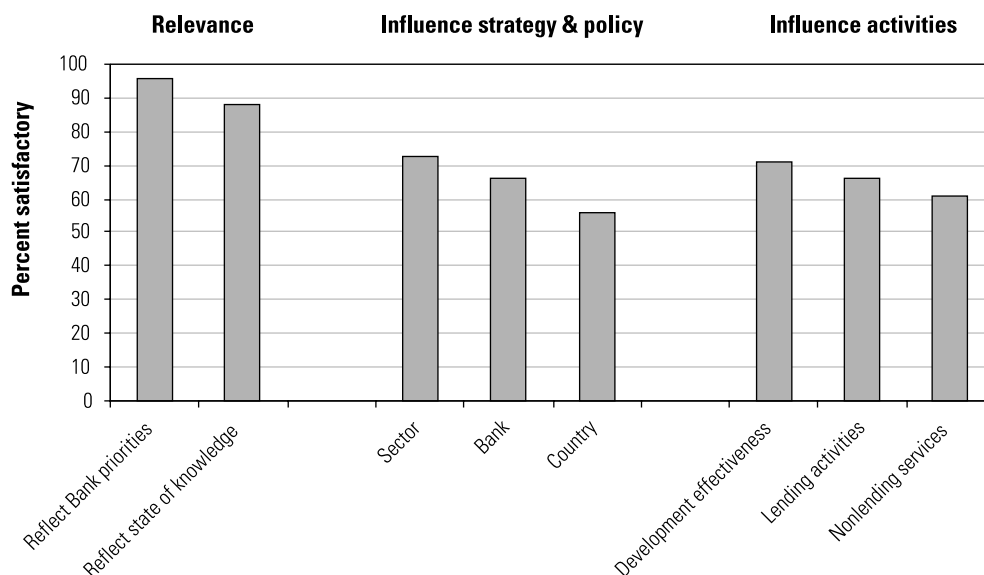
Finally, as shown in figure 7.1, a vast majority of the respondents think the evaluations reflect Bank priorities and are grounded in the current state of knowledge. Nevertheless, their influence on Bank strategies and operational services is much lower, with almost a third finding no influence on the different dimensions.

**Influence on Learning:  
Findings From a Tracer Study**

To complement the survey in assessing OED’s influence on learning and decisionmaking, OED conducted a tracer study of recent OED evaluations on forestry, large dams, and the impact of Public Expenditure Reviews (see Annex H for details). A consultant conducted one-on-one confidential interviews with 43 selected individuals across the Bank (including Board members, senior managers, and operational staff) to learn how they used the studies, what change the evaluations

**Figure 7.1**

**Relevance and Influence of OED Evaluations**





brought about, and what factors favor or impede their usefulness. (The study design is described further in Annex H.)

The study shows that the evaluations have influenced the actions and thinking of Bank decisionmakers and staff, both directly—through specific subsequent decisions and action—and indirectly—by facilitating, albeit over a period of time, a deeper understanding of the issues. Bank staff more often become familiar with a report's findings through informal networks than by reading the reports. Both Bank staff and OED evaluators recognize OED's institutional mandate to report to the Board; however, they consider managers and operational staff as the primary audience for OED evaluations. This suggests a need for sharper differentiation of clients for more effective dissemination of evaluative findings and recommendations.

The interviewees appreciate the value of the systematic assessment, analytical framework, independence of judgment, and action orientation of OED reports. But their initial reaction is to screen the evaluation through the filter of their own knowledge and beliefs, and they often resist challenging findings. As time passes, however, findings that challenge the status quo are increasingly accepted, and recommendations that had initially appeared heretical are eventually received with favor and adopted. OED evaluators need, therefore, to better anticipate the reactions of the intended users of their evaluations. Greater participation, more consultative evaluations, and early dissemination and feedback may facilitate knowledge transfers.

Some respondents expressed skepticism regarding the rigor of OED's methodology and data collection. Yet many are comfortable leaving all methodological decisions to OED. Not surprisingly, methodology becomes a significant issue when controversy about ratings arises. Bank staff prefer recommendations that are explicit and actionable, but find OED's recommendations at times too generic, "statements of good intentions," or difficult to implement. Most assert that they or their subordinates are already acting on the evaluation recommendations. The majority also acknowledge that OED's independence is

its fundamental strength, giving it legitimacy to pass judgment on Bank operations. Some respondents, though, noted that OED tends to accept the Bank's prevailing values and priorities too readily, suggesting that it should perhaps subject them to a more rigorous independent assessment.

### **Influence on Country and Corporate Strategies: Evidence from Documents**

Finally, OED assessed its influence on country strategies and corporate and Board deliberations by reviewing CAS documents and discussions from selected Board meetings. As a planning tool for Bank management and the client, and the Board's instrument for reviewing the Bank's strategic directions at the country level, the CAS is an important vehicle for the fulfillment of OED's learning and accountability mandates.<sup>5</sup> OED's influence on CASs depends significantly on the existence of a CAE: There is substantial evidence of CAE influence on design, strategy, and specific actions. Among the nine non-CAE CASs, however, only four discuss OED findings, of which only two included substantive details.

CODE is OED's focal point for interaction with the Board. Beyond its direct interventions at CODE, discussions of operational issues at selected meetings of the full Board were reviewed to identify whether and how reference was made to OED findings and recommendations.<sup>6</sup> The review found that OED figures prominently in many of the Board discussions. Its findings and recommendations were substantively referred to in all four meetings on SSPs, and virtually all (seven of eight) policy and operational discussions. Board mention of OED findings in discussions of CASs reflects the existence of a CAE, as found by the CAS review. There was substantive discussion of OED findings in all four CAE-CASs, but in only one of the non-CAE/CAS discussions. Thus, although the staff survey suggests that the CAEs may not be greatly appreciated by the affected staff, they seem to be an effective tool for integrating OED findings in a way that adds value to the CAS process and is used by the Board in its oversight role. In countries without a CAE, findings from OED evaluations appear to have limited influence on the Board's CAS discussions. This suggests a

need to provide Executive Directors with past OED findings of relevance to Board deliberations, even in the absence of a recent CAE.

### Implications for OED

These findings, along with guidance from CODE on OED's work program, imply that OED should focus on the following areas for improvement.

- *Timeliness and Relevance:* The positive feedback from the synergistic programming of CAEs and S&T studies with CAS and SSP schedules provides important lessons for the timeliness and enhanced relevance of other OED products. OED should use strategic selectivity to more closely link the evaluation agenda with operational trends and milestones. To further enhance the relevance of its evaluations, OED should pay increased attention to corporate thematic priorities, particularly the poverty orientation of Bank operations.
- *Methodology:* In view of the concerns expressed about the rigor and clarity of OED's methodology, there is an urgent need for OED to re-examine, revise, and enhance, where appropriate, its methodological tool kit. In *methodology development*, OED has a broad agenda to pursue: review its procedures for evaluating adjustment operations; ensure that programmatic lending instruments are adequately covered; simplify project evaluation instruments; reach agreement and test the CIF and the corresponding country evaluation methodology; and adapt OED methods and practices to accommodate new instruments (APLs, LILs, guarantee-financed operations, and the like) in line with the adaptation of ICR guidelines for these instruments. OED should continue to help *harmonize* its evaluation methodologies and practices with both Operations and with external evaluation partners. It should establish protocols to ensure that collaboration does not mean dilution of objectivity or diminution of quality. In addition, OED evaluations need to be even more *transparent* in indicating data sources, articulating the evaluation approach, and detailing the analytical assumptions maintained to arrive at conclusions. OED should also more actively disseminate its evaluation methodology to promote a better understanding among operational staff and wider adoption of the underlying principles in self-evaluations.
- *Participation and Communication:* Greater participation, more consultative approaches, and early dissemination and feedback help to foster understanding and acceptance of evaluation findings and lessons. OED needs to further consolidate its current practice of "no surprises" through transparent and participatory evaluation processes by involving relevant Bank staff and stakeholders early in the design and planning of its evaluations and through regular progress updates. To answer calls for more actionable recommendations, OED has provided its staff with training and guidelines for preparing more effective recommendations. OED managers and peer reviewers should pay particular attention to this key learning aspect of OED's work.
- *Dissemination:* OED's audiences and their uses of OED evaluations are varied. For example, the Board and staff/management are OED's two main audiences, but their uses of OED products differ. OED's dissemination strategies should be further customized and differentiated to meet the diverse objectives of these audiences.
  - Among Board members, the readership and use of OED findings is relatively high. A remaining challenge is to make the lessons from PARs, ESs, and S&T studies more readily accessible and useable in discussions of CASs when no CAE is available. To this end, OED should consider ways to collate strategic and operational lessons of experience and be more proactive in briefing Board members on how to access and use OED products.
  - OED's website and publications seem to be well-suited to the staff, but need more publicity, especially for new reports, and extended distribution of summary products such as Fast Track Briefs and Précis. There is also considerable scope to increase outreach through a more refined matching of products and target audiences. This would

entail more purposeful targeting of such audiences as thematic groups and knowledge managers, and better access to documents (e.g., full and abridged versions on the web). Discounted or free distribution of priced publications may be advisable in selected instances.

- *Self-evaluation*: Building on this year's survey, and using it as a baseline, OED should monitor future progress on outcomes through annual or biennial surveys. It should develop a cost-effective core staff survey and expand on this year's pilot for borrowers for more systematic feedback.



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# 8

## CONCLUSIONS AND RECOMMENDATIONS

The changes in the Bank over the past five years have increased development rewards through a stronger country focus, improved responsiveness, and enhanced operational quality. But increasing demands at both the country and global levels, expanding roles for capacity building and aid coordination, and increasing complexity of operations have intensified the need for new skills, instruments, processes, and relationships, and for a revamping of the risk management framework. The pressure to demonstrate results, especially in reducing poverty, has increased, putting high priority on ensuring the adequacy of the evaluation and control system.

### **The Evaluation and Control Framework**

Viewed through the lens of the COSO framework, the current evaluation and control arrangements provide an adequate and improving framework for project lending. Evaluation and control units have contributed to the Bank's improving performance as they evolved to fill earlier gaps in development effectiveness oversight and quality assurance. But even as this system is being consolidated, the operational domain is shifting. Changes in the Bank's product mix and an increased emphasis on knowledge services, collaborative programs, and programmatic lending are stressing the capacity of the current evaluation and control system. The transition will be challenging for the Bank as well as for its borrowers and partners. An analysis of the components of the Bank's development effectiveness

evaluation and controls system using the COSO standards helps identify areas that need attention.

### **Control Environment**

The Bank's control environment has served it well in an increasingly complex setting. Consistent focus by management on quality and institutional learning has improved the control consciousness of staff. But significant changes and expanding mandates have increased stress and stretched institutional capacity. Management is taking steps to address selectivity issues. A remaining challenge is to align corporate priorities with country strategies. The new organizational structure is being fine-tuned, and further adjustments may be needed to promote behaviors consistent with the new operational approaches. The Bank has adopted a new results-

based development paradigm, and the internal incentives and processes need to be realigned with the new Bank's vision and operational approaches. To enhance development effectiveness, there is a need to link Bank objectives and policies more explicitly to results, especially on poverty reduction, and to set up monitorable outcomes in CASs, SSPs, and PADs.

