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The International Bank for Reconstruction and Development (World Bank) was created in 1945 primarily to help finance reconstruction economies devastated by World War II and for development of productive facilities where private capital was not available on reasonable terms. The Foreign Assistance Act of 1961 required the President, acting through the U.S. representative to the World Bank, to propose and actively seek establishment of an independent review and evaluation system for the World Bank. Findings/Conclusions: Since the establishment of an operations evaluation unit in September 1970, the Bank has made considerable progress in developing an independent review and evaluation system. The establishment of a Director-General position in 1975 was a major step toward making Bank operations more responsive to the needs and concerns of member governments. A review of auditing standards and procedures followed by the Operations Evaluation Department (OED) disclosed opportunities for the Bank and OED to strengthen their independent review system by further refining and building upon standards and procedures initiated over the past several years. The Bank's review system has evolved so that now is an opportune time to bring OED's standards, procedures, and practices more in line with those recommended by the Comptroller General in 1974. The effectiveness of OED reports would be enhanced if recommendations were required when appropriate.

Recommendations: The Secretary of the Treasury, through the U.S. Executive Director of the World Bank, should urge development of a time-phased plan for systematically reviewing all Bank activities and functions and encourage the World Bank's Board of Directors to establish a standard requiring that reports contain

recommendations when appropriate. The U.S. Executive Director should encourage the Bank's OED to require work programs for all its reviews, provide its staff with formal guidance on basic audit techniques, strengthen its internal review process to ensure adherence to its own reporting standards, and revise its followup procedures. (RRS)

6603

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Effectiveness Of The World Bank's Independent Review And Evaluation System

The World Bank has made considerable progress toward developing an independent review system. Auditing and reporting standards have been adopted, and the review group has been placed under a Director-General who is responsible to the Board of Executive Directors.

Under guidance of the Director-General, the Bank's Operation Evaluation Department has worked with the operating departments to establish a framework for improved project reporting which, in turn, provides a basis for reviewing other important activities.

Now is an opportune time for strengthening the effectiveness of the system and negotiating for changes in the auditing and reporting standards.



ID-78-14

JUNE 5, 1978



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

B-161470

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

This report discusses the progress made by the World Bank in establishing an independent review and evaluation system for its programs and activities. The report contains several recommendations to the Secretary of the Treasury to propose to the Bank's Board of Directors concerning standards for the independent review and evaluation system. It also presents suggestions for improving the system and the availability of Bank reports to the Congress.

Our review was conducted pursuant to section 301(e) of the Foreign Assistance Act of 1961, as amended.

Copies of the report are being sent to the Secretary of the Treasury. To fulfill the requirements of section 301(e), which requires that the report be sent to the President, in his behalf, we are sending it to the Director, Office of Management and Budget.

A handwritten signature in black ink, appearing to read "James B. Atchey".

Comptroller General
of the United States

D I G E S T

The World Bank Group--the Bank itself, the International Development Association, and the International Finance Corporation--has made considerable progress toward developing an independent and continuous selective examination, review, and evaluation of the Bank's programs and activities.

The review system has evolved to the point where now is an opportune time to bring its standards and practices more in line with those suggested by GAO.

Accordingly, this report recommends that the Secretary of the Treasury, through the U.S. Executive Director of the World Bank,

--urge development of a time-phased plan for systematically reviewing all Bank activities and functions over a reasonable period (see p. 18), and

--encourage the World Bank's Board of Directors to establish a standard requiring that reports contain recommendations when appropriate (see p. 28).

The Secretary, through the U.S. Executive Director, should also encourage the Bank's Operations Evaluation Department to

--require work programs for all its reviews,

--provide its staff with formal guidance on basic audit techniques (see p. 23),

--strengthen its internal review process to ensure adherence to its own reporting standards (see p. 28), and

--revise its followup procedures (see p. 28).

In addition, GAO proposes that the Secretary make sure that reports required by section 301(e) of the Foreign Assistance Act of 1961, as amended, are forwarded to the Congress in a more timely manner. Treasury officials have begun to submit the reports to the Congress and cumulative lists of the reports to appropriate congressional committees on a monthly basis.

U.S. INVOLVEMENT

The United States is the largest investor in the World Bank Group, with investment and voting power of

- 25 percent (\$7,809 million) of World Bank callable capital (\$781 million of it paid in), representing 23 percent voting power;
- 37 percent (\$4,000 million) of the total capital subscribed to the International Development Association, representing 23 percent voting power; and
- 32 percent (\$35 million) of the capital subscribed to the International Finance Corporation, representing 26 percent voting power.

ESTABLISHMENT OF THE INDEPENDENT REVIEW SYSTEM

The 1973 amendment of the Foreign Assistance Act encouraging the establishment of an independent review and evaluation system directed the Comptroller General of the United States--Chief Executive of GAO--to:

- Prepare auditing and reporting standards for auditing terms of reference.
- Review periodically reports issued.
- Report to the Congress and the President any suggestions concerning auditing and reporting standards, recommendations made, and actions taken as a result of the recommendations.

GAO provided the Bank Group with auditing and reporting standards in 1974. To encourage independent evaluation, in October 1977 the Board of Executive Directors placed the existing Operations Evaluation Department under a Director-General responsible to the Board.

Under his leadership, many generally accepted auditing standards have been adopted and a framework for reporting on Bank-funded projects has been developed. To be sure that operations evaluations are adequate and efficient, the responsibilities of a committee composed of six Executive Directors, including the U.S. Executive Director, was enlarged to include oversight of the system.

From October 1975 through September 30, 1977, the Operations Evaluation Department

--issued about 135 audit reports on project performance,

--prepared 5 evaluation studies and policy reviews covering such subjects as project preparation, and

--prepared 3 annual reports summarizing the results of project performance auditing.

The Director-General has also prepared two annual reports on the status of the Bank's overall evaluation system.

Perhaps the Department's chief contribution has been to improve the Bank's system for assessing project impact, plus various side benefits resulting from monitoring the system. According to Bank officials, the Department has made substantial improvements in the project completion reports prepared by operations personnel. Lessons learned from project audit report appraisals and special studies have resulted in improved project planning and implementation. The officials have taken steps to apply lessons learned to future projects.

The Bank's member countries are interested in independent evaluation for purposes of accountability and assisting management in formulating new policies and directions. Loan recipients have also been interested in the Department's results to help them better prepare for future projects. Some developing countries have expressed interest in developing their own independent review groups.

Since the Bank is an international organization, it is outside GAO's audit authority, and GAO did not directly examine Bank operations. However, with the assistance of the U.S. Executive Director, excellent cooperation was received from Bank officials, who provided necessary documents and arranged for meetings with key Bank personnel, including the Bank President.

AUDITING AND REPORTING STANDARDS

The efficiency and effectiveness of the Bank's review system can be enhanced by improvements in the following areas.

The Operations Evaluation Department's scope of work has been limited. Its policy of comprehensive project coverage has consumed over half of its resources. Few broad studies have been conducted; ongoing projects and some activities have never been independently reviewed. A time-phased plan to cover all important activities has not been prepared. (See pp. 12 to 18.)

A review of the Department's staff profiles revealed that personnel had varied backgrounds, including much prior Bank experience. This may satisfy the Department's needs, but it has not set formal hiring goals concerning staff qualifications. (See pp. 18 to 20.)

The Department does not use work programs in its project reviews. Specific objectives, areas of work to be covered, staffing requirements, procedures to be employed,

and the systematic arrangement of proposed work are not specifically and formally identified. The staff is not provided with guidance or training in basic evaluation techniques, even though it may not have had previous training in or familiarity with review and evaluation techniques. (See pp. 20 to 23.)

The Bank adopted most of the reporting standards suggested by GAO in 1974. However, the effectiveness of reports would be strengthened if the standards required recommendations in reports when appropriate. (See pp. 24 to 26.)

GAO's review of 28 selected reports indicated that the Operations Evaluation Department generally adhered to its reporting standards, although a few individual reports varied in the extent of adherence. The Department's procedures do not adequately provide for systematic followup and reporting to the Executive Directors as called for in GAO's and in the Bank's own standards. (See pp. 26 to 28.)

AGENCY COMMENTS

The Treasury obtained the comments of the Director General of the World Bank's Operations Evaluation Department, and supported GAO's position that the standards and practices of the department should be brought more in line with those suggested by GAO. Treasury agreed that the scope of the work of the Operations Evaluation Department should be broadened and that its reports should contain recommendations where appropriate.

