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Supervision / Supervision Documents - Vol. 2

OFFICE MEMORANDUM

cc. Mr. Ronani

File

*cc: Messrs. Chopra
Candler
Kumari*

DATE: May 25, 1989
TO: Regional Vice Presidents
FROM: Heinz Vergin
SUBJECT: Review of the Effectiveness of
Bank Project Supervision: Approach Paper

The attached approach paper which has been prepared by OED in intensive consultations with your staff and managers deserves your attention. As regards the objectives and methodology of the proposed review of supervision effectiveness, your attention is particularly drawn to paras. 9 and 10 setting out scope of study and proposed contacts with borrowing agencies.

Attachment

cc: Messrs. Qureshi, Dubey, Lee, Robless


MAY 26 REC'D

OFFICE MEMORANDUM

file

DATE: May 5, 1989

TO: Mr. Heinz Vergin

FROM: Yves Rovani 

EXTENSION: 33035

SUBJECT: Approach Paper: Review of the Effectiveness of Project Supervision

Before forwarding to the JAC the attached paper which I approved yesterday, I would appreciate an informal review and reaction on your part.

I have given a full briefing to the team on the many aspects of the recent ARIS discussions relevant to the exercise and they will be taken into account in its conduct, even if the text, which has to be much shorter than the earlier internal drafts, doesn't make all the points that explicit.

I did stress in particular that some of the post reorganization comments which transpired in last year's interviews of managers, might come out somewhat differently if the same managers were interviewed today, as country managers have acquired a stronger sense of ownership of their share of the portfolio and begun to try new approaches facilitated by the current structure.

In this connection, and in the interest of avoiding duplication of effort, I wonder how we could be kept informed of studies or significant developments relevant to our study. Your personal reaction which need not be in writing would be appreciated.

Attachment

cc: Messrs. Chopra, Donaldson, Candler, Kirmani

OFFICE MEMORANDUM

Mr. Chopra
Re Supervision

DATE: February 28, 1989

TO: Files

FROM: *Jozsef B. Buky*
Jozsef B. Buky, Principal Evaluation Officer, OED2

EXTENSION: 32919

SUBJECT: Supervision Study-Discussions with Internal Audit Department

1. A meeting was held on February 27, 1989 to discuss the proposed audit of Bank supervision activities by the Internal Audit Department and its possible overlap and opportunities of cooperation with the Supervision Study currently in preparation in OED.

2. The meeting was chaired by Mr. Rovani and attended by Mr. A Legg, Auditor General; Mr. B.P. Chatterjee, Principal Auditor; Mr. R. Chopra, Director, OED; and myself.

3. Mr. Rovani opened the meeting requesting an outline of the proposed IAD work and emphasized the need to work in parallel, without duplicating overlaps, particularly in view of the similar time frames of the IAD and the OED work program concerning the supervision issue.

4. Mr. Chatterjee described the IAD program as follows: a Planning Memorandum (equivalent to an abbreviated Approach Paper) will be prepared shortly as a "terms of reference" for the audit- this will be made available to OED. The audit will be in two parts. The first part, in a more general frame, will concentrate on the supervision process, reviewing how missions are planned, staffed and their form of reporting. Borrower progress reporting and their use will be looked at. Monitoring of compliance with loan covenants, the role of the resident missions, the setting of supervision work priorities and the responsiveness of supervision to implementation problems will be assessed. The second part will focus on emerging problems and their solution. How are problems identified, what actions are taken and how effective these actions are? The audit will review what lessons are learned, how the learning process works, and will assess how these lessons are fed back into the new and ongoing operations.

5. The approximate budget for the IAD work is 70 staff weeks and, due to current work load, it is not expected to start before May 1989 (first draft report on Part I in late May), and would be completed in about six months.