### ***Risk Assessment***

A corporate risk management structure is also taking form. The framework for risk assessment for project lending—the Bank's traditional line of business—is in place. The management of safeguard and fiduciary risks has improved considerably, but processes for assessing and managing development risks at project entry and during implementation need further review and strengthening. The assessment of risks in adjustment operations needs to be watched because of their rising importance in the Bank's portfolio. At the CAS and SSP level as well, risk assessments need strengthening. The Bank's current, especially ex-ante, risk-management system relies on self-assessment. New organizational solutions need to be explored to provide adequate, independent oversight, without adding to transaction costs. Networks offer a potential solution, but their role is currently limited. Good Practice examples from elite public sector organizations and private companies should be explored.

A rapidly evolving dimension in the Bank's work is partnerships, which offer significant benefits, but also potential risks. The establishment of the Partnership Council is expected to rationalize the process Bank-wide and the Development Grant Facility (DGF) has adopted procedures to evaluate its programs. It is not clear, however, what evaluation standards will be used in Bank partnerships. Monitoring and the evaluation of outcomes from joint programs also present a major challenge.

### ***Control Activities***

Policies and procedures are fundamental controls to guide Bank operations. A policy framework that is not fully up-to-date, lack of clarity in

standards, and remaining gaps in the compliance testing processes are sources of risk to the Bank's development effectiveness. The process of recasting and updating of operational policies, especially for adjustment lending and social safeguard policies, has been complex and challenging. While notable progress has been made in providing guidance to staff on safeguard policies and work is progressing on other policies, it is important for this work to culminate in issuance of unambiguous policy statements to guide operational work.

The quality assurance for lending operations and ESW has improved in recent years, with some areas in need of further strengthening. The quality of self-evaluation at project completion continues to improve; weaknesses remain in the realism of self-assessment on sustainability and institutional development. Corporate self-evaluations have increased substantially and are more systematic and analytical. A noteworthy example is the recently completed assessment of the Strategic Compact, which has offered a number of lessons as the Bank moves forward. Evaluation of the CDF and PRSPs pose considerable challenges to the evaluation and control framework.

### ***Monitoring***

Overall, the portfolio monitoring systems are working well. A difficult area is the measurement of performance at the country and sectoral levels. As a result, the scorecard remains incomplete, in part because of a lack of agreed methodology to measure the relevant indicators. At the project level, a critical gap, previously identified by OED, is the weakness in M&E, in part due to weaknesses in borrowers' evaluation capacities. The Bank is currently implementing the recommendations of a recent working group on the subject. For the CDF/PRSP approach and the HIPC initiative, it is clear that borrowers often do not even have systems to track inputs and outputs. Several initiatives are under way to improve public expenditure management and accountability and to address the weakness in borrower statistical systems. It is important now to also address the weakness in evaluation capacity.

Given the importance of adequate M&E for the controls framework for development effectiveness, a more aggressive and comprehensive approach is warranted to mainstream ECD.

### **Information and Communications**

Information systems have been substantially upgraded. Knowledge management activities have also grown significantly, but without any explicit strategy. Nor is there a framework to evaluate these activities. The Bank is currently formulating a strategy and a stronger governance structure for the Knowledge Bank. The vision is to develop a framework that encompasses all stages of the knowledge cycle. The management of such a system will be challenging, but the monitoring and evaluation of the activities of the new Knowledge Bank promises to be even more difficult. While separate efforts are under way to assess and improve the effectiveness of ESW, client and staff training, and research activities, the framework is fragmented and incomplete. As the Knowledge Bank moves forward, it will be important to ensure that a coherent evaluation and control framework is in place to guide its progress and to eventually permit its evaluation.

### **OED Agenda**

Following its renewal strategy, OED has shifted resources to accommodate new priorities, particularly ECD, knowledge management, and outreach and dissemination. OED's work program has been endorsed by CODE as being relevant to current Bank priorities and the evolving operational agenda. A priority for this AROE was to assess OED's own effectiveness and impact. The findings indicate that OED has an impact on staff learning and accountability, but there are areas that need improvement. Timeliness, rigor, and methodology are identified as the weakest aspects of OED evaluations. The positive feedback is that OED evaluations are widely perceived to be objective, relevant, and well grounded in current knowledge.

OED needs to focus on several areas. These include improving the timeliness of its evaluations; strengthening its evaluation methods to address

areas of concern, including procedures for evaluating adjustment operations and for new products and processes; agreeing and testing the CIF; continuing to harmonize evaluation practices within and outside the Bank; and being even more transparent about data sources and approaches in its evaluation reports. OED also needs to be more participatory and to revisit its dissemination strategy.

### **Recommendations**

1. Enhance the evaluation and control framework to encompass emerging priorities and initiatives.

#### *Suggested actions:*

- a. Ensure that a coherent framework is in place to evaluate knowledge management activities (including creating, sharing, and applying knowledge).
  - b. Develop guidelines on evaluation standards for partnerships through harmonization and joint, up-front agreements with partners.
  - c. Mainstream ECD to ensure all CDF and PRSP countries have basic M&E arrangements to permit evaluation of the programs.
2. Complete the process of converting and updating the Operational Policies.

#### *Suggested actions:*

- a. Convert the remaining policies, particularly safeguard policies, within a fixed time frame.
  - b. Fill the gaps in the policy framework with respect to policies and guidelines for new instruments.
3. Ensure that CASs are consistent with priorities as set out in SSPs.

#### *Suggested actions:*

- a. Hold sector boards accountable for ensuring that SSPs include explicit implementation plans, provide strategic directions based on the Bank's comparative advantage, and give guidance on managing the tensions between client and Bank priorities.
- b. Hold Regional sector managers accountable, through the sector boards, for ensuring consistent application of sector priorities.

- c. Develop sectoral indicators to be included in all CASs and hold country directors accountable for consistency of Bank assistance with identified sectoral priorities.
4. OED should strengthen its methods and procedures.
- Suggested actions:*
- a. Review and improve procedures for adjustment lending and ensure new instruments are adequately covered.
  - b. Review and simplify project evaluation instruments and test and refine the CIF.
  - c. Increase transparency of OED evaluations with respect to data, methodology, and assumptions maintained to arrive at conclusions.



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# ATTACHMENT 1: MANAGEMENT RESPONSE

## **Introduction**

Management welcomes the opportunity to discuss the 2000–2001 Annual Report on Operations Evaluation (AROE) by the Operations Evaluation Department (OED). We appreciate the recognition in the AROE of the considerable progress that has been achieved in recent years in the use of independent evaluation and self-evaluation findings to improve client focus, responsiveness, and operational quality. Management also appreciates the transmittal letter’s clarification that the AROE is not a balanced scorecard but by design highlights the remaining challenges and risks, per the COSO framework. We believe that it is important to address these challenges, as set out below.

## **AROE Recommendations**

The AROE offers four sets of recommendations: three concern proposed actions by Management and the fourth concerns actions proposed for OED. In the attached matrix, Management responds to the first three sets, noting areas of agreement and the actions it intends to take. Management also offers its views in the matrix on the actions that OED recommends for itself, since these actions will have an impact on OED evaluations, an integral component of the process of managing for quality and development effectiveness.

### ***Overview of OED Recommendations.***

The first set of recommendations addresses the evaluation and control framework for emerging priorities and initiatives. The recommendations focus on knowledge management, partnerships, and evaluation capacity development in client

countries. All are important areas that have received recent Management attention. Specifically, Management will report to Executive Directors in the fall on the management of knowledge activities, including the evaluation and control framework. The second set of recommendations concerns operational policies. As OED notes, the process for updating sensitive policies is complex and time-consuming. However, in the spirit of transparency, it is important that key stakeholders have the opportunity to be heard on significant policy issues, and this takes time. In FY01, there was good progress on key safeguard updates, but in a world of change, policy updating is continuous. Management will report to Executive Directors before the end of the calendar year on the overall policy updating process and on its work program going forward. The third set of recommendations concerns the relationship between Country Assistance Strategies (CASs) and Sector Strategy Papers (SSPs): how to balance country focus against sectoral priorities. The upcoming discussion of the SSP stocktaking in the fall will be an opportunity to address this issue. The last set of recommendations come from OED’s self-evaluation and covers the strengthening of OED’s evaluation methods and procedures. Management will continue to work with OED as it proceeds with this work program, notably on lending evaluation and Country Assistance Evaluation (CAE) procedures, to align its self-evaluation methodologies with those of OED. Better joint understanding of OED’s methodologies and data sources will improve the ability of operational staff to understand and make use of OED recommendations.

**Conclusion**

The period since the last AROE has been one of continued progress in using independent evaluation and self-evaluation as key tools for learning and for improving quality management. While not intended as a balanced scorecard, the AROE cites many of the improvements in the basics for development effectiveness-quality, compliance with policies, and delivery. However, as the AROE notes, much more remains to be done; and it highlights several of the key remaining challenges. Management agrees with most of the AROE recommendations and is taking action in these areas. Management is working on evaluation and control frameworks for new activities, especially knowledge management. Operational policy updating is proceeding as fast as possible, in view of the many constraints and sensitivities. Management will continue to monitor progress and will review the process and set out its work

plan. Additionally, Management will maintain as a priority its focus on policy implementation, building on recent positive results. The two-way linkages between CASs and SSPs will be strengthened. We will continue to work on the difficult task of moving up the self-assessment ladder toward stronger measures of Bank performance, toward what OED recommends—verifiable performance indicators for progress against poverty—but we must emphasize that this process is complex and time-consuming. Development outcomes in client countries are a composite mix of many internal and external factors. With this degree of complexity, it is difficult to sort out attribution, and the process will never be mechanistic. In that regard, OED and operational staff need to improve their mutual understanding of the framework used by OED for its CAEs and for country program self-evaluation, a priority highlighted by OED for the coming year.

OED Recommendation	Management Response
1. Enhance the evaluation and control framework to encompass emerging priorities and initiatives.	<ul style="list-style-type: none"> <li>• Management agrees with the need to enhance the evaluation and control framework for new initiatives, notably the knowledge initiative. Management actions are detailed below.</li> </ul>
a) Ensure that a coherent framework is in place to evaluate knowledge management activities (including creating, sharing and applying knowledge).	<ul style="list-style-type: none"> <li>• Management is in the process of articulating a unifying framework for the Bank's knowledge work to consolidate and focus current knowledge-sharing activities on the front line to ensure strong client/operational relevance and to strengthen monitoring and evaluation of knowledge management activities.</li> <li>• Management will report to the Board in the fall on progress on knowledge activities, including the evaluation and control framework.</li> </ul>
b) Develop guidelines on evaluation standards for partnerships through harmonization and joint, up-front agreements with partners.	<ul style="list-style-type: none"> <li>• The Bank has developed a strategic approach to partnership with the implementation of the partnership oversight process (November 2000) and the creation of, and refinements to, the Development Grant Facility (DGF). The DGF's FY01 Annual Review and FY02 Budget, recently approved by the Board, integrates evaluation, based on an evaluation and learning strategy developed in consultation with OED, as a key requirement for ongoing DGF financing. Management is assessing the extent to which this systematic approach to partnership and program evaluation can offer lessons for all partnership arrangements.</li> <li>• Management will also look to OED's ongoing evaluation of global programs to inform this work.</li> </ul>
c) Mainstream Evaluation Capacity Development (ECD) to ensure all CDF and PRSP countries have basic M&E arrangements to permit evaluation of the programs.	<ul style="list-style-type: none"> <li>• In principle, Management agrees to the importance of ECD in all client countries, notably in CDF/PRSP countries, but would raise the issue of timing and sequencing. The Bank continues to provide support to ECD through a variety of mechanisms, including M&amp;E components of loans, technical assistance, and grants.</li> <li>• Since traditional approaches have not necessarily produced sustained results, the Bank has implemented a pilot program to study and understand the issues of incentives, roles, and accountabilities for M&amp;E (the institutional setting) and capacity within borrowers' governmental frameworks.</li> <li>• M&amp;E methodology is also an issue. As knowledge of the CDF/PRSP process deepens, the M&amp;E methodology needs to be carefully analyzed and refined. Management is looking to the OED/DEC CDF evaluation to help inform the development and implementation of M&amp;E capacity in borrower countries.</li> <li>• Management will report to Executive Directors at the end of FY02 on progress under the pilot and future directions.</li> </ul>
2. Complete the process of converting and updating the Operational Policies.	<ul style="list-style-type: none"> <li>• Management agrees on the importance of converting and updating operational policies. However, we have learned that in a world of change, the policy process is an ongoing one, involving continuous evaluation, learning, and review.</li> </ul>
a) Convert the remaining policies, particularly safeguard policies, within a fixed timeframe.	<ul style="list-style-type: none"> <li>• Substantial progress in converting and updating was made in FY01, and the groundwork was laid for further progress in FY02. Three safeguard policies—<i>Natural Habitats, Projects on International Waterways, and Projects in Disputed Areas</i>—were updated in FY01. Three others, <i>Involuntary Resettlement, Indigenous Peoples, and Cultural Heritage</i> (now <i>Physical Cultural Resources</i>), passed critical milestones and submission to Executive Directors is expected in FY02. The only remaining safeguard policy to be updated is <i>Forestry</i>, which is in draft and is also likely to be submitted to Executive Directors in FY02.</li> <li>• Management will come back to the Board by end December with a progress note on the overall policy conversion/updating process, outlining the Bank's work plan.</li> </ul>
b) Fill the gaps in the policy framework with respect to policies and guidelines for new instruments.	<ul style="list-style-type: none"> <li>• The AROE notes specifically the need to tailor Implementation Completion Report (ICR) guidelines to the special features of learning and innovation loans (LILs), and adaptable program loans (APLs).</li> <li>• LILs: We need to ensure a consistent evaluation framework from concept stage to completion. The documentation proposing and appraising LILs has very recently been simplified and revised and QAG quality at entry criteria have been adapted. We have agreed with OED to work together on revising the ICR guidelines, with issuance in FY02.</li> </ul>