Treasury also pointed out that the third "Annual Review of Project Performance Audit Results" has been released for public distribution. (See app. I.)

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ABBREVIATIONS

GAO	General Accounting Office
IDA	International Development Association
IFC	International Finance Corporation
OED	Operations Evaluation Department

CHAPTER 1

WORLD BANK GROUP AND U.S. PARTICIPATION

The International Bank for Reconstruction and Development, known as the World Bank, was created in 1945 primarily to help finance reconstruction economies devastated by World War II and for development of productive facilities in countries where private capital was not available on reasonable terms. At the outset, the World Bank granted loans mainly to European countries for reconstruction. Its emphasis has since shifted to the economic development of member countries throughout the world. Under the Articles of Agreement, World Bank loans must be used for high-priority, productive purposes and, except in special circumstances, for meeting the foreign exchange requirements of specific reconstruction and development projects.

The Bretton Woods Agreement Act (22 U.S.C. 286), approved July 31, 1945, authorized the President to accept U.S. membership in the World Bank. Member countries, which as of June 30, 1977, totaled 129, provide both paid-in capital and capital guarantees which the Bank may call upon to meet its obligations. The guarantee of capital enables the Bank to borrow more sizable resources from private investors.

In the 1950s, financial experts were of the opinion that the international financial structure did not successfully meet many economic problems. As a result, two World Bank affiliates with specialized functions were organized.

- The International Finance Corporation (IFC) was created in 1956 to encourage private investment in developing member countries by granting loans to qualified private interests unable to obtain the government guarantees required for World Bank loans. The International Finance Corporation Act (22 U.S.C. 282), approved August 11, 1955, authorized U.S. membership in IFC.

- The International Development Association (IDA), was created in January 1960 to make concessional loans to developing countries suffering from poverty, lacking creditworthiness for conventional loans, and making acceptable efforts to improve their economic performances. The International Development Association Act (22 U.S.C. 284),

approved June 30, 1960, authorized U.S. membership in IDA.

These two affiliates of the World Bank Group--IDA and IFC--are legally and financially independent of the World Bank, but to qualify for membership in either of them, a country must first be a member of the World Bank.

MANAGEMENT STRUCTURE

A Board of Governors, a Board of Executive Directors, and a Bank President provide overall direction for each institution. The World Bank Governors and Executive Directors are automatically Governors and Executive Directors of both IFC and IDA if the countries they represent are members of these institutions. Similarly, the Bank President serves as President and Chairman of the Board of Executive Directors of IFC and IDA. The Bank and IDA share the same staff, while IFC has a separate operating and legal staff.

All powers of the three organizations are vested in their Boards of Governors, composed of one governor and usually one alternate from each member country. The Secretary of the Treasury is the U.S. Governor, and the Deputy Under Secretary of State for Economic Affairs is the alternate. The Boards of Governors have delegated most of their authority to the Executive Directors, except for certain powers reserved for the Governors according to the Articles of Agreement. Included are the powers to admit or suspend members; to increase or decrease the Bank's capital stock or, in IDA's case, to authorize additional subscriptions; and to suspend operations and distribute the Bank's assets.

The Executive Directors are responsible for overall operations and for exercising the powers delegated to them by the Boards of Governors. There are 20 Executive Directors and each serves a 2-year term; 5 are appointed, 1 each by the 5 member countries having the largest number of shares, and 15 are elected by the other members. Each Director is entitled to cast the number of votes allotted for the country or countries he represents.

The Bank President is selected by the Executive Directors and is their Chairman although he can vote only when necessary to break a tie. He may also participate in Boards of Governors' meetings, also without voting rights. Subject to direction by the Executive Directors on policy questions, the President conducts the Bank Group's day-to-day business.

The Bank Group maintains its headquarters and most of its staff in Washington, D.C.; other offices are located in key cities around the world. As of June 30, 1977, the professional staff totaled about 2,300. Washington staff members travel extensively to borrowing countries, appraising, implementing, and evaluating projects.

U.S. CONTRIBUTIONS AND VOTING POWER

Member country subscriptions to the Bank's capital stock are based on the country's relative economic strength. Voting power, in turn, is related to subscriptions. Each Bank member has 250 votes plus one vote for each \$100,000 of capital stock subscribed. Each IDA member has 500 votes plus one for each \$5,000 of subscriptions. Each IFC member has 250 votes plus one for each \$1,000 of subscriptions.

The United States is the largest financial contributor to all three institutions and, accordingly, has the largest percent of voting power.

Table 1

U.S. Subscriptions
and Voting Power in World Bank Group
as of June 30, 1977

	<u>Subscriptions</u>	<u>Percent of total subscriptions</u>	<u>Percent of total voting power</u>
	(millions)		
World Bank	a/\$7,808.7	25.3	22.6
IDA	3,999.9	37.3	23.2
IFC	35.2	32.5	26.3

a/Includes paid-in capital of \$780.9 million.

DEVELOPMENT ACTIVITIES

During fiscal year 1977, the Bank Group made lending and investment commitments of about \$7.3 billion to assist the economic development of its member countries--an almost 6-percent increase over fiscal year 1976. New loans by the World Bank totaled about \$5.8 billion to 54 countries, up 16 percent from 1976. New IDA credits decreased 21 percent to \$1.3 billion, and IFC commitments decreased 16 percent to \$207 million. Tables 2 and 3 show the distribution of these funds by sector.

Table 2

World Bank and IDA Development
Lending Approved In Fiscal Year 1977

<u>Sector</u>	<u>World Bank</u>	<u>IDA</u>
	(millions)	
Agriculture and rural development	\$1,637.8	\$670.1
Development finance companies	730.7	25.5
Education	210.1	78.5
Industry	720.8	16.0
Nonproject	126.5	90.0
Population and nutrition	42.5	4.8
Electric power	784.5	167.0
Tourism	98.6	-
Transportation	875.6	172.0
Urbanization	128.2	30.0
Water supply and sewerage	262.5	38.2
Technical assistance	1.5	15.4
Telecommunications	<u>140.0</u>	<u>-</u>
Total	<u>\$5,759.3</u>	<u>\$1,307.5</u>

Table 3

IFC Commitments
By Sector Fiscal Year 1977

<u>Sector</u>	<u>Amount</u>
	(millions)
Development finance companies	\$ 40.7
Food and food processing	27.6
General manufacturing	23.7
Textiles and fibers	21.0
Mining	18.5
Money and capital markets	18.2
Pulp and paper products	17.3
Utilities	15.0
Construction materials	13.2
Iron and steel	11.2
Chemicals and petrochemical products	<u>.3</u>
Total	<u>\$206.7</u>

World Bank and IDA lending has been increasingly concentrated in agricultural and rural development projects; during fiscal years 1975-77, these sectors received more than any other sector. Overall, the Bank and IDA committed funds for 228 development projects during fiscal year 1977.

IFC commitments for fiscal year 1977 went to 33 enterprises in 20 developing countries. Latin America was the largest recipient and European developing countries the second largest.

The fundamental difference between Bank and IDA operating policies is their financing terms. The Bank makes long-term (15 to 25 years) loans at more or less conventional interest rates; IDA makes still longer term loans (10-year grace period plus a 40-year repayment period) with a service charge of three-fourths of 1 percent a year on amounts disbursed and outstanding.

There is no formula for working out IFC investment terms. Each investment is examined on its own merits and in relation to local factors, such as interest rate patterns and the country's general financial maturity. IFC seeks a prospective overall return consistent with the requirements of the business involved and its own need to continuously revolve its funds.

INDEPENDENT EVALUATION SYSTEM

In December 1973, section 301(e) was added to the Foreign Assistance Act of 1961 (22 U.S.C. 2221(e)) (Supp V, 1975) and requires the President, acting through the U.S. representative to the World Bank, to propose and actively seek establishment of an independent review and evaluation system for the World Bank. The act also directed the Comptroller General to

- prepare auditing and reporting standards to assist in formulating the terms of reference for a review and evaluation group,
- periodically review audit reports and related information, and
- report to the Congress and the President.