6. Messers. Rovani and Chopra observed that the IAD work, as outlined, indeed contains the possibility of substantial overlap with the proposed OED study and it is important to ensure that work is not duplicated and that respective staff should ensure that any research data is jointly used and case-study project selection be discussed in good time. Mr. Rovani emphasized that neither party should proceed with any part of the work in ignorance of the other.

7. Possibilities of matching timing was discussed and while neither program could be substantially advanced or delayed, adjustments were possible. In view of the complexities and sensitivity of the issues involved OED has opted for extra careful preparation and expects to have the Approach Paper ready for final internal review in late March and for presentation to the JAC in April 1989.

8. On this basis, it was agreed to provide IAD with the next draft(s) of the OED Approach Paper and arrange for detailed discussion of the respective programs in late March 1989.

c.c. Messrs. Rovani, Chopra, Nowicki, Candler (OED), Legg, Chatterjee (IAD)

OFFICE MEMORANDUM

① c.c. Mr. Chandler
② File

DATE: September 22, 1988

TO: Mr. Jozef B. Buky, OEDD2

FROM: S.S. Kirmani, Consultant

EXTENSION: 33784

SUBJECT: Effectiveness of Bank Supervision

1. During my visit to Pakistan from August 27 - September 15, 1986, in connection with the review of the Basha Dam Project, I had the opportunity to discuss the above subject separately with three groups of officers. The first group was from the Water and Power Development Authority, the second from the Punjab Irrigation Department and the third from the Ministry of Water and Power. The officers from the three groups were at middle management levels in their respective organizations. I specifically approached the officers at middle management levels because they were more directly involved in project implementation than officials at higher levels. The discussions were informal and friendly.

2. At the meeting with the first group I explained the purpose of OED's study on effectiveness of Bank's supervision. In retrospect, I realized that it was a mistake because the participants appeared rather guarded in their comments. Indeed, one of them asked that they should not be quoted. In brief, some of them thought that Bank supervision was very useful but most of them felt that supervision was intended more for the Bank than to help the borrower or expedite the project. They agreed that Bank staff discuss implementation problems at higher levels but pointed out that, in most cases, there is very little action after the Bank mission left the country.

3. I did not refer to OED's study on Bank supervision at the meetings with the other two groups. The discussions, therefore, focussed on Bank's procurement procedures, Bank's assistance in expediting project implementation and Bank's flexibility in responding to borrower's difficulties. The reactions at both meetings were similar. Some officers were very positive on Bank staff's performance in these areas but a similar number of officers were equally negative. A majority of them, however, indicated that Bank's supervision, on the whole, has little impact on project implementation because Bank's supervision missions do not address the generic problems inherent in the existing systems and styles of management which are at the roots of all delays in implementation.

4. I also discussed with the three groups the need for introducing some new arrangements for more intensive supervision particularly for agriculture, education and other projects which are widely scattered all over the country and cannot be supervised effectively by Bank staff. We discussed such measures as increasing the responsibility and authority of Bank's resident missions on supervision, engaging more local staff and local consultants to assist resident missions in supervising projects and creating an independent supervision unit in a core ministry such as Finance and Planning Commission to supervise projects in the same way as done by the Bank staff. The groups agreed that higher level management of their

organizations do not supervise projects. They are engaged mostly in paper work, their field visits are infrequent and short and they hardly have time to address implementation problems effectively. The groups recognized the need for some organization at higher level that listens to their problems and helps to resolve them. They emphasized that the problem solving responsibility and ability of such an organization is critical for success and that it would become another tier in the bureaucracy if its functions are confined to monitoring and reporting and do not include problem solving. The groups were in favor of increasing the responsibility and authority of Bank's resident mission for supervision and using local staff and consultants in order to reduce the costs. They were rather reticent about creating a supervision unit in the Ministry of Finance or the Planning Commission.

cc. Messrs. Rovani, DGO; Chopra, OEDDR ✓

SSKirmani:ya

OFFICE MEMORANDUM

File

DATE: August 22, 1988

TO: Jozsef B. Buky, ODD2

FROM: S.S. Kirmani ^{SK}

EXTENSION: 33784

SUBJECT: Experience of the Bank's Resident Mission
in Indonesia (RSI) on Project Supervision