Continued

<b>OED Recommendation</b>	<b>Management Response</b>
	<ul style="list-style-type: none"> <li>• APLs: The gaps identified in the AROE have also been noted in Management's progress reports to the Board on adaptable lending. We have conducted training for staff on APLs, with a special focus on the development of appropriate performance triggers. Quality assurance at the Regional level has also focused on this. This year, we will disseminate good practice examples of performance triggers, drawing on QAG reviews and, by end CY01, will amplify the ICR guidelines to explicitly cover special features of APLs (performance triggers as well the learning from one phase to the next).</li> </ul>
3. Ensure that CASs are consistent with priorities set out in SSPs.	<ul style="list-style-type: none"> <li>• Management agrees that CAS/SSP consistency is essential and is addressing this issue from both perspectives: a CAS Retrospective is currently under preparation for discussion with Executive Directors in the third quarter of FY02 and Management is completing an SSP stock-taking for discussion with Executive Directors in the fall.</li> </ul>
a) Hold sector boards accountable for ensuring that SSPs include explicit implementation plans, provide strategic directions based on the Bank's comparative advantage, and give guidance on managing the tensions between client and Bank priorities.	<ul style="list-style-type: none"> <li>• Management agrees with the first two points and will discuss how it proposes to ensure their implementation in the context of the upcoming SSP review. Management will address the third point—on guidance for managing the tensions between client and Bank priorities— as part of the SSP review.</li> </ul>
b) Hold regional sector managers accountable, through the sector boards, for insuring consistent application of sector priorities.	<ul style="list-style-type: none"> <li>• Management agrees with the need to ensure consistent application of sector priorities at the Regional level. While the Regional sector managers have an important role to play in ensuring SSP/CAS linkages, the Regional vice presidents are ultimately accountable for Regional programs.</li> </ul>
c) Develop sectoral indicators to be included in all CASs and hold country directors (CDs) accountable for consistency of Bank assistance with identified sectoral priorities.	<ul style="list-style-type: none"> <li>• Management agrees that a comprehensive CAS diagnosis, looking across sectors, is essential for focusing on areas where country performance most constrains the pursuit and achievement of sustained poverty reduction. Sectoral indicators produced as part of the implementation of SSPs are important in this regard.</li> <li>• Management agrees in principle that CDs are accountable for the consistency of Bank assistance with identified sectoral priorities. However, this will happen over time as sectoral priorities are sharpened and new CASs produced. The SSP stocktaking will propose mechanisms to sharpen the sectoral advice within each SSP; management is also exploring mechanisms to improve dissemination of SSP priorities/recommendations to country teams, including easy reference guidance toolkits. In the meantime, the Country Policy and Institutional Assessment (CPIA) is proving to be a useful tool for upstream identification of areas where sector performance is weak and should potentially be addressed in CASs.</li> <li>• However, Bank country assistance programs reflect other factors, in addition to identified sectoral priorities, that must be taken into account. These include country vision and ownership, country performance, and the potential contribution of other partners.</li> </ul>
4. OED should strengthen its methods and procedures.	<ul style="list-style-type: none"> <li>• Management welcomes this undertaking.</li> </ul>
a) Review and improve procedures for adjustment lending and ensure new instruments are adequately covered.	<ul style="list-style-type: none"> <li>• Management welcomes OED's plan to review and improve its procedures for evaluating adjustment lending and notes that most methodological issues arising for adjustment lending similarly arise for investment lending. For these reasons, a review of OED's evaluation methodology for both investment and adjustment lending would be useful.</li> <li>• Management stands ready to work with OED to establish agreed methodologies for self-evaluation and OED evaluation for lending products.</li> </ul>
b) Review and simplify project evaluation instruments and test and refine the Country Information Form (CIF).	<ul style="list-style-type: none"> <li>• Management agrees and is ready to work during FY02 with OED on the draft CIF it recently forwarded to us and on CAE methodology and country program self-evaluation in general.</li> </ul>
c) Increase transparency of OED evaluations with respect to data, methodology and assumptions maintained to arrive at their conclusions.	<ul style="list-style-type: none"> <li>• Management welcome OED's efforts in this regard since it should improve the rigor and quality of OED reports. A broader, deeper understanding of OED's analytic base will improve the Bank's understanding and acceptance of, and ability to make use of OED recommendations.</li> </ul>

## ANNEX A: THE INTERNAL CONTROL–INTEGRATED FRAMEWORK (COSO)

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission developed an internal control framework to help organizations to reduce the risk of asset loss, ensure the reliability of financial statements, comply with laws and regulations, and promote efficiency and effectiveness.<sup>1</sup> The COSO framework is widely recognized by professional bodies as a standard in internal control evaluation criteria.

Internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Efficiency and effectiveness of operations
- Reliability of financial reporting
- Compliance with laws and regulations.

Internal control systems operate at different levels of effectiveness. Internal control can be judged effective in each of the three categories, respectively, if the Board of Directors and management have reasonable assurance that:

- They understand the extent to which the operational objectives are being achieved.
- Published financial statements are being prepared reliably.
- Applicable laws and regulations are being complied with.

Internal control consists of five interrelated components:

- *Control Environment:* The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values, and competence of the entity's people; management's

philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the Board of Directors.

- *Risk Assessment:* Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory, and operating conditions will continue to change, mechanisms are needed to identify and deal with special risks associated with change.
- *Control Activities:* Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.
- *Information and Communication:* Pertinent information must be identified, captured, and communicated in a form and timeframe that enables staff to carry out responsibilities. Information systems produce reports, containing operational, financial, and compliance-related information that make it possible to run and control the business. They deal not only with

internally generated data, but also information about external events, activities, and conditions necessary to informed business decisionmaking and external reporting. Effective communication also must occur in a broader sense, flowing down, across, and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators, and shareholders.

- *Monitoring:* Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a

combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the Board.

### **COSO at the Bank**

The Bank adopted the COSO framework in 1995 to establish a common definition of management controls for all Bank units. It provides a standard against which to assess the adequacy of the Bank's internal controls. The overall responsibility for COSO implementation rests with management and is coordinated through Controller's. In implementing COSO, the Bank uses the Control Self-Assessment (CSA) approach.

## ANNEX B: FIFTH ICR PROCESS REVIEW

An Implementation Completion Report (ICR) is required for each lending operation, and is the Bank's primary self-evaluation instrument. Completion represents a milestone in the project cycle, marking the transition from implementation to the project's future operation. OED conducts an independent review of each ICR. Through February 1998, this review was in the form of a written Evaluative Memorandum (EVM), and since then through an electronic document, the Evaluation Summary (ES).

This 2001 ICR process review is the fifth in a series reporting on the quality of project self-evaluations at completion. The third review reported on the quality of the last group of ICRs reviewed in the EVM format. The fourth review presented information on the quality of ICRs reviewed by OED through June 1999 under the new ES format. This fifth review covers ICRs received through July 2000, which

includes a partial sample of FY00 exits (roughly 45 percent).

Table B.1 summarizes the data on completion reports received and reviewed by OED and the number of performance audits conducted since FY93. These figures represent reports received and evaluated each year, and do not correspond to project exit years. Differences between total numbers received and reviewed are due to the bunching of ICRs toward the end of the fiscal year.

### ICR Quality

#### Overall Quality of ICRs Continues To Be High But May Be on the Decline

As summarized in table B.2, ICR quality ratings (assessed by project exit year) continue to be high and appear to be holding steady, from 95 percent for the FY97 evaluations to 94 percent for FY99 evaluations. The results for the partial sample of

**Table B.1**

**Annual Completion Report and Audit Output, FY96-00**

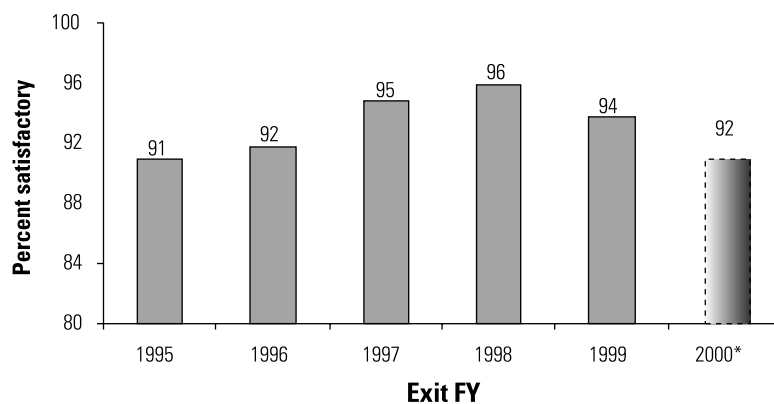
	FY96	FY97	FY98	FY99	FY00
Completion reports received	268	397	218	291	307
Adjustment	43	65	24	45	36
Investment	224	332	186	236	251
Completion reports evaluated	249	313	284	268	270
Adjustment	44	45	38	36	50
Investment	204	268	246	232	220
Completion reports audited	100	79	71	69	72
Adjustment	17	13	13	14	14
Investment	83	66	58	55	58
Audit ratio (% audit/ICR)	40	25	25	26	27

Note: Figures in the table represent number of reports received and evaluated by OED in each fiscal year.