On June 24, 1974, the Comptroller General transmitted the required statement of auditing and reporting standards to the Secretary of the Treasury. After discussions with U.S. representatives, the Bank's Board of Directors decided

that, effective October 1, 1975, the existing Operations Evaluation Department would be responsible to the Board with an administrative link to the Bank President. A statement of World Bank standards and procedures for operations evaluation was approved by the Board in April 1976.

SCOPE OF REVIEW

On July 30, 1975, we issued a report (ID-76-3) on the progress made toward establishing an independent review system in the World Bank. 1/ Pursuant to our responsibility under the 22 U.S.C. 2221(e), this report evaluates the effectiveness of the Bank's independent review and evaluation system.

Because the Bank is outside our audit authority, the scope of our review was limited. We did not directly examine Bank operations. However, with the assistance of the U.S. Executive Director, we received excellent cooperation from Bank officials and reviewed Bank documents and interviewed various Bank officials.

To gain insight into the effectiveness of the evaluation system, we

- evaluated auditing and reporting standards adopted by the Bank,
- reviewed selected audit reports to measure their compliance with the standards, and
- discussed the usefulness of the Operations Evaluation Department's reports with selected Bank recipients.

We also met with staff members of congressional oversight committees to discuss their interests in the Bank's independent review and evaluation reports.

1/Throughout the remainder of this report the term World Bank means the International Bank for Reconstruction and Development, IDA, and IFC.

CHAPTER 2

PROGRESS TOWARD ACHIEVING AN

INDEPENDENT REVIEW AND EVALUATION SYSTEM

Since an operations evaluation unit was first established in September 1970, the Bank has made considerable progress in developing an independent review and evaluation system. The establishment of a Director-General position in 1975 was a major step toward making Bank operations more responsive to the needs and concerns of member governments. The Bank's April 1976 statement of standards and procedures for operations evaluation adopted many generally accepted auditing standards. The Bank's project performance auditing system has been an innovative approach to evaluating project impact.

DIRECTOR-GENERAL

To encourage independent evaluation of Bank operations, a Director-General position was created and placed directly under the Executive Directors with only an administrative link to the President. The position is equivalent to that of a Bank vice president, and the incumbent holds office for a renewable 5-year term. He can be removed only by the Board and is ineligible for subsequent appointment to the Bank staff, except in unusual circumstances.

The Director-General is responsible for appraising the Bank's operations evaluation system and reporting on its adequacy and for conducting selective independent reviews of Bank programs and activities.

He maintains formal contact with the Board of Executive Directors by attending all meetings of the Board and the Board's Joint Audit Committee.

OPERATIONS EVALUATION DEPARTMENT

The Operations Evaluation Department's (OED's) principal functions are to:

- Assist the Director-General in periodically testing and assessing the adequacy and effectiveness of Bank programs and activities.
- Carry out evaluation studies and operational policy reviews to identify areas for improvement in Bank policies and procedures and their applications.

- Help the Bank encourage and assist member countries in developing operations evaluation systems.
- Assess and report on Bank responses to OED studies.
- Disseminate evaluation findings and lessons within the Bank and the development community.

For fiscal year 1978, the Board of Executive Directors approved 20 professional staff positions and 3 staff-years of consultant time for OED.

OED performs three major kinds of reviews--project performance audits, evaluation studies, and operational policy reviews. In fiscal year 1977, OED spent about 56 percent of its time on project audits, which evaluate reports of completed projects that received Bank or IDA funding. Evaluation studies, which focus on a particular aspect of development, consumed about 16 percent of OED's time, and operational policy reviews, which examine Bank management and administration, consumed about 19 percent.

In April 1976 the Bank adopted a statement of standards and procedures for evaluating operations. The statement recognized many generally accepted auditing standards and was a large step towards establishing criteria for measuring the quality and adequacy of the work performed.

PROJECT PERFORMANCE AUDITS

The Bank considers the project performance audit system the center of its evaluation activities. The two premises upon which this system rests are (1) comprehensive coverage of all projects and (2) self-evaluation by Bank staff. The system, started in 1973, is intended to produce a project performance audit report for every project completed with Bank or IDA assistance after July 1, 1972.

The first step of project performance auditing is preparation of a project completion report by the Bank's operating staff, generally within about 6 months after the funds are completely disbursed. The reports are intended to comprehensively review the extent to which the objectives and expectations have been, or show promise of being, achieved. They attempt to address the reasons for deviations from project plans and to assess their significance but they normally do not attempt to do more than identify the issues. They usually do not go beyond the expectations and objectives explicitly stated in project documents.

The Bank recently published general guidelines for preparing completion reports, including scope, work methods, and presentation. According to the Bank's operational manual, detailed guidelines for each sector will also be issued. The operating staff normally visits the project site to prepare the completion report, and OED first briefs staff members on the various issues it thinks should be considered in the staff's review. OED surfaces these issues while reviewing project-supervision and appraisal reports, previous OED reports, and Board minutes. If a project is experiencing great difficulties or involves especially important issues, an OED staff person may join the mission.

When the report is prepared, OED tests it for comprehensiveness and consistency and prepares a brief project performance audit memorandum describing the tests made. The memorandum conveys OED's overall conclusions regarding the project's success or failure and draws attention to any lessons of wider relevance that may emerge.

OED selects certain projects for a more thorough review, based on the importance of issues involved, questions raised about the project or the Bank's participation, or completion report inadequacies. In such cases, OED does not rely on the completion report but conducts an independent evaluation, including interviews, project file reviews, and country visits. The project audit report, which consists of the OED audit memorandum and related completion report, is sent simultaneously to the Executive Directors and to Bank management. From October 1, 1975, when the first Director-General was appointed, through September 30, 1977, 135 project audit reports were prepared.

In addition, OED has prepared three annual reports on project performance audits to (1) provide an overview of results compared with expectations, (2) indicate performance patterns, and (3) develop the broad lessons that arise from the audits.

EVALUATION STUDIES AND OPERATIONAL POLICY REVIEWS

Evaluation studies and operational policy reviews deal with the efficiency, economy, and effectiveness of programs, policies, and practices. From October 1, 1975, through September 30, 1977, four evaluation studies and one operational policy review have been issued; 10 others are either planned or being considered for fiscal years 1978 and 1979.

Evaluation studies examine the impact of a number of projects, focusing on particular aspects of development, Bank assistance, and major questions of development and assistance which may arise. Operational policy reviews examine the application of particular policies and procedures regarding Bank management and the administration of Bank programs.

FUTURE DIRECTION OF OPERATIONS EVALUATION SYSTEM

Bank officials have stressed that operations evaluation is relatively new and is still evolving. Until now, the major thrust of evaluation has been to improve the project performance audit system, through which both the operational staff and OED review all completed Bank-financed projects. Much progress has been made in building monitoring and evaluation components into projects from their start. The Director-General believes that even though the number and complexity of completed projects are increasing, the quality and comprehensiveness of project completion reports, on which project performance audits are based, have improved steadily.

Therefore, OED plans to shift its emphasis away from project auditing by increasing the selectivity of commentaries on completion reports and more thoroughly reviewing completed projects. One objective of this is to ensure that the goal of comprehensiveness does not use OED resources for project audits at the expense of evaluation and policy studies. OED plans to strengthen its capacity for analyzing the implications of project performance audit findings on current Bank operations.

Finally, the Bank is encouraging member governments to become more actively involved in evaluating their own completed Bank-financed projects and is exploring how it may help to establish monitoring and evaluation offices within borrowing countries.

REVIEW OF OED

A Joint Audit Committee composed of six Executive Directors, including the U.S. Executive Director, is responsible for ensuring that operations evaluations are adequate and efficient. It does this mainly by

--discussing with the Director-General his annual report before transmitting it to the Executive Directors;

- recommending OED's draft annual budget and work program to the Board after discussing them with the Director-General;
- screening OED reports to select issues for consideration by the full Board of Executive Directors; and
- reviewing samples of OED reports with their authors to assess adequacy of coverage, methodology, and adherence to standards.

The Joint Audit Committee also prepares an annual assessment of OED's adequacy and efficiency for the Board of Executive Directors.

CHAPTER 3

AUDITING STANDARDS AND PROCEDURES

Auditing standards are the general criteria against which work can be measured to determine its adequacy and quality. Auditing procedures give specific guidance to be followed in achieving audit objectives.