1. As suggested by Mr. Chopra, I met with Mr. Geoffrey Fox, Chief of the Agriculture Unit in the Bank's Resident Mission in Indonesia (RSI), who has just returned from Jakarta after nearly five years in the field. The Jakarta Resident Mission (RSI) has been supervising Bank-financed agriculture projects for more than two decades. Prior to the Bank's reorganization, there was a full team of ten higher level staff and three local officers headed by a Division Chief with primary responsibility for supervision. At that time RSI was also supervising some of the projects in the transportation sector. Following reorganization in 1987 the Agriculture Division at RSI was reduced to a Unit comprising a Unit Chief, seven other higher level staff, three local professional staff and five support staff. For administrative purposes, the Agriculture Unit is a part of RSI, but it reports to the Agriculture Operations Division of the Country Department for Indonesia on technical, procurement and other project implementation issues. Before reorganization, it reported to the Assistant Director of the Projects Department who was also responsible for the Agriculture division for Indonesia at Headquarters. The importance of RSI's supervision of agriculture projects in Indonesia was recognized by both the Bank and the Indonesian Government during previous reviews. Indeed the scope of its supervision work was considerably expanded from time to time and it was given more authority and made accountable for all supervision decisions and actions except those that involved departures from the Bank's policies and guidelines. The Unit is required to seek Headquarters' approval on the latter.

2. It is worth noting that there is a non-agriculture unit at RSI comprised of 3 higher level Bank staff and 2 locally hired professionals. The responsibilities of that unit are varied and less defined. They consists primarily in advising Washington missions, problem solving Bank wide issues on new and ongoing projects outside the agricultural sector, and maintaining liaison with sources of information within and outside the Government. The head of the non-agricultural unit supervises the locally staffed 6 person disbursement unit.

3. I explained to Mr. Fox the purpose of OED's study and asked him a number of questions relating to effectiveness of RSI's supervision work. His comments are summarized below.

Effectiveness of Supervision from RSI and Headquarters

4. Mr. Fox said that a serious problem faced by RSI is the lack of appropriate technical skills to ensure effective supervision of the wide range of projects in the portfolio. This problem is becoming more acute due to an increasing number of generalists engaged on supervision who had little or no previous experience of project implementation. Supervision staff visiting project sites should be able to size up the problems and assist the borrower in finding solutions. They should have the intuition and the "sixth sense" to identify and resolve problems quickly and effectively. Obviously, there is no substitute for experience. Headquarters staff visiting Indonesia have tight travel schedules and often arrive weary after work in another country en route to Indonesia. They prepare aide-memoirs and leave them with the borrower, but they hardly have the time to bring home the thrust of the aide memoirs to key managers of the borrowers and, more important, to work with them to identify solutions. Consequently, borrowers seldom appreciate the full nature, seriousness and urgency of the problems well enough to address them promptly. Supervision staff on RSI do not have such constraints. They perform "rolling supervision" which entails frequent site visits and continuous dialogue with borrowers. Moreover, unlike the Headquarters staff who have to cover all issues during their short visit to the country, RSI staff have the opportunity to address the problems as they emerge.

5. Mr. Fox said that "multi-faceted projects" such as transmigration and tree crops development are difficult to supervise because they involve many activities such as land development, housing, roads, schools, health centers, agriculture operations, forestry and environmental issues. Even the resident supervision staff have problems in supervising them effectively because they do not have the mix and critical mass of the needed skills. Headquarters staff supervising such projects are more handicapped because it is difficult for them to visit various sites and assess the problems in the time available to them. Unlike the field staff who could perform a "rolling supervision", Headquarters staff could get only a "snap shot picture" of the situation. Most problems of implementation are systemic; they require continuous evaluation and dialogue with the borrowers. This is also the case with projects at different sites which are combined to form a large project. For example, the NES V project has 3 different sites. It takes 3 weeks to travel to these sites by air and road. Headquarters staff do not have the time to do so. Field staff are able to supervise these projects more effectively although they too are constrained by time and resources to do as good a job as they could do if the project sites were not scattered all over the country.