**Table B.2 ICR Quality Ratings (FY97–00 Exits)**

REGION	FY97 exits		FY98 exits		FY99 exits		FY00 exits	
	# Rated	% Sat	# Rated	% Sat	# Rated	% Sat	# Rated	% Sat
Africa	66	92	86	99	77	90	34	79
East Asia and Pacific	40	98	38	100	39	95	23	100
Europe and Central Asia	22	100	30	90	40	98	27	93
Latin America and Caribbean	54	93	53	94	53	92	17	100
Middle East and North Africa	21	95	17	88	14	100	5	100
South Asia	26	96	41	95	29	97	9	100
<b>NETWORK</b>								
Environmentally & Socially Sustainable Development	63	95	58	98	45	96	27	81
Finance, Private Sector, & Infrastructure	92	96	109	95	112	93	44	95
Human Development	38	92	54	94	55	93	30	97
Poverty Reduction & Economic Management	36	94	44	95	40	95	14	93
Total/average	229	95	265	96	252	94	115	92

Note: The data for FY00 exits represent a partial sample and reflect the processing of all ICRs received through July 2000. The number reviewed excludes projects rated not available, not applicable, and not rated. Sat. = Satisfactory.

**Figure B.1 ICR Quality (FY95–00 Exits)**

Note: The data for FY00 exits represent a partial sample and reflect processing of all ICRs received through July 2000.



FY00 exits, at 92 percent, suggest a decline from the FY98 peak of 96 percent. To maintain an overall 95 percent, of the remaining (about 55 percent) FY00 exits, 97 percent would have to be rated satisfactory, which is feasible but needs to be watched.

The findings from all five ICR process reviews, displayed in figure B.1, reveal a rising trend in the quality of ICRs from FY95 to FY98, and a steady record since then, assuming that the final FY00 results will be higher than the preliminary results. It should be noted that the ICR format and process were revised starting with the FY00 exits, and it is too early to infer whether this has had any influence on ICR quality ratings. Overall, however, it is evident that operational staff are internalizing the general completion reporting methodology.

### The Share of Exemplary ICRs Has Increased by 50 Percent Since the Third Review

In addition to the overall satisfactory ICR quality, a steady number of ICRs are being rated by OED as exemplary (table B.3). In FY00, 9 percent of the ICRs reviewed (23 of 270 ICRs received) were in this category (as in FY99, 24 of 266), compared with less than 5 percent (16 out of 334) in the third review. In table B.3, all

networks and Regions are represented, with the exception of MNA. Eight of the 23 (35 percent) exemplary ICRs in FY00 had unsatisfactory outcome ratings, an increase of 10 percentage points from FY99. There were no outcome ratings changes from ICR to ES. Sustainability was downgraded twice and upgraded once from ICR to ES. Institutional development impact was downgraded twice and upgraded twice from ICR to ES. There was at least one change in 30 percent (7 of 23) of cases from ICR to ES, compared with 38 percent (99 of 262) for all ICRs reviewed in FY00 (among the ICRs judged to be of satisfactory quality, 35 percent involved at least one change in ratings, while among the unsatisfactory ICRs, 83 percent recorded at least one change).

The overall satisfactory level of ICRs reflects an improved focus on the quality of the self-evaluation, and particularly the internal consistency of the report. In general, ICRs adhered to the basic reporting requirements, and the overall improvement in focus is an important achievement. However, looking to the future, sustaining project outcomes beyond project closing, the need to involve borrowers in evaluation, to work toward bridging the gap in borrower evaluation capacity, are areas where ICRs have been chronically deficient. The following sections

**Table B.3**

### Exemplary ICRs

Project name	Country	Project name	Country
Irrigation Rehabilitation	Albania	Structural Adjustment	Kenya
Rural Development	Albania	Universities Investment	Kenya
Provincial Reform	Argentina	Structural Adjustment	Latvia
Structural Adjustment	Chad	Technical Assistance	Mauritius
Structural Adjustment Credit 3	Chad	National Population	Nigeria
Structural Adjustment Credit 2	Chad	Leyte-Cebu Geothermal	Philippines
Daguangba Multipurpose	China	Community Water Supply and Sanitation	Sri Lanka
Changchun Water Supply	China	Finance Companies Restructuring	Thailand
SE Coast Sewerage and Drainage	Cyprus	Economic and Financial Management	Uganda
Energy II Project	Guinea	Water Supply Rehab.	Uruguay
Maharashtra Power 2	India	Low-Income Barrios Improvement	Venezuela
Cirata Hydroelectric Phase 2	Indonesia		

document the most recent findings, based on a review of ICRs for FY00 exits. Although based on a partial sample, the analysis uses FY00 exits to serve the dual purpose of assessing the forward-looking orientation and borrower input into the ICR process and reviewing the early experience with the new-style ICRs, which were designed to address their traditional weaknesses.

**Forward-Looking Orientation:  
A Continuing Weakness**

ICRs are expected to have a forward-looking orientation, rather than simply verifying implementation goals. In the past two ICR process reviews, particular attention was given to “future operation” and borrower’s input or evaluation of the project. These aspects are reviewed again here, along with the quality of performance indicators used to substantiate project performance.

The revised ICR guidelines stipulate three key requirements for transition arrangements for the project’s future operation: (a) a description of the arrangements, (b) an evaluation of arrangements, and (c) a list of performance indicators to be used to monitor and evaluate the project in the future.

A content analysis reveals an improvement relative to previous years, perhaps because of the changes introduced. In FY98 and FY99, 54 percent and 39 percent of ICRs, respectively, had no plans for future operations. Another 25 percent and 37 percent in the respective years missed the intent of the OP (that is, they discussed future operations in the country/sector, but not the future operation of the project in question). Overall, only 22 percent of projects in FY98 and 24 percent in FY99 had satisfactory plans for future operations. By comparison, of the 117 FY00 ICRs reviewed for this report, 35 percent have no description of transition arrangements, and another 19 percent have an unsatisfactory description. Overall, about 46 percent of the ICRs have a satisfactory description of transition arrangements (including 13 percent with a marginally satisfactory description). This is a significant improvement from FY98 and FY99, although a majority still do not provide a description of the

transition arrangements. There is much room for improvement.

Of the other two requirements for transition arrangements, the percentage of ICRs with a satisfactory evaluation of the transition arrangements is slightly lower, at 43 percent, and 41 percent do not even attempt an evaluation. A significantly lower number of ICRs, 19 percent, identify adequate performance indicators to guide future operations. Another 7 percent provide partial indicators, but a vast majority (74 percent) do not list any performance indicators. This is surprising, since 68 percent of the ICRs contain performance indicators for the implementation phase of the project and another 19 percent provide at least partial indicators. One reason for this could be that staff are not fully aware of the ICR guidelines.

**Partner Comments: Borrower Input Improving**

Under the revised guidelines, borrower input is to be included in the section on partner comments, with the substantive borrower evaluation, if one exists, attached as an annex. In general, the review finds a need for further clarification on what is expected under the new guidelines (it is not clear if the included comments are “partner’s comments” or “comments on the borrower’s input”).

The main findings are that 7 percent of the ICRs did not have either partner comments or a borrower’s ICR, evaluation report, or summary of borrower input. About 12 percent included only partial comments in lieu of borrower input. About 22 percent included an acceptable summary of comments, and a majority (58 percent) incorporated a detailed contribution by the borrower. These findings maintain the trend observed in the past two years—the percent of ICRs with no borrower comments has fallen from 22 percent in FY98 to 9 percent in FY99 and to 7 percent in the partial FY00 sample. The previous year’s analysis did not provide as detailed a breakdown as was done this year in the quality of borrower input, so a comparison is not possible.

Overall, the findings indicate substantial improvement in borrowers’ contributions to the

ICR process, although work on improving their quality remains to be done.

## Ratings Changes

### Principal Ratings at Closing

Table B.4 shows the changes in ratings at different stages from the final PSR to PAR in the case of outcomes, and ICR to PAR in the case of sustainability and institutional development. The breakdown of all FY96–00 exits into two periods (FY96–97 and FY98–00) does not reveal any significant differences, with the exception of changes in outcome rating from ICR to ES. The data indicate a decline in the downgrades from the ICR to ES and from ES to PAR for outcomes, and from ES to PAR for sustainability and institutional development ratings.

The largest number of outcome rating changes occurs between the PSR to ICR, at 11 percent for the period FY98–00. These figures have remained virtually the same since FY96–97. In contrast, the changes between ICR and ES occur in 4 percent of the cases. In net downgrades, the change from PSR to ICR is again larger, at 5 percent, than between ICR and ES, at 2 percent in FY98–00, down from 6 percent and 4 percent,

respectively, for FY96–97. Total ratings discrepancies between the PSR and ES amount to 12 percent, with net changes at 8 percent of FY98–00 exits.

The changes in ratings between ICR and ES for sustainability and institutional development continue to be substantial at 20 percent. Further, 23 percent for sustainability and 25 percent for institutional development are changed between the ES and PAR. For the aggregate portfolio, however, the implied corrections are smaller, but nevertheless important, for the sustainability rating, with 15 percent and 10 percent successive downgrades from ICR to ES and from ES to PAR. The implications for the aggregate portfolio performance for institutional development are less severe: with 3 percent and 5 percent downgrades from ICR to ES and then from ES to PAR.

The Regional and network breakdowns of the ratings discrepancies are given in tables B.5 and B.6, which show that the greatest number of changes in outcome ratings are for Africa and ESSD, largely at the PSR-ICR stage (that is, before the ICR gets to OED). Sustainability ratings changes occurred least often in ECA and LCR (14 and 15 percent, respectively), and most

**Table B.4**

**Summary of Overall and Net Outcome Ratings Changes (PSR to ICR, ICR to ES, and ES to PAR), FY96–00 Exits**

	FY96–97 exits				FY98–00 exits				FY96–00 exits			
	% Down	% Up	% Overall	% Net	% Down	% Up	% Overall	% Net	% Down	% Up	% Overall	% Net
<b>Outcome</b>												
PSR to ICR	9	3	11	6	8	3	11	5	8	3	11	6
ICR to ES	6	2	8	4	3	1	4	2	5	1	6	3
PSR to ES	12	2	14	10	10	2	12	8	11	2	13	9
ES to PAR	7	2	9	5	4	4	8	0	6	3	9	3
<b>Sustainability</b>												
ICR to ES	17	1	19	16	17	3	20	14	17	2	19	15
ES to PAR	19	6	25	13	13	10	23	4	17	7	24	10
<b>Institutional Development Impact</b>												
ICR to ES	12	7	19	5	11	9	20	3	11	8	19	3
ES to PAR	18	11	29	7	13	11	25	2	16	11	27	5

**Table B.5****Trend in Outcome Rating Discrepancies, FY96–00 Exits (percent)**

	PSR to ICR: outcome				ICR to ES: outcome				ES to PAR: outcome	
	FY98	FY99	FY00	FY96–00	FY98	FY99	FY00	FY96–00	FY98–00	FY96–00
<b>Region</b>										
Africa	19	12	15	14	5	8	6	8	11	12
East Asia and Pacific	13	5	4	8	3	3	0	5	0	14
Europe and Central Asia	3	5	4	6	3	10	4	5	13	6
Latin America and Caribbean	11	4	0	9	9	0	0	6	0	3
Middle East and North Africa	0	0	20	9	0	0	0	5	0	0
South Asia	18	24	11	17	7	0	0	5	8	10
<b>Network</b>										
Environmentally and Socially Sustainable Development	21	13	12	13	5	7	8	8	0	14
Finance, Private Sector and Infrastructure	15	10	9	12	6	5	0	6	12	11
Human Development	7	2	7	8	4	2	3	6	0	0
Poverty Reduction and Economic Management	7	10	0	10	7	5	0	5	25	4
Total/average	13	9	8	11	5	4	3	6	8	9

Note: The data for FY00 exits represent a partial sample and reflect the processing of all ICRs received through July 2000.