The distinction drawn is not always a sharp one. Auditing standards should not vary, whereas specific audit procedures will vary among assignments. At the same time, however, some procedures are so basic to the performance of a satisfactory audit that they may be considered as standards relating to the adequacy of work performed.

Our review of auditing standards and procedures followed by the Operations Evaluation Department disclosed opportunities for the Bank and OED to strengthen their independent review system by further refining and building upon standards and procedures initiated over the past few years. More specifically, we believe that the Bank's review system has evolved to the point where now is an opportune time to bring OED's standards, procedures, and practices more in line with those recommended to the Bank by the Comptroller General in June 1974 (B-161470, B-175281). We believe improvements in the following areas will provide increased Bank accountability to member countries and allow OED to provide fuller and more effective input into the Bank's management decision-making process by (1) broadening the scope of work, (2) establishing clearly defined staffing goals, (3) developing comprehensive guidance on basic audit techniques, and (4) preparing work programs for all its work.

SCOPE OF REVIEW SYSTEM

The statement of standards provided by the Comptroller General suggested that the review system give the Governing Body an independent and continuous program of selective reviews of all major Bank programs and activities, including loan administration and implementation. Within this framework, the Comptroller General suggested that reviews generally be directed toward examining whether Bank activities attained development objectives in an economical, efficient, and effective way. The Comptroller General noted that the Bank need not require all activities to be examined in a single year and suggested that the Bank provide systematically for the required coverage over a reasonable period of time and for the assignment of priorities in conducting work. To accomplish this, he suggested preparation of a

time-phased audit plan which would be revised periodically and given to the Governing Body for review and approval.

OED practice

OED has worked actively with the Bank's operating departments in providing a framework for improved project reporting, which in turn provides a basis for reviewing other important activities not yet reported on.

Project completion reports form the basis for preparing OED project audit reports and, according to OED, are used as sources of information in evaluation studies and policy reviews. In June 1977 OED and Bank operating personnel developed general guidelines for preparing project completion reports. In commenting on the progress made, the Director-General noted that almost 80 percent of the fiscal year 1977 completion reports were good enough to be included as the base document for project audit reports.

In view of this progress, we believe OED should devote fewer resources to reviewing 100 percent of the projects and preparing post-evaluation reports.

We believe OED could better serve the Board of Executive Directors by reviewing ongoing projects and other major Bank activities and functions that have never been independently evaluated.

Current coverage and resource allocation

OED has no time-phased plan for systematically covering all major Bank activities. Its policy of preparing an audit report for each project completed since July 1, 1972, has consumed the majority of its resources, leaving limited resources for evaluation studies and policy reviews. Some major activities have never been independently reviewed.

From October 1, 1975, when the Director-General was first appointed, through September 30, 1977, 135 project audit reports were issued, 97 in fiscal year 1977 alone. OED plans to report on about 130 projects during fiscal year 1978. The number of completed projects being reviewed is growing, and the Director-General estimated that project audit reports will soon total about 200 each year.

Table 4 shows the heavy emphasis on project auditing in relation to evaluation studies and policy reviews.

Table 4

Reports Completed

<u>Type of report</u>	<u>Fiscal year</u>		
	<u>1976</u>	<u>1977</u>	<u>1978</u>
		(estimated)	(programed)
Project audits	<u>a/53</u>	97	130
Evaluation studies	1	2	5
Policy reviews, followup/closing reports, annual reviews	<u>4</u>	<u>3</u>	<u>3</u>
Total	<u>58</u>	<u>102</u>	<u>138</u>

a/ Twenty-two of these 53 reports were completed before OED formally became an independent review group in October 1975.

The OED staff budget during fiscal years 1976-79 is shown in table 5. Over 70 percent of OED resources were devoted to project auditing in 1976. This is expected to decrease in ensuing fiscal years, with about 40 percent of resources allocated to evaluation studies and policy reviews in fiscal year 1979.

Table 5

<u>Allocation staff resource report category</u>	<u>Fiscal year</u>			<u>Order of magnitude 1979</u>
	<u>1976</u>	<u>Estimated 1977</u>	<u>Proposed 1978</u>	
	----- (percent) -----			
Project performance auditing	72	56	58	50
Annual project per- formance audit review	2	3	3	3
Director-General's annual report	-	6	7	8
Closing reports	1	-	-	-
Evaluation studies	7	16	17	20
Operational policy reviews	<u>18</u>	<u>19</u>	<u>15</u>	<u>19</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total staff-years	17.8	21.0	23.0	25.0

Our discussions with the Bank President and members of the Board indicated that they favor continuing 100-percent project coverage to ensure accountability. The President believed that the Bank owed its shareholders a report on each project. He and others thought the staff would do a better job by knowing that their work would be evaluated and reported on. We recognize that 100-percent project coverage does have benefits, and we have presented alternative approaches for achieving these benefits on page 18. OED's one policy review and four evaluation studies have been praised by members of the Joint Audit Committee and a top-level Bank manager.

However, OED has not reviewed the Bank's major programs and activities to determine whether they are effective or represent the best approaches for accomplishing overall Bank goals. For example, the Inter-American Development Bank's independent review group has reported on such items as the Bank's administrative budget system and training activities. We believe the World Bank could benefit by similar independent reviews of its major activities. No reviews have been made to determine whether the accounting and information systems serve management's needs.

Although staff training and accounting, administrative budgets, and information systems are important, the Director-General did not consider them to be within the present scope of OED's mission. He noted that neither the Joint Audit Committee nor the full Board has as yet suggested that these activities be included in OED's work program and pointed out that internal and external auditors cover some of the important activities not reviewed by OED. We believe those activities should also be subject to detailed independent evaluations and the results should be reported to the Board to assist it in performing its many oversight responsibilities.

Although the Joint Audit Committee has requested OED to examine the research program and the International Finance Corporation, OED has yet to do so. The Director-General noted that OED's focus to date has been on encouraging and supporting the development of internal review mechanisms appropriate to these functions. For example, OED personnel have been assigned to work with research and IFC personnel. In doing so, they report progress to the Director-General who, in turn, annually reports this information to the Board. The Director-General feels the Board supports this approach, but we believe that those activities should be subject to independent evaluation and that the results should be reported to the Board.

In view of OED's limited coverage, we believe adequate resources have not been devoted to conducting evaluation studies, policy reviews, and activities not yet independently reviewed. Similar concerns were expressed during Joint Audit Committee meetings on several occasions. For example, during a meeting in February 1976, a member suggested that scarce OED resources could be used more effectively by sampling project performance audits and conducting more evaluation and policy studies, rather than being spread thin by auditing every Bank project. Also, at a Board of Executive Directors meeting held in June 1977 to discuss the Bank's operating and administrative budgets, a speaker questioned the necessity of auditing each completed project, especially those which were routine or repeats of previous projects, in light of the recent expansion of the Bank's supervision work. However, neither the full Board, nor the Joint Audit Committee has recommended discontinuing current practices.

In pointing out limitations in OED review coverage, we are not questioning the appropriateness of independently reviewing all projects as long as all major programs and activities are also independently reviewed and reported on to the Board. We should also emphasize that the proper mix of resources among the suggested types of reviews is a matter for OED and the Board to determine. Thus, we intentionally have not presented suggested ratios of resource allocation. We believe the more appropriate approach seems to be a time-phased plan which would focus the Board's attention on resources and coverage over the long run.

Post evaluations

Although Bank officials claim that post evaluations of projects provide valuable lessons for current operations, the considerable period of time between project approval and issuance of a project audit report dampens the potential impact on current management decisionmaking.

The Bank considers the supervision system, which involves about one-third of its project staff and covers all ongoing projects, as the principal means for learning from its operating experience. Through its network of reporting, which includes reports from borrowers, field visits, and semiannual and annual reviews, the Bank's operational staff correlates findings with planning and implementing of future activities. According to OED officials, supervision reports are used extensively as source documents, but the reports are not independently verified by OED.

Project completion reports represent the culmination of regular supervision of individual projects. Thus, in preparing reports based primarily on completion reports, OED has concentrated its efforts almost exclusively on the final stage of project supervision. OED believes its project audit system is evolving toward more reliance on the completion reports, which will free more resources for evaluation studies and policy reviews.