Criteria for Effective Supervision

6. We discussed various criteria for judging effectiveness of supervision such as sound procurement, good quality of work, solving problems on time, economy, completion time and achieving the benefits of the project as planned. We agreed that the end results of implementation such as completion on time and accrual of benefits as planned are more important than the mechanics of supervision (e.g., frequency of visits).

Use of Local Staff

7. Mr. Fox said RSI's experience with the use of local staff was on the whole good. Local staff know how to approach the problems with the Government. They can pick up the unspoken signals of local authorities better. They are essential for procurement work because procurement documents are usually in Indonesia Bahasa. However, local staff have some problems. Those in the Agriculture Unit do not have high academic qualifications for the work of the Bank. There is a dearth of well qualified and experienced local staff in the country available for recruitment in RSI and even those who have retired from Government service seem either unwilling or not available for Bank employment. The Bank so far had no choice but to recruit best qualified young local staff despite their inexperience. Local staff are rather inhibited in dealing with senior government officials. They do not criticize them as openly as regular Bank staff. Moreover, local staff lack good speaking and writing ability in the English language. Mr. Fox pointed out that conditions of local staff in Indonesia are different from those in India and Pakistan in terms of language abilities, experience and availability for appointment in the Resident Mission.

Improving Effectiveness of Supervision

8. We discussed various options for improving effectiveness of Bank's supervision. We agreed at the outset that, unless generic problems associated with Bank projects (particularly complex and multi-sectoral projects) are effectively addressed, merely increasing the resources for supervision would not be productive. Mr. Fox welcomed OED's study to explore possible solutions. He said using resident missions for supervision is certainly more effective, but it is costly. A recent study shows that a Bank staff in the RSI costs, on the average, \$223,000 per year compared to \$127,000 for Headquarters staff. Appointing local staff in resident missions, therefore, is both productive and economical. He said, RSI hopes to recruit 3 additional local professional staff for supervision in FY89.

9. Mr. Fox also mentioned Government's proposal to establish an "Inspection Department" for supervising tree crops projects. I explained to him the proposal currently being explored by OED which involved setting up an independent supervision unit attached to the Planning Commission, or some other apex ministry, who could supervise projects the same way as the Bank does, but more intensively. Mr. Fox expressed great interest in this proposal and thought that it would provide broader coverage of the sectors and develop "in-home" critical mass of staff and experience necessary for Government to address the systemic problems of implementation and it would be an improvement over the one currently proposed in Indonesia.

cc. Messrs. Ram Kumar Chopra, OEDDR
Yves Rovani, OED
Geoffrey Fox, AS5AG

OFFICE MEMORANDUM

*Mr Chojra O/R
file*

DATE: August 2, 1988

TO: Mr. Yves Rovani, Director-General, DGO

FROM: S.S. Kirmani *SK*

EXTENSION: 33784

SUBJECT: OED Study on Effectiveness of Bank's Supervision

1. In accordance with your instructions, I met with the Regional Directors of EMENA, Asia, LAC and Africa Regions, explained the task assigned to OED by the Joint Audit Committee and described OED's plans to address it. Summaries of the comments and suggestions made by the Regional Directors on OED's approach and proposed actions are given in the following attachments.

<u>Regions</u>	<u>Summary of Comments and Suggestions</u>
EMENA	Attachment I
Asia	Attachment II
LAC	Attachment III
Africa	Attachment IV

2. The discussions at the meetings were frank, cordial and objective. The atmosphere was informal. The comments of the participants indicated concern with the problems of Bank's supervision and interest in exploring solutions to address the problems. The comments were so spontaneous and candid that I felt the participants did not regard the exercise as an OED audit of their work. It was a collaborative effort and the discussions were productive. I suggest OED should convey its appreciation and thanks to the Senior Vice President Operations for the useful comments and suggestions made by the Regional Directors and their representatives.