**Table B.6****Trends in Sustainability and Institutional Development Ratings Changes, FY96–00 Exits (percent)**

	Sustainability				Institutional Development			
	FY98	FY99	FY00	FY96–00	FY98	FY99	FY00	FY96–00
<b>Region</b>								
Africa	23	19	24	22	20	26	16	19
East Asia and Pacific	24	18	22	19	26	26	17	23
Europe and Central Asia	20	20	4	14	17	23	15	19
Latin America and Caribbean	15	14	24	15	12	20	29	19
Middle East and North Africa	24	21	20	27	6	21	20	18
South Asia	32	14	11	21	20	14	22	17
<b>Network</b>								
Environmentally and Socially Sustainable Development	19	18	33	19	21	16	24	18
Finance, Private Sector and Infrastructure	20	19	12	19	22	26	21	23
Human Development	37	18	13	25	11	25	20	18
Poverty Reduction & Economic Management	16	13	14	13	12	16	0	15
Total/average	23	18	18	19	18	22	19	19

Note: The data for FY00 exits represent a partial sample and reflect the processing of all ICRs received through July 2000.

often in MNA (27 percent). For HD, the figure was 25 percent, and for PREM, 13 percent. ESSD and FPSI were tied at 19 percent. ID impact changes occurred most often in EAP (23 percent) and least often in SAR (17 percent). FPSI had the most changes (23 percent), and PREM had the least (15 percent).

In total, 37 percent of ICRs reviewed by OED received a ratings change in at least one category (table B.7). Based on the findings of performance audits, 43 percent of the audited projects had further ratings changes in at least one category.

### ES Ratings Are Only Part of the Picture

The data presented above clearly indicate that a majority of the ratings changes for outcomes occur before the ICR comes to OED (table B.4). This suggests that many task managers have an unrealistic view of the quality of their projects.

Interpretation of changes that occur from the ES to the PAR needs to be done with care. Since only 25 percent of the projects for which ICRs are reviewed by OED are audited, there is a potential for a selection bias, and hence a potential

bias in the ratings. For example, some projects are audited because of a difference of opinion between OED and the Region, stemming from a disagreement on ratings between the ICR and ES. In other cases, lack of information in the ICR or other reasons raise doubts about project outcomes and can lead to a project being audited. Hence, the changes in ratings at the audit stage may not allow generalizations about the overall quality of ICR self-evaluations or the implied overall performance of the Bank's portfolio.

At the time of the ICR review, each project is categorized by its priority for a performance audit (high, medium, or low). Actual audits conducted, however, do not always target projects rated as high priority for several valid reasons. These include the need to evaluate project performance to feed into a CAE to serve as a building block for a sector or thematic evaluation, to form a cluster for a country sector review, or to be part of a cluster audit for cost-efficiency reasons. While the majority of projects audited belong to the high-priority category, medium- and low-priority projects permit a comparison across the three categories

**Table B.7**

### Summary of Occurrence of at Least One Rating Change (FY96-00 Exits)

	ICR to ES			ES to PAR		
	# Rated	# Changed	% Changed	# Rated	# Changed	% Changed
<b>Region</b>						
Africa	331	131	40	42	18	43
East Asia and Pacific	167	62	37	21	11	52
Europe and Central Asia	140	43	31	18	6	33
Latin America and Caribbean	216	74	34	32	15	47
Middle East and North Africa	76	31	41	4	3	75
South Asia	132	47	36	31	10	32
<b>Network</b>						
Environmentally and Socially Sustainable Development	248	91	37	35	12	34
Finance, Private Sector and Infrastructure	434	171	39	64	30	47
Human Development	217	82	38	23	11	48
Poverty Reduction and Economic Management	163	44	27	26	10	38
Total/average	1,062	388	37	148	63	43

Note: The data for FY00 exits represent a partial sample and reflect the processing of all ICRs received through July 2000.

to identify whether or not the ratings changes for high-priority projects are representative or generalizable. Based on these priorities, the projects with high priority for audit received the most changes (FY96–00 exiting projects audited thus far; see table B.8). The results show a surprising uniformity across all audit-priority categorizations. The ratings discrepancy for all three measures—outcome, sustainability, and institutional development—is the highest in both overall and net terms for the projects rated as low priority for audit.

As noted earlier (table B.7), OED made a change from the ES in at least one rating category in 43 percent of the FY96–00 exits audited thus

far. An important dimension for these ratings is the elapsed time between the project implementation, which ends with the writing of the completion reports, and OED evaluation. This delay permits a more accurate view of the longer-term project impact, especially for audits. Table B.9 shows that the longer the evaluation delay, the more ratings are changed, for ICR to ES. The same is also true for PARs, which are undertaken 1–3 years after the ES, as shown in table B.10.

Table B.11 shows the delay between ICR and ES by OED. For FY96 exits, 50 percent of ICRs had been reviewed 3 months after the ICR date; for FY99 exits, 79 percent were reviewed within 3 months. The average delay declined from 3.83

**Table B.8**
**Project Audit Priority and Performance Ratings from ES to PAR (FY96–00 Exits)**

	Audit priority			
	High	Medium	Low	All
Number of ES	249	240	588	1,077
Number of audits	83	31	33	147
Percent audited	33	13	14	
<b>Number of changes (ES TO PAR)</b>				
One change (%)	20	39	33	27
Two changes (%)	12	16	15	14
Three changes (%)	1	0	26	2
Total number with any change (%)	34	55	55	43
<b>Outcome Ratings</b>				
Number rated (%)	83	31	33	147
Upgraded (%)	2	6	0	4
Downgraded (%)	6	0	12	10
Total changed (%)	8	6	12	14
<b>Sustainability Ratings</b>				
Number rated (%)	82	31	33	146
Upgraded (%)	9	10	3	8
Downgraded (%)	16	13	24	17
Total changed (%)	24	23	27	25
<b>ID Impact Ratings</b>				
Number rated (%)	83	31	33	147
Upgraded (%)	6	19	15	11
Downgraded (%)	10	23	27	16
Total changed (%)	16	42	42	27

Note: The data for FY00 exits represent a partial sample and the processing of all ICRs received through July 2000.

**Table B.9****ICR-ES Ratings Summary, by Evaluation Delay (FY96-00 Exits)**

ICR to ES Delay	Outcome changes				Sustainability changes				ID impact changes			
	# Rated	% Down	% Up	% No chg	# Rated	% Down	% Up	% No chg	# Rated	% Down	% Up	% No chg
0-1 months	434	2	2	96	436	12	2	86	426	10	8	8
2-3 months	395	5	1	94	393	20	2	78	391	13	8	79
4-5 months	173	8	1	91	173	20	2	79	167	10	6	84
6-7 months	61	7	3	90	60	22	5	73	60	15	15	70
8-9 months	11	9	9	82	11	27	9	64	11	18	9	73
10+months	3	67	33	0	3	33	0	67	3	33	0	67
Total	1,077	5	1	94	1,076	17	2	81	1,058	11	8	81

**Table B.10****Ratings Changes by Audit Delay, ES to PAR (FY96-00 Exits)**

Audit delay interval	#	Outcome		Sustainability		ID impact	
		# Changed	% Changed	# Changed	% Changed	# Changed	% Changed
0 (before ES)	12	0	0	3	25	3	25
Less than 1 year	48	2	4	10	21	10	21
1 year	60	8	13	19	32	21	35
2 years	25	3	12	4	16	6	24
3 years	3	0	0	0	0	0	0
Total	148	13	9	36	24	40	27

**Table B.11****Evaluation Delay, ICR to ES (FY96-00 Exits)**

Interval	FY96		FY97		FY98		FY99		FY00		FY96-00	
	#	%	#	%	#	%	#	%	#	%	#	%
0-1 months	12	5	64	28	134	51	137	55	87	78	434	40
2-3 months	99	45	131	57	81	31	61	24	23	21	395	37
4-5 months	73	33	28	12	35	13	36	14	1	1	173	16
6-7 months	26	12	4	2	13	5	17	7	1	1	61	6
8-9 months	8	4	2	1	1	0	0	0	11	1		
10+months	3	1	0	0	0	0	3	0				
Total	221		229		264		251		112		1,077	
Average (months)	3.83		2.46		2.09		2.06		1.21		2.42	

months in FY96 to 2.06 months FY99. Of the partial sample available for the FY00 exits, 99 percent were reviewed within 3 months of the ICR date.

### New-Style ICRs: Differences in Quality Among ILIs and CAIs

In the first half of FY00, 117 projects were in the sample that exited the Bank's portfolio, and their main features are analyzed by Region and are shown in tables B.12 and B.13. The ICR process review introduced changes in the requirements and an electronic format that has enforced ICR adoption of the new guidelines, although some exceptions remain. Among the changes introduced, the new guidelines, in the form of OP/BP 13.55, require that 30 percent of the ICRs be ILIs (Intensive Learning ICRs) and rest to follow a leaner format, called the CAI (Core Accountability ICRs). Of the ICRs received so far, only 15 percent are ILIs, while 10 percent (12 ICRs) have followed the previous ICR guidelines.

Comparing the overall quality of the two types of ICRs, 96 percent of CAIs and 94 percent of ILIs are rated as satisfactory. There is little difference between the ILIs and the CAIs in any of the major ratings (table B.12). One important change visible is that with the ILIs, 59 percent of the ICRs were written by the task manager of the project at closing, compared with 33 percent of CAIs. This is consistent with the intent of the intensive learning feature of the ILIs, and also with the anticipated higher quality of ILIs (table B.13). On other counts, however, CAIs perform better with respect to borrowers' input and partner comments (89 percent versus 71 percent), and stand even on performance indicators. ILIs perform better on the description of transition arrangements (53 percent versus 46 percent), but poorly on the evaluation of these arrangements (35 percent versus 46 percent) as well as on the inclusion of performance indicators for future operations (12 percent versus 20 percent having satisfactory indicators).

**Table B.12**

### Summary of Outcome Ratings Changes, CAI versus ILI, FY00

	FY00 Exits							
	# Down	# Up	# No. change	% Down	% Up	% No change	% Overall	% Net
<b>Outcome</b>								
<i>PSR to ICR</i>								
Core	6	2	76	7	2	90	10	5
ILI	1	0	16	6	0	94	6	6
<i>ICR to ES</i>								
Core	1	2	81	1	2	96	4	-1
ILI	0	0	17	0	0	100	0	0
<b>Sustainability</b>								
<i>ICR to ES</i>								
Core	9	3	72	11	4	86	14	7
ILI	2	0	15	12	0	88	12	12
<b>ID impact</b>								
<i>ICR to ES</i>								
Core	13	4	67	15	5	80	20	11
ILI	2	0	15	12	0	88	12	12



**Table B.13 Comparison by ICR Styles**

	Intensive Learning ICRs		Core Accountability ICRs		ICRs using previous guidelines		All ICRs	
	%	No	%	No	%	No	%	No
Total completion reports	100	17	100	84	100	12	100	113
<b>Lending instrument</b>								
ERL			7	6			5	6
FIL			1	1			1	1
SAD			5	4			4	4
SAL	6	1	2	2	17	2	4	5
SIL	88	15	64	54	75	9	69	78
SIM			10	8			7	8
TAL	6	1	11	9	8	1	10	11
<b>ICR author</b>								
Not TM at completion	41	7	67	56	67	8	63	71
TM at completion	59	10	33	28	33	4	37	42
<b>Performance indicators</b>								
Adequate	71	12	71	60	42	5	68	77
None	0	10	8	58	7	13	15	
Partial	29	5	19	16	19	21		
<b>Partner comments</b>								
Detailed contribution included	65	11	63	53	17	2	58	66
Summary comments included	6	1	25	21	25	3	22	25
Partial comments only	24	4	10	8	17	2	12	14
No comments	6	1	2	2	42	5	7	8
<b>Transition arrangements</b>								
<i>1. Description</i>								
Satisfactory	12	2	42	35	33	37		
Marginally satisfactory	41	7	4	3	42	5	13	15
Unsatisfactory	29	5	18	15	8	1	19	21
None	18	3	37	31	50	6	35	40
<i>2. Evaluation</i>								
Satisfactory	35	6	42	35	25	3	39	44
Marginally satisfactory	0	0	4	3	8	1	4	4
Unsatisfactory	18	3	18	15	8	1	17	19
None	47	8	37	31	58	7	41	46
<i>3. Performance indicators (for future operation)</i>								
Satisfactory	12	2	20	17	17	2	19	21
Partial	12	2	7	6	0	7	8	
None	76	13	73	61	83	10	74	84

Note: Of the FY00 completion reports received, three were PCNs, which have been excluded from this analysis.