As noted in the Bank's statement of standards and procedures, a basic purpose of the evaluation system is to provide information for forming new directions, policies, and procedures. The operating staff, in appraising projects, and the Executive Directors, in approving projects, need to be aware of OED findings and lessons learned when considering future projects. A recent policy requires that the President's report to the Board on proposed loans include reference to lessons OED reported on for previous relevant projects. We have been informed that annual reviews of project audit reports seek to link general project audit report lessons to current operational policy, practice, and concerns and that current operational experience is also reviewed periodically by operational staff in the light of the project audit report findings.

Our review of Bank records showed that projects OED reported on in 1976 had been approved an average of over 5 years earlier. Some follow-on projects had been awarded before OED had reported to the Board about the predecessor projects. Since OED does not consider ongoing projects within the scope of its review, predecessor projects may not be independently evaluated and reported on before follow-on projects are awarded. This does not suggest that projects should not be reviewed after completion to determine their success; however, failure to independently review ongoing projects precludes opportunities to correct or prevent past deficiencies and to capitalize on accomplishments.

Bank officials explained that post-evaluations are essential for assessing a project's impact on its environment and for providing new direction in lending. A high-level project official told us that it sometimes takes years to fully measure a project's overall impact on a developing country. Although we agree that project assessment is important, OED reviews of ongoing projects would offer additional opportunity to change activities before they are completed. In fact, some efforts are currently being made to include projects under development in OED reports whenever follow-on projects are involved. Also, evaluation

studies are covering more projects still under development. Perhaps OED could better serve the Board by capitalizing on this trend and providing more of a mix of post-evaluations and ongoing project audits.

RECOMMENDATION

We recommend that the Secretary of the Treasury direct the U.S. Executive Director to urge development of a time-phased plan for systematically reviewing all major Bank activities and functions over a reasonable period of time.

In view of the strong support within the Bank for a comprehensive review of all projects, the plan should consider the following alternatives.

1. OED would review all project completion reports as it currently does. It would prepare project audit reports on a selective basis, although all completion reports would go to the Board. OED could then use the resources saved to review ongoing projects, evaluation studies, policy matters, and activities not yet independently reviewed. The annual review of project audit results would still be prepared, based primarily on the completion reports.
2. OED would conduct indepth audits of completion reports on an exception basis and prepare reports only on these audits. All completion reports would still go to the Board and the annual reviews of project audit results would still be prepared, based primarily on the completion reports. Under this approach, a larger portion of resources would be devoted to other types of reviews than is currently expended.
3. OED would continue to review projects as it does now, but additional staff would be required to do the work suggested in alternative 1.

AGENCY COMMENTS

The Department of the Treasury agreed that OED should move away from heavy emphasis on individual project evaluations. Treasury has expressed a preference for the first alternative above. (See app. I.)

STAFFING

The Comptroller General's statement of standards stressed the importance of building the review group's staff around a nucleus of trained accountants, economists, management analysts, and others experienced in international financial and/or developmental assistance programs and other appropriate areas.

During discussions with the Director-General, it was learned that OED has no hiring goals for these disciplines. It relies on recruiting personnel from within the Bank who have extensive experience in Bank operations, especially in agriculture and rural development. The Director-General explained that such experience is a prime requisite because it provides a basis for the good judgment necessary in completing OED reviews.

Our review of OED staff profiles showed a heavy concentration of personnel with backgrounds in economics and that most of the staff had prior Bank experience. The Director-General believes that staffing goals are clearly defined, because OED seeks personnel with a high degree of personal project experience and demonstrated good judgment. He noted that OED is conscious of the need to maintain a suitable balance of professional disciplines as well as sectoral experience; however, he questioned the feasibility of formulating hiring goals primarily in terms of professional disciplines for a unit as small as OED, and did not believe it essential to do so, since OED now hires consultants to fill gaps in the disciplines needed for particular assignments.

Although the staff may indeed be suitable for OED's objectives, there is no assurance that a satisfactory mix will be maintained without a planned effort to achieve specific staffing goals. This is especially true if OED intends to broaden its scope to cover all major programs and activities. For example, if OED chooses to provide the Board with an independent assessment of the Bank's accounting and information systems, persons with backgrounds in analyzing such systems may be needed.

OED has had difficulty procuring suitable staff from other departments in the Bank. At a Board meeting in May 1977, some members wondered whether the Bank was placing too much emphasis on in-house recruitment. One member believes that OED could benefit from an infusion of personnel with outside experience.

A staffing program with clearly defined goals may help OED to maintain a suitable mix of personnel. Such a program, if subsequently presented to the Board for review, may help to dispel doubts over whether OED has sought the best available experienced staff.

Another matter for OED and the Board to consider is the potential sacrifice of independence when Bank-recruited OED personnel are assigned to evaluate Bank programs and subsequently rotated back into the mainstream of Bank operations. A key pitfall to avoid is placing persons in situations where they must choose between two opposing loyalties, thus forcing them to strike some sort of compromise. Such a situation can be diminished by developing strict rules prohibiting OED personnel from reviewing programs or activities in which they have had or may have a high degree of personal involvement. In addition, staff should be discouraged from accepting placement in program areas they have been assigned to evaluate.

Although we are making no formal recommendations regarding OED personnel policies, we believe that the addition of staff with background other than with the Bank will provide additional capability and will increase not only the independence of OED but also its appearance of independence. The Department of the Treasury expressed some reservations about this view, citing that this concerns OED's internal management. It recognized, however, that managerial deficiencies could arise as a result of OED's personnel policies and the lack of guidelines for executing jobs and for audit techniques. The U.S. Executive Director is being instructed by Treasury to evaluate OED's work for evidence of the deficiencies. (See app. I.)

JOB MANAGEMENT

As pointed out in the Comptroller General's standards, all work should be adequately planned and skillfully executed. Jobs should be executed in accordance with specific plans that formally and systematically set forth approved areas to be reviewed, review objectives and procedures, and staffing requirements. Policies and procedures requiring well-constructed work programs facilitate control and supervision over performance and are essential to conducting reviews efficiently and effectively. They

--provide a plan which can be communicated to all officials and staff members concerned;

- provide a systematic basis for assigning work to supervisors and assistants;
- enable reviewers to compare performance with approved plans, standards, and requirements;
- provide material assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit;
- provide a basis for a summary record of work performed;
- help to familiarize reviewers with previous work; and
- reduce the amount of direct supervision needed.

To govern actual job execution, specific guidelines should be established for audit techniques, such as gathering information, making evaluations, developing findings, and when appropriate, formulating recommendations.

OED practices

OED has not established detailed policies and procedures for planning and executing the project performance audits which make up a large portion of its total reviews. Furthermore, it has not given its staff written guidance or training in basic audit techniques.

Planning procedures

Before conducting policy reviews and evaluation studies, OED normally prepares what it calls an approach paper and circulates it within the Bank and among relevant borrowers. A final study plan is developed after comments are received on the approach paper. For example, in August 1977, OED prepared an approach paper for its planned review of Bank operations in the education sector. We found the document to be a good statement of objectives, scope, approach, target dates, and anticipated costs.

Although OED has established some terms of reference, work plans are not developed for each project performance audit.

Currently, OED reviews every project, usually using project completion reports as a basis. General and sector guidelines for preparing completion reports have been developed. OED staff members normally are expected to use these sector guidelines to test the completion reports for comprehensiveness and consistency and to prepare memorandums on the results. These two reports form the project audit report. Although completion reports vary in length and breadth, OED's areas of work, specific objectives and procedures, staffing requirements, and systematic arrangement of proposed work are not specifically and formally identified. OED has not formalized or standardized the normal tests it makes on the completion reports or the steps involved in evaluating the few projects chosen for more thorough review. The Director-General questioned the necessity for such guidance and said that OED reviews everything in the project completion report. He also said that the project audit report should explicitly assess the adequacy of completion reports. Whenever OED comments on completion report conclusions, the significant exceptions are specifically noted.

Nevertheless, we found that OED's audit memorandums do not always make it clear what parts of the completion report have been reviewed. In reviewing selected audit reports, we found several cases where OED said it accepted most of the completion reports' conclusions but, we could not easily determine which conclusions it did and did not accept.

Because OED reviews all projects, we believe it should develop and make known a generalized work program to serve as a starting point for review. The program should identify the required basic elements for every project audit and suggest any optional areas the reviewer may want to address. More specific guidelines by sector could also be provided. Such improvements would help ensure more consistent and efficient reviews, and the reader would know more clearly what, as a minimum, the audit included.