3. The concerns of the Directors with effectiveness of Bank's supervision can be appreciated best by reading their comments. Their individual views are not so important as their collective views, their unambiguous messages and their strong consensus on all major issues relating to supervision. Some highlights of the discussions are outlined below:

- (a) The lack of effectiveness of Bank's supervision in achieving the objectives was not raised as an issue at any of the meetings. On the contrary, the comments explicitly or implicitly indicated that there was indeed a problem about effectiveness of supervision;
- (b) The main focus of the discussions at all the meetings was on the reasons for lack of effectiveness. Among the factors constraining effectiveness of Bank's supervision, inadequate resources, lack of incentives to staff, scarcity of required skills, changed nature of projects with many components and the low priority assigned to supervision in relation to other operations were identified as most crucial;

- (c) Nobody said the Bank was not responsible for the results of implementation. On the contrary, the comments explicitly or implicitly indicated that the Bank should ensure successful implementation through better and more effective supervision;
- (d) While the need for more resources to ensure effective supervision was stressed, it was recognized that Bank staff would not be able to do everything and that, given the changed nature of Bank projects, greater involvement of the borrower in supervision was essential;
- (e) There was considerable discussion at all the meetings on options for improving effectiveness of supervision. Delegating more supervision work and authority to Bank's Resident Missions, using more local staff in Resident Missions, and creating an independent supervising body in the countries were mentioned as some possible options. The Regional Directors also suggested that other models of supervision such as the ones followed by IDB, USAID and FED as well as those instituted by some countries such as Korea and Cote d'Ivoire should be studied in order to learn from their experiences;
- (f) Given the diversity and wide spectrum of capabilities of Bank's borrowers, it was recognized that strategies for improving supervision effectiveness should be tailored to the specific needs and conditions of the countries; and
- (g) Some participants questioned the need for the study. They argued that the problems of Bank's supervision were known and that OED should focus on the strategies for addressing the problems.

4. While the above comments and suggestions are useful, the keen interest of the Regional Directors in study and their expectation that the study would develop some sound strategies and solutions to improve the effectiveness of Bank's supervision place OED in a difficult position because OED would become vulnerable if the strategies do not work. On the other hand, if OED limits the scope of the study to identifying the problems (the Regions say the problems are already known) and recommends that Management should develop appropriate solutions to address them, then the impact of the study would not be significant. OED faces this dilemma. The design and direction of the study would be influenced greatly by OED's decision on this issue.

Attachments

cc. Messrs. Chopra, OEDDR
Buky, OEDD2

SSKirmani:ya

OED Study on Effectiveness of Bank SupervisionSummary of the Comments made by Directors of EMENA Region atthe Meeting Held on July 22, 1988

Present:

Abderraouf Bouhaouala	Director, Technical Department
Michael A. Cohen)	Representing, Director,
)	Country Department I
Kudlapur Krishna)	
Rene L. Costa	Representing, Director,
	Country Department II
Everardus J. Stoutjesdijk	Director, Country Department III
Eugenio F. Lari	Director, Country Department IV
Randolph L.P. Harris	Chief Operations Policy Unit (COD).
Syed S. Kirmani	Consultant, OED