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## ANNEX C: EVALUATION CAPACITY DEVELOPMENT

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Improving M&E remains a corporate challenge. An important control gap identified by OED in the past has been a lack of information on what is achieved in terms of outcomes and impacts from Bank-financed activities. This reflects the weaknesses of M&E arrangements, due in part to weak capacity for M&E in borrowing countries. Borrower commitment to M&E is also a key issue. In an effort to fill this gap, the Bank, with support from OED and other units, has promoted Evaluation Capacity Development (ECD).

Several Bank units are currently involved in ECD activities. They include OED in its long-standing catalytic role, WBI in its provision of M&E and other PRSP-related training, DEC and the Regional VPUs working on statistical capacity-building, OPCS in its support role to Operations, individual country teams, and the public sector group. Information exchange among these units on ECD-related activities already exists and plans are under way to strengthen them.

As part of the effort to assess the Strategic Compact, the Bank established an M&E working group in 1999 to develop a comprehensive action plan to achieve sustainable improvements in M&E in Bank-financed projects. On the basis of recommendations of the working group, the Bank has chosen five pilot countries where ECD will be a major thrust. These are the Kyrgyz Republic, Madagascar, the Philippines, Romania, and Tanzania. The pilots are varied in scope and in various stages of implementation. For example, in the Kyrgyz Republic, Romania, and the Philippines, the pilot is broad-based in scope. The governments are in the process of defining results-based monitoring and evaluation (RM&E) frameworks in the central and line ministries

that will be used to track performance against national budget targets. The Bank is also working to deepen its partnership relationships with other donors in these countries. Further, 25 operations in the pilot countries (at the approval and implementation stages) are also using participatory workshops to focus on RM&E.

OED is also supporting efforts to strengthen capacity for M&E in borrowing countries. OED's main objective is to help mainstream M&E in the Bank in the sense that country teams recognize the importance of ensuring in-country M&E capacity and include ECD in their public sector reform efforts. To this end, OED is supporting country teams in designing sound M&E systems at the national and sectoral levels. It has prepared resource material for Bank staff and borrowers, such as diagnostic guides, country case studies, publications, workshops, and a website. It has also facilitated provision of training and trainer training in M&E techniques. Currently, OED is providing support to the country teams for Ghana, the Kyrgyz Republic, and Uganda. Catalytic support has also been given to Benin, Brazil, Honduras, Madagascar, the Philippines, Poland, Romania, and Tanzania. By OED estimates, currently about 10 country teams are actively supporting early-stage ECD efforts.

Once ECD is successfully mainstreamed into Bank operations, OED expects to limit its role to periodic evaluations of the Bank's ECD activities. Given the recent and varied nature of most of these efforts, there is currently little evaluative information on the impact of the Bank's efforts in ECD. Thus, OED has also been asked to play an oversight role. The Board has asked OED to prepare annual reports on ECD, starting in FY02.



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## ANNEX D: OED KNOWLEDGE MANAGEMENT ACTIVITIES

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In FY99, OED developed a strategy to promote the use of OED's evaluation results and to develop networks and engage internal and external evaluation partners to promote learning from OED evaluations. Major activities to implement this strategy include the establishment of an evaluation Help Desk, a service that responds to internal and external inquiries; participation at important evaluation conferences, sector weeks, and Bank-wide knowledge fairs, and events to mainstream OED's work within the Bank and the development community; collaboration with other Bank evaluation units in the creation of an evaluation community of practice; support to OED evaluation task teams by synthesizing results from OED evaluations and other relevant sources; and the development of an evaluation glossary in partnership with OECD in an effort to harmonize evaluation terminology and procedures with other development partners. OED also provides leadership for the aid effectiveness section of the Development Gateway initiative and is responsible for coordinating relevant content submissions of development partners, including bilaterals, multilaterals, NGOs, and civil society.

The Help Desk responds to inquiries on OED evaluation methodology, findings, lessons, and recommendations. Since its inception in January 1999, approximately 3,000 such inquiries have been processed, of which 75 percent were generated from OED internal and external websites. External partners contemplating similar knowledge management operations within their agencies have contacted OED for assistance

in developing their knowledge management (KM) systems.

One of the dissemination mechanisms employed by OED is participation at knowledge fairs. In FY01, OED participated in ten such events: the Global Public Policy Conference, CDF workshop, 2000 World Bank/IMF Annual Meetings, Social Funds Workshop, PREM Week, annual meetings of the American and European Evaluation Associations, Rural Week, Infrastructure Week, and the OED annual retreat. These events provide effective diffusion of OED's evaluation findings and lessons through direct contact with event participants.

The evaluation, monitoring, and quality enhancement community of practice launched in FY00 draws evaluation practitioners from around the Bank and provides a forum to develop and exchange evaluation news, activities, products, and work program information. A shared web portal designed in FY01 provides a collection of evaluation material generated by evaluation units within the Bank and links to those units for visitors to the Bank's external website.

The KM activities are also a valuable input into OED evaluations, through background research and synthesizing findings and lessons. These inputs to OED evaluations and responses to external inquiries provide the basis for the Lessons Paper Series. Four such papers were published online in FY01: Recurrent Lessons in India, Lessons on Community-Driven Development, Utilization of Project Implementation Units, and the World Bank's Experience with Institutional Development.



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## ANNEX E: OUTREACH, DISSEMINATION, AND PUBLICATIONS

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The Outreach and Dissemination strategy of OED, crafted in 1999, is designed to support and enhance OED's role inside and outside the Bank by informing the development community about results on the ground. The strategy rests on five program pillars: (i) strategies and guidelines, including the Bank disclosure policy and internal procedures and guidelines, (ii) corporate activities including Board, Senior Bank Management, Bank staff communications, and external communications; (iii) electronic and web publishing; (iv) print publishing; and (v) dissemination and outreach campaigns.

The objective of the strategy is to enhance the Bank's development effectiveness and its battle against poverty by strengthening OED's contribution to the Bank's knowledge base and becoming a better learning organization. OED achieves this by mainstreaming evaluation findings into the policy and decisionmaking process and by sequencing its reports to match and inform Bank country and sector policy renewal. OED's outreach and dissemination activities also extend its reach beyond the Bank to the global development community and its stakeholders, including donors, partners, civil society, nongovernmental organizations, academia, and borrowers. This is accomplished through strategic internal and external communications and policies, interactive and participatory evaluation processes and report dissemination, publications, electronic dissemination, workshops, media, and innovative information technology applications.

In implementing this strategy, OED has focused on broadening its reach to internal and external clients through continuous innovations. The OED Country Case Series; Forestry Study;

OED Foreword, electronic catalog of publications, OED Reach, Evaluation Updates, E-Posters, and E-Reach all broke new ground. OED launched its first set of live, hyperlinked, interactive documents with the completion the CDF Proceedings site, offered live video webstreaming of the Poverty Study Workshop to Bank networks and thematic groups, and has focused on maximizing the benefits of the opportunities offered by technology in increasing OED's outreach. As part of this effort, the OED website has been redesigned to better serve its clients. At the same time, recognizing that there are large, important groups, including many NGOs, that cannot be reached through computer-based dissemination strategies, OED continues to develop, innovate, and disseminate products to meet their needs.

The outreach and dissemination Work Program exceeded its commitments for the fourth consecutive year. In the past two years, OED has published 24 books, 35 Working Papers, over 100 Briefs and Précis, and over 250 multilingual editions. It has disseminated electronic/interactive publications and documents, conducted live video webstreaming, and made both interactive and static web documents available. Forty ARDE workshops have been held Bank-wide during the past two years, and corporate kits, brochures, briefing binders, posters and PowerPoints produced. Over a quarter of a million documents were disseminated in FY00 alone. This is accomplished through targeted direct mailing, by direct request, through the InfoShop, and at workshops and other events. Writing workshops have also been held to assist the staff in delivering OED findings clearly and effectively.





ANNEX F: FY01 OED SUMMARY WORK PLAN AND RESULTS FRAMEWORK  
(AS OF Q3, FY01)

<b>Regular program</b>	<b>FY99 Actual</b>	<b>FY00 Actual</b>	<b>FY01 Plan<sup>a</sup></b>	<b>FY01 YTD<sup>a</sup></b>	<b>FY01 Proj.<sup>a</sup></b>	<b>Output indicators</b>
<b>Project Evaluations</b>						
<i>ICR Reviews</i>						
Number	279	281	280	193	280	Plan: 75% completed within 60 days from receipt in OED; actual: 80%. Plan: 100% completed within 90 days from receipt in OED; actual: 90%.
\$ Million	0.8	1.2	1.2	0.7	1.2	
<i>Project Assessments</i>						
Number	72	70	70	29	70	Average completion elapsed time is lower than FY00 but falls short of the FY01 target of 90 days.
\$ Million	2.9	3.1	3.1	1.7	3.1	
<i>Project Impact Evaluations</i>						
Number	3	1				Product discontinued in FY01.
\$ Million	0.1	0.1				
<b>Country Assistance Evaluations</b>						
Number	15	10	7	5	7	All five CAEs delivered to CODE ahead of CAS review.
\$ Million	3.9	3.2	3.5	2.0	3.5	
<b>Sector and Thematic Evaluations</b>						
Number	7	6	5	2	4	One OED SSP input delivered to CODE in advance of SSP review.
\$ Million	2.9	5.3	3.7	3.7	4.5	
<b>Corporate and Process Evaluations</b>						
<i>Annual Reports</i>						
Number	2	2	2	1	2	ARDE workshops/seminars ongoing. Process Evaluations
\$ Million	1.3	1.0	0.9	0.8	0.9	
Number	2	1	1	2		
\$ Million	1.3	0.5				
<i>Other</i>						
Number	1	2	2			
\$ Million	1.6	0.3	0.4	0.7	0.4	

(continued)

**FY01 OED SUMMARY WORK PLAN AND RESULTS FRAMEWORK  
(AS OF Q3, FY01) (continued)**

<b>Regular program</b>	<b>FY99 Actual</b>	<b>FY00 Actual</b>	<b>FY01 Plan<sup>a</sup></b>	<b>FY01 YTD<sup>a</sup></b>	<b>FY01 Proj.<sup>a</sup></b>	<b>Output indicators</b>
<b>Evaluation Development</b>						
<i>Evaluation Capacity Development</i>						
Number	2	6	8	7	7	ECD programs in seven countries; began work on one country-led evaluation.
\$ Million	0.8	0.6	1.0	0.7	1.0	
<i>KM, Outreach, and Learning</i>						
\$ Million	1.9	2.3	3.1	2.0	3.1	Support for OED evaluations, extraction of lessons learned from OED's evaluations, assistance to evaluation units of external agencies, responding to requests for information both internal and external to the Bank, enhancement of OED's website (including training), electronic surveys on culture and gender, participation in knowledge events relating to evaluation, and taking the lead in developing the aid effectiveness section of the Bank's Global Development Gateway. The move toward electronic dissemination has been intensified, including a live webcast with the release of the poverty study. Outreach and dissemination outputs included five new editions of OED's studies, 4 précis, 3 Fast Track Briefs, 15 Working Papers, and various kiosks with OED materials for workshops.
<b>Methods and Staff Development</b>						
\$ Million	0.4	0.8	1.4	0.2	0.6	New CAEs have been standardized on the three-dimensional triangulation methodology adopted at the end of FY00. An OED-OPS Task Force on Country Methodology has endorsed use of the Country Information Form in the new Bank score-card. A shortened version of the CIF, suitable for use by country managers in evaluating assistance results, is nearing completion, and will be ready for piloting in the spring.