Audit technique

The Director-General informed us that OED uses on-the-job training to provide the necessary guidance for basic auditing techniques; however, no written audit instructions or a systematic training program is given. For example, OED's work is directed toward reaching specific conclusions and pointing out necessary changes, yet, OED has not (1) provided specific guidance on how to develop findings,

(2) defined a finding, (3) identified factors to consider, (4) outlined steps to follow, or (5) established procedures or policies for obtaining and using information, such as what is to be considered sufficient, competent, and relevant evidence to support the reviewer's judgments, conclusions, and recommendations. This guidance may be especially significant, considering the Bank's policy of assigning staff to OED who do not necessarily have previous formal training in, or familiarity with, review and evaluation techniques.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury direct the U.S. Executive Director to suggest that OED improve its auditing procedures by requiring comprehensive work programs for all reviews, including project performance audits. Also, OED should provide its staff with specific guidance on audit techniques to ensure consistent, efficient, and effective reviews.

The Department of the Treasury stated that this recommendation also concerned OED's internal management. (See p. 20.)

CHAPTER 4

REPORTING STANDARDS

The Bank has adopted most of the standards and procedures for operations evaluation suggested by the Comptroller General. However, we believe the effectiveness of OED reports would be enhanced if recommendations were required when appropriate. OED has not fully complied with its own followup standard calling for an accounting and assessment of staff reactions to findings to be presented to the Board. We reviewed 28 selected OED reports and they generally followed the other adopted reporting standards, but varied in the extent of their compliance. The 28 reports comprised:

- About one-third of the project performance audit reports issued between January 1 and June 30, 1977 (20 reports). Reports were chosen to show fiscal year 1977 Bank assistance to each sector and included a significant number of projects which had been preceded by similar ones.
- All evaluation studies and operational policy reviews issued since establishment of the Director-General position through September 30, 1977 (5 reports).
- Annual reports on project performance audit results for 1975, 1976, and 1977.

ADOPTION OF STANDARDS

In April 1976, the Board of Directors approved a statement of standards and procedures for operations evaluation which adopted many generally accepted reporting standards. For example, the statement calls for:

- Factual matter to be presented accurately and fairly.
- Findings and conclusions to be objective and frank and written as clearly and concisely as the subject matter allows.
- Authors to be able to demonstrate the bases for the matters reported, if called upon to do so.
- A fair balance to be struck, recognizing unusual difficulties or circumstances involved and

acknowledging differences in perspective when appropriate.

- The implications of noteworthy accomplishments to be analyzed as carefully as shortfalls, particularly when management improvement in one program or activity may be applicable elsewhere.
- The scope, nature, and extent of the work involved to be indicated in the reports.

We believe these standards contribute to the quality and effectiveness of the reports and provide report writers with guidance and report reviewers with criteria against which reports can be measured. However, one important standard was not adopted--that reports should contain recommendations where appropriate.

Our review of OED reports revealed that OED's special studies, such as policy reviews and evaluation studies, varied in their inclusion of recommendations. For example, the audit report on "Technical Assistance in Agricultural Project Implementation" contains no recommendations but includes a broad lesson based on a pilot case study. A review, "The Diffusion of Innovations from Bank-Supported Projects," contains no specific recommendations; rather, at the end of the conclusions section, it suggests areas which may need more attention. A study, "Agricultural Credit Programs," includes some very specific and easily identifiable recommendations and suggests how some of them might be implemented and by whom.

Project audit reports and annual reviews of project audits normally contain findings and conclusions but no recommendations. OED has maintained that, because these reviews are based on historic information and "cannot deal with more recently approved lending in any broad sense," they seek to point out lessons rather than direct policy suggestions.

Bank officials believe that findings and conclusions easily translate into actions to be taken. The Director-General said that, if OED suggests specific recommendations, the operating staff has the option of either accepting or rejecting them, whereas if OED identifies problem areas from past lessons, the staff must deal with them in some manner. However, we do not believe that conclusions and lessons, as expressed in the reports we reviewed, adequately pinpoint responsibility without specific recommendations.

Each group or individual involved could believe that someone else was responsible for solving the problems.

The Director-General informed us that the reviews focus on completed projects which were approved 5 to 7 years earlier and that Bank practices followed at that time may not be relevant to current practices. As noted in chapter 3, however, we believe OED's scope of work should be expanded to enable it to comment on current practices. OED itself hopes to strengthen its capacity for analyzing implications for current Bank operations. Therefore, with expanded scope and capacities, OED should be better able to make recommendations.

At the Executive Directors meeting of October 28, 1975, it was stated that OED reports are prepared from a particular vantage point and it is important for them to come up with stimulating suggestions from that viewpoint. Management provides the necessary full balance and comprehensiveness before acting on the suggestions. We concur with the above statement and believe that including constructive recommendations in reports would result in stronger reports because it would focus attention on what needs to be done and suggest at least one means of accomplishing it. Thus, OED procedures should require formal recommendations in reports and identify who should take action. Recommendations would also provide a useful basis for followup and would allow the Board to take a more active role in deciding what actions should be taken in response to OED findings.

COMPLIANCE WITH STANDARDS

- As a whole, the 28 reports we reviewed
- clearly explained the scopes of the reviews,
 - presented findings and conclusions objectively and in clear and simple language,
 - emphasized improvement rather than criticized the past,
 - recognized noteworthy accomplishments,
 - sometimes identified issues and questions needing further study, and
 - were sent promptly to the Board of Executive Directors for review.

However, they did not adequately comply with the followup reporting standard. Actions taken in response to findings and recommendations should be identified. As noted in chapter 2, one of OED's principal functions is to assess the actions the Bank takes on OED findings after they are presented to the Executive Directors and the President. The Joint Audit Committee and the Board of Executive Directors have continually stressed the importance of discussion among OED, the Executive Directors, and management on the followup to OED reports.

In April 1976 the Board of Executive Directors approved a followup system whereby closing reports would be issued after an appropriate lapse of time to assess what had been done on points raised earlier. However, only two closing reports have ever been issued--both during 1975 on reports originally issued in 1972.

The Director-General told us that a new followup system will provide for a continuing review of responses to OED findings. In the future, the annual reviews of performance audits will be the principal vehicle for followup, supplemented when necessary by comments on special matters in the annual operations evaluation reports. However, the annual performance audit review of July 1977 did not address followup. In the two operations evaluation reports issued to date, few comments on followup have been made. When OED did report on certain management actions, it did not identify the specific findings the actions addressed nor fully explain the actions or assess their adequacy.

Furthermore, OED has never reported on findings for which no action was taken. OED has an informal catalog of the findings it is tracking, but the Board and the Joint Audit Committee have not been given such a catalog. According to the Director-General, even OED's own informal catalog contains findings of a general nature which normally deal with what happened in the past as opposed to what should be done in the future. The Director-General told us that plans to itemize the status of recommendations in his October operations evaluation report were abandoned because many of the items cataloged were not related to discernable recommendations.

We believe procedures should provide for systematic followup and periodic reporting to the Board on the actions taken as a result of OED's findings and recommendations. A followup system should periodically report to the Board on (1) all findings and recommendations being tracked by

OED, (2) the status of specific actions taken in response to recommendations, and (3) the adequacy and effectiveness of those actions.

Because the results of corrective actions may not be immediately visible, the system should continue to track findings and recommendations until they are satisfactorily settled.

The 28 reports we reviewed complied with most standards, but the extent of their compliance varied. For example, 29 percent were not clear and concise; 18 percent contained minor mathematical errors; and 14 percent did not identify underlying causes for each finding.

We believe a strengthened OED internal review process would ensure compliance with the Bank's own standards. The review process could, at a minimum, verify that figures are correctly reported, findings and conclusions adequately supported, and recommendations made where appropriate. It could also ensure compliance with the other reporting standards.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury have the U.S. Executive Director suggest that:

- The Board of Executive Directors require OED reports to contain recommendations when appropriate.
- OED revise its review procedures to provide for systematic followup and periodic reporting in response to all its findings and recommendations and strengthen its internal review process to ensure compliance with its current reporting standards.

AGENCY COMMENTS

The Department of the Treasury which obtained the comments of the Director-General of OED, agreed on the need for specific recommendations in the evaluation reports, citing that there is a deficiency in the present practice. (See app. I.)