1. Mr. Kirmani described the purpose of the meeting, explained the scope of the task assigned to OED by the Joint Audit Committee and outlined the actions proposed by OED to address the task. [All issues and actions described in OED's internal paper -- "An Outline of OED Study on Effectiveness of the Bank's Project Supervision" dated July 20, 1988 -- were explained in detail. They are not repeated here in the interest of brevity].
2. Mr. Bouhaouala invited the participants to give their comments and suggestions.
3. Mr. Lari said he was impressed by the comprehensiveness of the proposed study and wondered whether it would not be better to restrict its coverage. He thought the thrust of the study would be lost if it was too comprehensive. He also emphasized that OED's recommendations for future action by the Bank would be more important than describing the problems with Bank's supervision. A short list of recommendations on what the Bank should do would be very effective. Mr. Lari appreciated OED's proposal to test some interesting hypotheses. He suggested an additional hypothesis for testing relating to Bank's staffing for supervision and Bank's recruitment policies to ensure effective supervision. He thought the Bank's present staffing policies and practices were not conducive to ensure effectiveness of supervision work.
4. Mr. Stoutjesdijk endorsed Mr. Lari's comments. He said he was seeing the problems of supervision more clearly now after the Bank's reorganization than at any time before during his previous role as Programs Director. The need for staff with special skills for supervision and the adequacy of resources to ensure effective supervision were critical issues and should be covered by OED's study.

5. Mr. Costa expressed concern with the proposed study and questioned its need. He said the problems of supervision are well known and have already been identified before. There is no need for a new study. What is necessary now is to make the needed adjustments in the Bank's policies and practices and ask the managers to implement them. Everyone knows that the level of supervision is not adequate to achieve the objectives.
6. Mr. Cohen said the key issues in supervision effectiveness are "resources" and "management". He demonstrated by drawing a curve showing the relationship between resources and activities of the project (sector work, lending and supervision) that the maximum resources are devoted to lending. This curve represented a "banker's approach". For achieving objectives, the curve should be reversed; that is, more resources should be allocated to sector work and supervision than to lending.
7. Mr. Krishna raised the question: What is the extent of Bank's responsibility? What is the Bank's role? Procurement has become a headache and more resources are devoted to it than to other needs. Obviously, other objectives are suffering. He said the nature of implementation problems are known but little is done to address them.
8. Mr. Lari asked: Are we defining supervision to cover the full period required for achieving objectives? Most objectives of a project will be achieved after its completion. Is sustainability of projects an issue that will be covered by the study? Mr. Kirmani said efficiency and economy in project implementation and completion of projects on time as planned are important objectives. If they are achieved, then it is reasonable to expect that the benefits of the projects would be achieved. Normally, the Bank provides supervision budget until the project is completed.
9. Mr. Harris described the scope of the work being done by the COD Working Party on revising the OMS on supervision and said that the revisions involved simple changes in the existing OMS to reflect Bank's reorganization. He said he would not be surprised if all the hypotheses to be tested by OED proved valid. He questioned, therefore, whether such a comprehensive study was necessary to examine effectiveness of Bank's supervision. He thought lack of adequate resources to ensure effective supervision was the key issue. If the original design of a project was wrong, there should be adequate resources for re-designing but this was seldom the case. He also asked whether the proposed Questionnaire to staff would be issued by OED. It was his understanding that the Questionnaire would be dropped and the meeting with Regional Directors was intended as an alternative to the Questionnaire.
10. Mr. Bouhaouala asked whether a questionnaire would also be sent to the borrowers? Some borrowers think that the Bank's supervision is a "pain in the neck" while others welcome it and want more supervision.
11. Mr. Kirmani appreciated the comments and suggestions of the Directors and said they would receive due considerations during the study. He observed, however, that the comments seemed to indicate that Bank's supervision was not fully effective in achieving the objectives and that adequacy of resources, staffing policies and priority given to supervision were the key constraints. Such explicit or implicit comments on the

effectiveness of Bank's supervision in achieving the objectives of the project, the borrower and the Bank would be serious because they could mean that the Bank was not following its own OMS guidelines and was not meeting the objectives set for it by the Articles of Agreement. It is important, therefore, that OED's study should be comprehensive and thorough enough to analyze the facts and demonstrate why Bank's supervision is, or is not, effective. Responding to the comments of Mr. Harris, Mr. Kirmani said he did not know whether the Questionnaire to the staff would be issued or dropped. As regards the questionnaire to borrowers, he said it was not in OED's current work program, but OED would examine the need for such questionnaire. He pointed out that OED's Supervision Study of 1980 included a questionnaire to the borrowers.