Note: Amounts shown in FY01 dollars.

a. Excludes FY00 carry-over amounts and other transfers to OED during the fiscal year. YTD is thru March 31, 2001.

## ANNEX G: OED CLIENT SURVEYS

The design of the 2001 OED Outcome Survey sought to go beyond the pilot study undertaken in 2000 and expanded both the number and the scope of the surveys. The purpose of the expansion was to gain greater depth of insight into the reach and impact of OED reports. Twelve surveys were administered, as shown in table G.1.

### Sample Selection and Administration

The Bank staff surveys were administered through Lotus Notes from the OED Help Desk. The borrower surveys were administered by e-mail and fax. All the surveys were designed to ensure that the responses would be anonymous, and all cover memos and reminders reiterated the guarantee of anonymity.

**Table G.1**

**Summary of Surveys and Response Rates**

Target audience/ target OED product	Description	Response rate (%)	Number of responses
Executive Directors' Staff	Survey of 135 advisers, assistants, and alternatives to the Executive Directors, including CODE staff.	41	56
Secretariat staff	Survey of Secretariat Staff (n = 7).	—	1
Quality group	Survey of Regional Quality Assurance, Network Anchor, and DEC staff level GE and above (n = 549).	17	96
Bank staff (random group)	Simple random sample survey of 397 Regional, Network Anchor, EXT, and WBI staff level GE and above.	11	45
Sector and Thematic Evaluations	Simple random sample survey of 503 Bank staff from the relevant Thematic Groups regarding three Sector & Thematic Evaluations, representing a 50% sample of all CY00 S&T studies. Results are aggregated across the three surveys (Gender, Information Infrastructure, and Poverty).	25	125
Performance Audit Reports	Survey of 98 Bank staff engaged by OED in the course of undertaking 20 audit reports, representing a 40% random sample of all CY00 audits (n = 51).	21	21
Country Assistance Evaluations	Survey of 94 Bank staff engaged by OED during preparation of CY00 CAEs (n = 10).	28	26
CAS (without CAE) TMs	Survey of 76 Bank staff engaged in CAS preparation for countries in which there has not been a CAE.	47	36
Borrower survey—Audits	Survey to government officials engaged by OED in the course of undertaking CY00 Project Performance Audit Reports (same 40% sample of CY00 audits as for Bank staff survey) (n = 56).	32	18
Borrower survey—CAEs	Survey to government officials engaged by OED during preparation of CY00 CAEs (minus Kazakhstan, n = 9).	44	4

Care was taken to ensure that no Bank staff member received more than one survey. To accomplish this, a sample of staff was selected (either by random or purposive random sample) for each survey group. Each sample was over-selected to ensure that duplicate names could be eliminated. The selection of individual names for the product-specific surveys was given preference. That is, the lists for product-specific surveys were compiled first (a targeted, nonrandom group who were on the distribution lists for PARs and CAEs). These names were then eliminated from the random samples for other surveys.

A primary concern in the design of the surveys was to keep them short. The three product-specific surveys from the 2000 exercise were expanded to allow for more questions. An effort was also made to retain certain elements to allow for comparison between the two time periods (February 2000 and February 2001). An additional survey was designed and implemented for CAS task teams for which there had not been a CAE. Other surveys were added to access the impact of OED products on different target groups in the Bank. These included similar surveys for (a) the Bank's "Quality group," identified as the Regional Quality Assurance staff, network anchor staff, and DEC, staff level GE and above; (b) the staff of the Executive Directors, made up of assistants, advisers, and alternates; (c) the Secretariat Department; and (d) a random sample of staff, level GE and above but excluding senior managers (directors and up) in the RVPs, EXT, and WBI.

The products selected for the product-related surveys (PARs, CAEs, and S&T studies) were completed during calendar year 2000. The sample technique is consistent with the previous exercise, which examined outcomes of OED products from calendar year 1999. However, where possible, the sample size was larger, in keeping with the recommendations of last year's report. In addition, a survey for Corporate and Process studies was considered. But with only one product, the Aid Coordination Process Review, the survey was deemed premature because the report has not yet been formally released. Similarly, a survey for the ARDE was considered premature, because it had just been released. These products, however, are

covered in the surveys targeted to client groups as one of the categories of OED products on which opinions were sought.

Six studies were candidates for the S&T studies survey. Three were selected. Of the rest, one was a follow-up to a study included in last year's pilot survey (Rural Development). To avoid going back to the same staff a second time, this study was not included. Another report is the subject of a tracer study (Forestry), and the third study was deemed to have a very narrow target group (CFA devaluation). The distribution lists for the studies chosen (Poverty, Gender, and Information Infrastructure) were compiled in consultation with the task managers of the studies and the relevant thematic group coordinators. Once the target population of staff was identified, a random sample was chosen from the large target populations of the Gender and Poverty studies and the entire audience for Information Infrastructure study was chosen (because it was small and very specific).

### **Response Rates**

As shown in table G.1, the response rates range from 11 to 47 percent, with an overall response rate of 27 percent. Multiple e-mail reminders were sent to all groups, and telephone follow-up was done for selected groups. Requests were also made to the relevant thematic group leaders (for S&T surveys) and unit managers (for the Quality group) to encourage their staff to respond to the surveys. From the phone calls, it is estimated that 20–25 percent of the staff were on mission or out of the office. About 10 percent of staff either had left the Bank or were no longer working in that area. In addition, the surveys included several managers and senior managers, who are expected to have a low response rate (primarily for lack of time). The response rates for these surveys are also similar to those of other OED surveys, including those soliciting opinions on thematic topics and issues (e.g., for OED studies on Rural Development, Culture, Forestry, and the like), suggesting that the low response rates may not necessarily represent biased results.

The borrower surveys piloted this year were directed at government officials in countries

where audits and CAEs had been conducted and finalized in the past calendar year. The same products were used as in drawing the sample of Bank staff who had worked on the products. The surveys targeted government officials engaged by OED during the preparation of both the sample of CY00 audits and CY00 CAEs. The audit survey was also sent to 56 government officials concerned with 17 audits. The response rate was 32 percent, comprising 18 respondents from 11 of the 17 countries. The CAE survey had four responses from four different countries for a 44 percent response rate.

To check the accuracy of the survey in reflecting a broad range of Bank staff, the surveys

asked where respondents were stationed, what position they had, and what Region they worked in. The results showed that 71 percent of respondents to the random sample of Bank staff were located in headquarters. This figure corresponds to that of 73 percent cited in the recent Location of Work Report (2001) for all Bank staff. Of the respondents, 23 percent were sector specialists, 21 percent technical specialists, and 9 percent were economists or other specialists. Thirty-two percent were from the Africa Region, 20 percent from EAP, 14 percent from LCR, and only 2 percent from ECA. The remaining 9 percent reported not being in a Region.



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## ANNEX H: THE INFLUENCE OF THREE OED EVALUATIONS: A TRACER STUDY

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This AROE background study explores the ways in which OED evaluations are perceived as useful for decisionmaking within the World Bank. This investigation does not aim to quantify how many instances of use Bank staff self-report. Rather, building on Bank task managers', senior managers', and Board members' perceptions and opinions, the analysis offers empirical evidence on how three specific OED evaluation studies have contributed to change in Bank's practices and policies. The study reconstructs the circumstances under which experiences of use occur, what change they bring about, and what factors favor or impede the perception of usefulness associated with OED studies. The three selected evaluations are (a) *The World Bank Forest Strategy: Striking the Right Balance*; (b) *The World Bank's Experience With Large Dams: A Preliminary Review of Impacts*; and (c) a review of the impact of public expenditure reviews.<sup>1</sup> These OED studies were selected according to the following criteria:

- Evaluations meet the OED standard methodology: There is already some perceived indication of utilization. The rationale for choosing positive experiences of "use" responds to the need to understand how and under what circumstances evaluation use occurred, and how it relates to methodological quality.
- Evaluations must have been completed within a timeframe long enough to systematically gauge the aspects and indications of changes in practices and policies (at least 1 year old, at most 4–5 years old).

Furthermore, the three evaluations look at different aspects of development programs: that is, the Forestry Study specifically focuses on the

implementation of the World Bank 1991 Forestry Policy; the Large Dam Evaluation is an ex-post cost/benefit analysis gauging the extent to which Bank-financed dams comply with both the previous and current safeguards; and the public expenditure review study reconstructs the impact of the content, the process, and the techniques of using the public expenditure review as an analytical tool.

With the focus on three specific OED studies, there is the advantage of dealing with concrete and actionable variables—that is, real evaluations. The characteristics of the three evaluation studies that are particularly valuable to Bank staff can be identified to offer guidance on suitable modes of evaluation design, methodology, and dissemination to further enhance the usefulness of OED evaluations. And with the focus on specific evaluation studies, it is possible to compare the perceptions and opinions of evaluators and other Bank staff about the same body of evidence. This research collects their responses to the same questions of interest and learns to what extent their perceptions converge or diverge, particularly about the usefulness of the work for decisionmaking.

### **Main Research Questions**

This study has addressed the following questions:

1. To what extent have the three OED studies contributed to change in Bank practices and policies?
2. What specifically has been used of the three OED evaluations: data, findings, generalizations, concepts, and theories?
3. How has this evaluation-based information been used: action, thinking, legitimizing?

4. What factors favor or impede OED studies' perceived usefulness?
  5. According to Bank staff, who are the primary users of OED evaluation studies?
- Content analysis of official documents and evaluation reports
  - Social science literature review, specifically, on research and evaluation utilization.

Interviews have been conducted with four samples of informants to be able to triangulate different perspectives and perceptions. The following table specifies the composition of the four samples of informants and indicates the number of interviews conducted in each sample.

### Methods of Data Collection

Research data have been collected through:

- Semi-structured interviews of Bank staff, managers, and evaluators
- Participant observation

Interviewee samples	Number of interviews
Evaluators	6
Board/CODE members (and one assistant)	4
Country/project managers	19
Advisers/specialists	14
Total	43

All interview questions were tailored to the three selected evaluation studies, and the three executive summaries were presented to the inter-

viewees during the interviews. The following table indicates the number of interviews conducted for each tracer study and across them.

Interview focus	Number of interviews conducted
Large Dam Evaluation	11
Impact of Public Expenditure Review	9
Forestry Study	13
Across the three Tracer Studies	10
Total	43



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## ANNEX I: CHARIMAN'S STATEMENT, COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE)

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On July 16, 2001, CODE discussed the findings and recommendations of the 2000–2001 Annual Report on Operations Evaluation (AROE)(R2001–0130), along with the Draft Management Response (CODE2001–0072). The Committee commended OED for a comprehensive report on a broad agenda. It welcomed the use of the COSO framework to assess the adequacy of the Bank's development evaluation and control processes and the focus on areas of risk and vulnerability for the Bank. The Committee underlined that it considered the meeting an important one because the report touched directly on CODE's mandate of assessing accountability and increasing the development effectiveness of the Bank's activities.