CHAPTER 5

BANK AND CONGRESSIONAL INTEREST

IN OED REPORTS

We discussed with Bank managers, members of the Joint Audit Committee, and congressional oversight committees their interest in OED reports. Bank managers and members of the Joint Audit Committee are generally pleased with the reports and have found them useful. Oversight committees have not received the reports in a timely manner; they expressed an interest in having access to them on a continuing basis.

BOARD MEMBERS AND BANK MANAGERS

We discussed OED reports with the Bank President, a top Bank project manager, and three members of the Board's Joint Audit Committee. They generally felt the reports were useful to them in performing their respective roles.

A member of the Joint Audit Committee, who is Executive Director for 18 developing countries, said that the reports have been instrumental in interesting several countries he represents in creating their own OED-type organizations. He also said he distributes copies of pertinent reports to borrowing countries to serve as guides in proposing and managing projects.

The Bank project manager believed evaluation studies were more useful to him than project audit reports because they centered more on management issues.

CONGRESSIONAL OVERSIGHT COMMITTEES

Section 301(e) of the Foreign Assistance Act of 1961, as amended, requires the President to promptly transmit to the Congress reports issued by the Bank's independent review and evaluation group and made available to U.S. representatives. On January 18, 1977, Executive Order 11959 delegated this responsibility to the Secretary of the Treasury.

Although numerous reports were provided to the Treasury by the U.S. Executive Director's office between January 18, and September 19, 1977, only two sample copies of reports were forwarded to the Congress. These reports were transmitted to the President of the Senate and the Speaker of the House of Representatives by the Assistant Secretary

Designate for International Affairs on March 3, 1977. We found that 120 project audit reports were submitted in similar fashion on September 20, 1977.

Our followup on the matter showed that the reports had been referred to the Senate Committee on Foreign Relations and the House Committee on International Relations. Further research showed that the Senate and House Appropriations Committees and House Banking, Finance and Urban Affairs Committee had oversight over international financial institutions, including the World Bank.

Since only the Senate Foreign Relations and House International Relations Committees had been receiving reports, and only on an intermittent basis, our discussions with committee staff members centered on their interests in having regular access to the reports. The staff members said they frankly had little time to read the multitude of reports that OED produces; however, they expressed a desire to be able to select those reports that might contain information germane to committee members' interests.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury ensure that:

- All reports required by 22 U.S.C. 2221(e) be forwarded promptly to the Congress.
- Cumulative lists of all reports be sent to all appropriate committees, with copies of the reports themselves available on request.

AGENCY ACTIONS

Treasury Department officials said they would send copies of the reports to the Congress and copies of report lists to the appropriate committees each month. They also agreed to make reports available to the committees on request.



THE DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

MAR 8 1978

Dear Mr. Fasick:

On behalf of the Secretary, I wish to thank you for the opportunity of commenting on the draft GAO report entitled "Effectiveness of World Bank Independent Review and Evaluation System." Treasury staff have reviewed this draft and discussed it informally with your office, as has the U.S. Executive Director's (USED) office. In accordance with your suggestion, the USED's office also made it available to the Director General of the World Bank's Operations Evaluation Department (OED) and many useful comments were received. I understand that a number of the suggestions made in the foregoing discussions will be incorporated in your final report.

I agree with the overall thrust of your report that "The World Bank Group has made considerable progress toward developing an independent review system."

I also agree with the conclusion that the Bank's evaluation system should be more sharply focused on producing specific recommendations for improving the Bank's capacity and procedures for applying the lessons learned from the whole evaluation process. The Bank has made some progress in this direction but I welcome the GAO's emphasis on this point. With such recommendations in hand, the Bank would be in a much better position to institute follow-up procedures. As the report points out, this is a deficiency in present practices.

The GAO report makes another recommendation which I agree with. That is, that the OED should move more rapidly away from its very heavy emphasis and employment of resources on individual project evaluations and move toward relatively greater emphasis on the evaluation of how the Bank's economic development efforts have affected the economic and social life of the recipients. This subject is treated in some detail on page 30 of the draft report and I wish to express to you a preference for the first alternative.

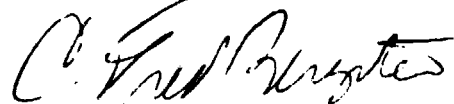
Similarly, I agree with the report's recommendations that more attention should be paid by the OED to reviewing and analyzing management procedures and practices and making sure that the recommendations advanced receive the necessary follow-up actions.

I have, however, some reservations about the recommendations pertaining to the internal management of the OED, such as personnel policies and the establishment of work programs. I will, however, call these recommendations to the USED's attention and, over time, he and Treasury staff will be evaluating the OED's output to see if managerial deficiencies are evidenced in the results.

I shall instruct the USED's office in accordance with the foregoing.

Finally, I would like to call to your attention the fact that on February 23, 1978 the Bank released for public distribution the third "Annual Review of Project Performance Audit Results" tailored for public use only in the deletion of project-specific and country-specific names. While the subject GAO report does not address itself to the question of publication of the findings of the evaluation systems of international financing institutions, previous GAO reports in this area have made recommendations on this subject. We have borne these recommendations in mind and this recent action on the part of the Bank is largely the result of the USED's efforts in this direction.

Sincerely,



C. Fred Bergsten

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

OED REPORTS ISSUEDMARCH 1972 TO SEPTEMBER 30, 1977 (note a)

<u>Year</u>	<u>Bank report number</u>	<u>Title</u>
Annual reports:		
1975	871	First Annual Review of Project Performance Audit Results (note b)
1976	1227	Second Annual Review of Project Performance Audit Results (note b)
	-	Annual Report on Operations Evaluation
1977	1675	Third Annual Review of Project Performance Audit Results (note b)
	-	Annual Report on Operations Evaluation
Special studies:		
1972	Z-17	Operations Evaluation Report: Electric Power
1973	Z-18 -	Bank Operations in Colombia - An Evaluation Interim Report on Actions Relating to Recommendations of the Colombia Evaluation Study
1974	328 349 485	Evaluation of First Kenya Education Project Comparative Evaluation of Selected Highway Projects Operations Evaluation Report - Development Finance Companies
1975	690 813 853	Closing Report on Actions Relating to Recommendations of the Electric Power Evaluation Report of March 1972 Delays in Loan and Credit Effectiveness Closing Report on Actions Relating to Recommendations of the Evaluation Study of Bank Operations in Colombia

a/ Review group became independent in Oct. 1975.

b/ Report reviewed by GAO.

1976	1034	Delays in Project Preparation (note b)
	1138a	Diffusion of Innovations from Bank-Supported Projects (note b)
	1279	Technical Assistance - A Pilot Case Study: Kenya Livestock I (note b)
	1357	Operations Evaluation Report: Agricultural Credit Programs (note b)
1977	1600	Distribution of Benefits of Port Improvements (note b)

Project performance audits:

1972	6	Costa Rica First Highway Project
	7	Costa Rica Early Power and Telecommunications Lending to ICE
1973	52	Trinidad and Tobago First Power Project
	115	Botswana First Highway Project
	271	India Calcutta Port Projects
	292	Zambian Highway Project
	313	Venezuela First Highway Project
1974	343	First Kenya Tea Project
	362	Thailand Second Highway Project
	370	Uganda First Tea Project
	389	Bangladesh Education Project
	400	Pakistan Lahore Water Supply, Sewerage and Drainage
	401	Sudan Second Railways Project
	445	Tunisia Second Development Finance Company
	450	Colombia Third Medellin Power Project
	460	Jordan Agricultural Credit Project
	468	Morocco Third Development Finance Company
	471	Israel Second Development Finance Company
	476	Sudan Roseires Irrigation
	478	Pakistan Second Sui Northern Gas Pipelines Ltd.
	524	Botswana Shashe Engineering and Preliminary Works
	536	Colombia First and Second Development Finance Company
	537	Bolivia Livestock Projects
	545	China Third Railway
	558	Paraguay Second Road
	563	Yugoslavia Second Railway
	593	Bolivia Yabog Gas Pipeline
	594	Senegal Port of Dakar
	600	El Salvador Third Highway