1. The Committee members agreed on the following:

- *COSO Framework.* The Committee agreed that the AROE had identified key areas of risk, and that it highlighted the challenges. Members found the use of the COSO framework constructive; believed it was a useful tool in assisting OED and the Committee in assessing the adequacy of the Bank's development risk management system; and supported its continued use in future reports.
- *Revised Management Response.* The Committee felt that the draft Management Response reflected considerable agreement with the OED recommendations but requested that a revised response address them more explicitly. The Committee agreed with Management that the focus of the report on risk and vulnerability needed to be made explicit. It requested that the DGO revise the transmittal memo to make this clear.
- *AROE Recommendations.* The Committee broadly agreed with the four key recommendations for enhancing the Bank's evaluation and control framework by: (a) ensuring the evaluation and control framework addresses emerging priorities and initiatives; (b) accelerating the process of converting and updating operational policies; (c) bridging the gap between corporate sectoral priorities and country programs; and (d) improving the timeliness and rigor of OED evaluations and of the Bank's evaluation methods for assessing new products and processes, including adjustment lending.
- *Strengthening Evaluation Methods and Processes.* The Committee welcomed the focus on strengthening evaluation methods and procedures and underlined the need for further progress in looking at methodological questions in a number of areas including: (i) developing better methods to assess the impact of Bank country programs and adjustment lending; (ii) harmonization of evaluation methodologies across development partners; and (iii) reviewing OED's self-evaluation processes and how to ensure their objectivity. The Committee also underscored the importance of the country assistance evaluations to Board discussions of CASs and called for even shorter feedback loops.
- *Disclosure.* The Committee supported disclosure of the AROE. Process evaluations under the current policy can only be disclosed with Board approval. If the draft disclosure policy currently under review is adopted by Executive Directors, process

reviews, including the AROE, would be disclosed in the future.

**Issues raised during the discussion included:**

- a. *Comments from Management.* Management underscored that it took the OED findings and recommendations seriously and that it was in broad agreement with most of the recommendations. Management raised a number of concerns: (i) the report should make explicit that the focus of the AROE this year had shifted from the previous “balanced scorecard approach” to risk and vulnerability; (ii) the balance between recasting policies and implementation; (iii) the need for continuing prioritization of and fewer recommendations in OED evaluations; and (iv) OED should extend the coverage of its targeted review of evaluation methodology beyond adjustment lending and coverage of new instruments to include investment lending.
- b. *Modernization and Updating of the Bank’s Policy Framework.* The Committee welcomed the progress in updating the Bank’s policy framework and underlined a number of issues regarding development of sector and operational policies. These included the need to: (i) achieve balance between timeliness, clarity and consultation in revising operational policies. It cautioned that the quality of the process and of the policies should not be sacrificed for shorter preparation times; (ii) shorten, as much as possible, the time lag between the Bank’s undertaking new operations and developing operational tools and guide-

lines for implementation; and (iii) reduce costs to operational staff and borrowers of developing the strategies. The Committee stressed the importance of implementation plans being an integral part of SSPs, including their costing and underscored the need for a more timely, efficient and transparent public consultative process for developing both SSPs and the operational policies. The Committee welcomed Management’s intent to provide Executive Directors with periodic progress reports on the status of updating the Bank’s operational policies, including a time line for completion of key policies and it looked forward to the report on managing operational risk and the SSP Stocktaking paper in early FY02.

- c. *Evaluation Coordination.* The Committee noted the increase in evaluation units within the Bank and appreciated that this was a sign of Management’s commitment to reducing corporate risk, but cautioned against duplication and evaluation overload and encouraged more coordination of evaluations across the Bank and with partners. The Committee suggested that staff be trained about the role of evaluation to make clear its benefits. A progress report on harmonization of policies and procedures will come to the Board in September 2001.

The AROE and its revised transmittal memorandum (R2001–0130/1) and the revised Management Response (R2201–0132/2) will be discussed by the Board on July 31, 2001.

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*Pieter Stek, Chairman*

## Chapter 1

1. Evaluation findings for completed projects are presented in OED's *Annual Review of Development Effectiveness* (ARDE)

2. *2000 Annual Review of Development Effectiveness: From Strategy to Results* (Washington, D.C.: World Bank, 2001).

## Chapter 2

1. *The Drive to Partnership: Aid Coordination and the World Bank* (Washington, D.C.: World Bank, 2001).

2. ESW expenditures went up from \$56 to \$72 million between FY97 and FY00, just under FY95 but much below FY93 expenditures. ESW's share in total operating expenditures has remained constant at 7 percent since FY97. Lending expenditures declined from \$159 in FY95 to \$118 million in FY00.

3. The establishment of the Management Committee was announced on the Bank Kiosk on May 11, 2001.

4. Management notes: Fiduciary and safeguard oversight of projects has been highlighted elsewhere in the report. In addition, all other sector boards review their pipeline of operations and provide special support for those that are complicated or represent significant risk. One result has been the increase in ex ante quality enhancement reviews in recent years, led either by sector boards or with strong sector board input.

5. Management notes: Management believes that the country level is the appropriate one for operational integration across sectors. By making it easier for staff to work across country units and Regions, the matrix has enhanced cross-country learning. With regard to issues raised at the sector-wide level of work on water resources, the Bank now has a water resources management group and Regional water teams. The updated water strategy will refine these coordination issues in the water sector and links to other sectors.

6. As noted below, the increasing portfolio quality can be attributed to enhanced quality assurance and risk management efforts by the Bank's management. This growth in the quality and volume of self-evaluation and strengthening of management controls complements existing

ex-post independent evaluation. The OED budget increased by 10 percent between FY95 (US\$15.7 million) and FY00 (US\$17.3 million). Whereas, even without a full accounting for all evaluation and control activities, the FY00 budgets for four oversight units (QAG, IAD, Oversight Committee on Fraud and Corruption, and QACU) totaled US\$18.0 million. None of these units except IAD even existed in 1995 (the FY95 budget for IAD was US\$ 4.4 million—about the same as in FY00). It should be noted that there may have been offsetting savings as a result of the discontinuation of some past self-evaluation activities.

7. *2000 Annual Review of Development Effectiveness: From Strategy to Results* (Washington, D.C.: World Bank, 2001).

## Chapter 3

1. The sample included 11 adjustment operations out of a total sample of 80 in QEA3 (or about 14 percent).

2. Management notes: Based on experiences from earlier rounds of Regional risk assessments, a risk assessment working group is currently developing a common methodology that will be used by all Regions in the next round of assessments.

3. QSA4 indicates that in many Bank units, PSR reporting is seen as purely a formality and that there is little incentive to staff to spend time and effort to fill out the reports with adequate care.

4. Management notes: Recent portfolio reviews show that over the past five years, considerable progress has been made in improving the candidness of project ratings. Further, field supervision in key areas is carried out by economic and socially sustainable development specialists (especially for high-risk operations) and fiduciary specialists.

5. DGF programs with more than US\$300,000 in annual financing undergo an independent evaluation. The FY02 budget draws on independent evaluations focusing on output and outcomes of six programs.

## Chapter 4

1. The six were poverty reduction, adjustment lending, environmental assessments, indigenous peoples, involuntary resettlement, and cultural

heritage. In 1998, the conversion of another 11 was postponed because of evolving Bank work in these areas. Of these, the policy on investment lending has been updated; others are in various stages of preparation.

2. Three Operational Memoranda have been issued to provide interim instructions to staff: Guidelines for Programmatic Adjustment Lending, Clarification of Current Bank Policy on Adjustment Lending, and Interim Guidelines on Poverty Reduction Support Credits.

3. Management notes: “Current” with regard to OPs is used, *inter alia*, to indicate: that they are in the OP/BP format and not the OD or OMS format—implying that their mandatory aspects have been clearly separated from the good practice advice; that they reflect recent lessons of experience (including those identified by OED and accepted by management) and cumulative interpretations by the Board; and that their description of procedures reflects the current organizational structure of the Bank. However, in a broader sense, any policy statement in the Operational Manual, when read together with its updates (*i.e.*, Operational Memoranda issued subsequently), reflects the current Bank Policy.

4. Five of the eight OED sector and thematic evaluations completed in FY00 have raised issues related to operational policies (aid coordination, information infrastructure, gender, forestry, poverty).

5. Management notes: Corporate risk projects are identified by the Regions with assistance from QACU and the Legal Department. Other types of high-risk projects are identified by sector boards.

6. Management notes: The concern noted above was expressed on the basis of earlier reviews on ESW quality. More recent findings confirm that management has continued to make commendable progress in improving the quality of ESW with 86 percent of the tasks rated as satisfactory.

7. Management notes: The criteria used by OED staff for evaluating the section in ICRs on transition arrangements are not transparent to staff. It would be useful to make these criteria readily accessible to staff.

8. Management notes: Management agrees with the assessment in this report (Chapter 7, section entitled “Harmonizing Evaluation Methodology”) that additional work is needed to develop consistent guidelines for the relevance and institutional development aspects of performance measurement. Progress in this area would contribute substantially to reducing the gap noted above with regard to institutional development.

## Chapter 5

1. See, for example, “Poverty Reduction and the World Bank: Progress in Fiscal 1999” (Washington, D.C.: World Bank).

2. The proposal was to cover five countries and two sectors in year one of the program, and another three countries and two sectors in year two of the program.

3. M&E deficiency contributes to many of the issues noted in other parts of this report (*e.g.*, risk assessment, performance measurement, realism in reporting). M&E can also contribute to reducing supervision and completion reporting costs.

4. The Panel’s mandate is limited to cases of alleged noncompliance of policies and procedures with respect to the design, appraisal, and/or implementation of projects. No procurement action is subject to inspection by the Panel.

## Chapter 7

1. The eight criteria are: Relevance, Achievement of Objectives (efficacy), Efficiency, Sustainability, Institutional Development Impact, Aggregate Project Performance Indicator, Borrower Performance, and MDB Performance.

2. Two pilot borrower surveys were also sent to selected officials associated with recent PARs and CAEs. The results are generally positive, and the findings are largely similar to those of the staff surveys. The findings are discussed in Annex G.

3. One explanation of the lower ratings for CAEs could be the lack of agreement on a standard CAE methodology.

4. Objectivity and relevance are rated lower by respondents from the CAE and PAR groups, but substantially higher by the ED staff, quality, random, and S&T groups.

5. Of the FY00 CASs (17), about half (8) were “CAE-CASs,” that is, they had had a CAE in the past. The rest are “non-CAE CASs.”

6. Transcripts and “yellow sheets” for a total of 32 selected Board discussions on topics related to the Bank’s operational work and development effectiveness were reviewed.

### **Annex A**

1. The Treadway Commission, also known as the National Commission on Fraudulent Financial Reporting, presented the framework in their 1992 report, titled “Internal Controls-Integrated Framework.”

### **Annex H**

1. *Review of the World Bank’s 1991 Forest Policy and Its Implementation* (Washington, D.C.: OED/World Bank, 2000). *The World Bank’s Experience with Large Dams: A Preliminary Review of Impacts*, Report No. 15815, (Washington, D.C.: OED, 1996). The review of public expenditure reviews, a process evaluation, was prepared for internal use only and not disclosed according to the Bank’s policy at the time.