1975	609	China Fourth Development Finance Company
	612	Spanish Railways' 1964-73 Modernization Program
	616	Liberia Port of Monrovia Dredging
	620	Ethiopia First Education
	623	New Zealand Second Railway
	625	Guatemala First and Second Power
	630	China Telecommunications Projects
	641	Honduras North Road
	642	Iceland First Highway
	645	Malawi Tedzani Stage I Hydroelectric
	649	Jamaica First Education
	672	Honduras Western Highway Paving
	747	Singapore Second Telecommunications
	748	Singapore Second Water Supply
	749	Singapore Power Distribution
	751	Malawi Lilongwe Land Development Program Phase I
	756	Singapore First Sewerage
	757	Malaysia First Telecommunications
	758	Thailand Third Highway
	760	Costa Rica Third Power
	763	Honduras Third Power
	770	Thailand Vocational Education
	774	Malaysia Fourth Power
	775a	Iran Fourth Development Finance Company
	776	Colombia Fifth Railroad
	789	Singapore Development Finance Company
	791	Tanzania Revised First Highway
	792	Burundi Bujumbura Water Supply
	807	Jamaica First Highway
	808	Papua New Guinea First Telecommunications
	811	Malagasy Republic Second Highway
	816	Peru Port of Pisco
	817	Morocco Fourth Development Finance Company
	819	Cyprus Third Power
	820	The Development Program of the University of Philippines College of Agriculture
	822	Sudan First Mechanized Farming
	825	Ethiopia Third Highway
	826	Costa Rica Agriculture
	829	Turkey Eighth Development Finance Company
	832	Mexico Third Highway
	834	Kenya First Smallholder Agriculture
	839	Finland Third Development Finance Company
	845	Kenya Second Tea Development Authority
	846	Kenya Second Highway
	858	Brazil Power Distribution
	859	Mexico Third Power Sector Program

1975	862	El Salvador Fifth Power
	868	Peru Matucana Power Project
	869	Korea Second Development Finance Company Loan
	878	India Four Industrial Imports Projects
	892	Ecuador First and Second Livestock Development Projects
	893	East African Community First and Second Telecommunications Projects
	895	Malawi Shire Valley Agricultural Development Phase I
	946	Malawi First Highway Project
	949	India Sixth, Seventh and Eighth Development Finance Company Loans
	955	Costa Rica Second Telecommunications
	965	Greece Second and Third Development Finance Company Loans
1976	968	Tunisia Cooperative Farms
	980	Philippines Fourth Power Project
	992	Colombia First Education
	994	Tanzania Beef Ranching Development
	1026	Brazil First Highway
	1049	Tunisia Second Port
	1055	Argentina Third SEGBA Power
	1067	Mexico Third Irrigation
	1072	Yugoslavia Fourth, Fifth and Sixth Industrial Projects
	1078	Tunisia El Borma-Gabes Gas Pipeline
	1082	Pakistan First and Second Highway
	1085	Ireland Pumped Storage Power
	1102	Ethiopia Finchaa Hydroelectric
	1104	Iran First and Second ADBI Agricultural Credit
	1113	Guyana Sea Defense Project
	1139	Pakistan Third Sui Northern Gas Pipelines Ltd.
	1142	Thailand EGAT Power
	1143	Madagascar First Education Project
	1148	Peru Second Road Construction
	1169	Sudan Roseires Power Project
	1188	Upper Volta First Telecommunications
	1192	Venezuela Third EDELCA Power
	1197	Finland Third Highway Project
	1206	Iran Feeder Roads Project
	1229	Nigeria Apapa Road Project
	1230	Kenya Kamburu Hydroelectric Project
	1232	Colombia First Telecommunications
	1239	Israel First Agricultural Credit

1976	1244	Malaysia Kuala Lumpur Water Supply
	1259	Syria First Highway
	1264	Iran Third Highway
	1277	Philippines Second Rural Credit
	1295	Malaysia Muda and Kemubu Irrigation
	1303	India Gujarat Agricultural Credit
	1309	Singapore First Port
	1314	Colombia Second Education
	1317	Kenya First Livestock Development
	1319	Senegal Agricultural Credit
	1321	Uruguay Third and Fourth Livestock Development
	1343	Venezuela Livestock and Agricultural Credit
	1344	Colombia Second Livestock Development
	1345	Pakistan Dawood Hercules Chemicals Limited Urea
	1348	Finland Industrialization Fund of Finland
	1349	Cyprus Development Bank I
	1350	Cameroon Douala and Yaounde Water Supply
	1353	Argentina El Chocon Power
	1362	Zambia Livestock Development
	1363	Ghana Second VRA Power
	1372	Turkey Third and Fourth Cukurova Power
	1374	Zaire Societe Financiere de Deve opment I
	1375	Tanzania Program Loan
	1384	Ira Road Project
	1385	Yugoslavia Third Highway
	1386	India First Shipping
	1390	Brazil MBR Iron Ore
	1400	Papua New Guinea New Britain Smallholder Development Project
	1402	China Tachien Power
	1403	China Second Power
	1404	Botswana Gaborone-Lobatse Water Supply
1977	1409	Madagascar Highway Reconstruction
	1410	Nigeria Highway Rehabilitation (note b)
	1433	Sierra Leone First Education (note b)
	1454	Turkey Turkiye Sinai Kalkinma Bankasi S. A.
	1456	Uganda First Education
	1457	Gabon Second Highway
	1470	Israel Industrial Development Bank of Israel (note b)
	1481	Trinidad and Tobago Crownlands Development
	1482	Iran Industrial and Mining Development Bank of Iran
	1485	Kenya Forest Plantations
	1496	Bolivia Second ENDE Power (note b)
	1501	Zambia Program Loan
	1502	Gambia Banjul (Bathurst) Port

1977	1514	India Gorakhpur Fertilizer Expansion
	1515	Ivory Coast First and Second Oil Palm and Coconut, Part I
	1522	Sri Lanka Program Credit (note b)
	1531	Burundi Arabica Coffee Improvement (note b)
	1538	Zambia Industrial Forestry (note b)
	1550	Botswana Second Road
	1551	Liberia First and Second Power
	1559	Madagascar Beef Cattle Development
	1563	People's Republic of Congo Highway Improvement
	1565	Morocco First Highway
	1568	Ghana First and Second ECG Power
	1572	Ecuador Second National Highway (note b)
	1573	Mexico Third Livestock and Agricultural Development (note b)
	1574	Cameroon First Highway
	1576	Philippines Private Development Corporation III (note b)
	1589	Guinea Boke Bauxite (note b)
	1590	Ethiopia Fourth Highway
	1596	Mali First Railway (note b)
	1597	Malawi Lilongwe Land Development Program (note b)
	1599	Iran First Telecommunications (note b)
	1603	Chile Fifth Power (note b)
	1604	Gabon First Education
	1605	Cameroon First Douala Port
	1610	Sierra Leone Second Power
	1612	Pakistan Second Karachi Port (note b)
	1613	Korea Program Loan (note b)
	1617	Pakistan Industrial Imports
	1622	Madagascar Lake Alaotra Irrigation
	1623	Uganda First Highway
	1627	Trinidad and Tobago First Education (note b)
	1629	Pakistan First and Second Telecommunications
	1631	Senegal First Railway
	1632	Yugoslavia Fourth Highway (note b)
	1633	Cameroon First Railway
	1634	Thailand Fourth Highway (note b)
	1635	Papua New Guinea First Highway
	1637	Morocco First Education
	1639	Nigeria Western Road
	1640	India Third and Fourth Telecommunications
	1641	El Salvador First Education
	1644	Brazil Second Highway
	1646	Indonesia First Telecommunications
	1648	Ethiopia Fourth Telecommunications
	1649	Togo Highway Maintenance

1977	1651	Ivory Coast First Highway
	1652	Brazil Xavantes Hydroelectric
	1654	Colombia Third Power Expansion Program
	1657	Spain First and Second Education
	1658	India Eleventh and Twelfth Railway
	1664	Ireland Industrial Credit Company
	1672	Brazil Banco do Nordeste do Brasil
	1683	Ghana Accra/Tema Water Supply and Sewerage
	1706	Spain First Livestock Development Project
	1723	Senegal First Highway
	1724	Gambia Agricultural Development
	1731	Colombia Program Loan

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ALTERNATE U.S. REPRESENTATIVE TO THE BANK'S BOARD OF EXECUTIVE DIRECTORS: William P. Dixon Hal F. Reynolds	October 1977 February 1972