SSKirmani:ya

OED Study on Effectiveness of Bank Supervision
Summary of the Comments made by Directors of Asia Region
at the Meeting Held on July 25, 1988

Present:

R.G. Grimshaw	Representing the Director, Technical Department
Kunio D. Kikuchi	Representing, the Office of the Regional Vice President
Shinji Asanuma	Director, Country Department I
John H. Cleave	Representing the Director of Country Department II
Richard D. Stern)	Representing the Director of Country Department III
)	
Paul M. Cadario)	
Richard L. Skolnick	Representing, Director Country Department IV
Nicolas H. Hope	Representing the Director of Country Department V
Stephen J. Ettinger	Economic Advisor, COD
Syed S. Kirmani	Consultant, OED

1. Mr. Kirmani explained the purpose of the meeting, described the task assigned to OED by the Joint Audit Committee (JAC) and outlined the studies and actions proposed by OED to address the task. [All the issues and actions described in OED's internal paper -- "An Outline of OED Study on Effectiveness of Bank's Project Supervision" dated July 20, 1988 -- were explained in detail. They are not repeated here in the interest of brevity.]

2. Mr. Asanuma asked why and how the Joint Audit Committee (JAC) selected this topic for OED study? Mr. Kirmani said he did not know the details, but pointed out that the Board has been expressing concern from time to time on problems of project implementation and has been asking whether the Bank was responding adequately to address those problems. The recent ARIS, which was discussed at the Board, also raised certain issues regarding supervision. The topic, was probably selected to respond to these concerns. Mr. Cleave added that OED normally submits its annual work program to JAC and includes topics for study which reflect its perceptions of the Board's interests and concerns. This topic was probably the outcome of that procedure.

3. Mr. Skolnick asked whether supervision process of other agencies would also be studied? Mr. Asanuma said it would be interesting to compare the merits of practices of other agencies. The philosophy of the Asian Development Bank (ADB) and the Interamerican Development Bank (IDB) on supervision are different. He said ADB sometimes accepts badly prepared projects and hopes to correct the problems during supervision. Whether it succeeds or not is a difficult matter. IDB includes a supervision fee of one percent of the project cost in the project estimate and uses a lot of local staff for supervision. These experiences should be examined by the proposed study." Mr. Kirmani said OED's program did not include such a comparative study at present, but OED would give due consideration to this suggestion.
4. Mr. Grimshaw said that many implementation problems are due to poor quality of project preparation; he asked: how should the Bank handle badly prepared projects during supervision? The Bank is not addressing this fundamental problem. The staff have incentives to expedite projects for lending, but they have no incentives to ensure effective supervision.
5. Mr. Cleave said that one of the functions of supervision is to change the project design if the original design is wrong, but the staff have neither the resources nor the incentives to change the design. Mr. Skolnick added that if managers help the staff to do what the latter recommend in the supervision reports then supervision would be effective in achieving the objectives. However, supervision has been a neglected activity. Managers do not have enough time to read supervision reports. OED study will not be effective unless these problems are addressed.
6. Mr. Stern suggested that it would be interesting to examine the extent to which supervision objectives are mutually inconsistent. There are too many objectives. The "policemen aspects of supervision" are irreducible. Only 2-3 weeks are left for all other objectives. If supervision budget is a maximum that cannot be increased further and the "policemen aspects" are an irreducible minimum, then the quality of supervision inevitably suffers. Mr. Grimshaw added that the OED's study should review the need and usefulness of some mandatory supervision requirements.
7. Mr. Cadario also emphasized that the staff have no incentives to do supervision more effectively. He pointed out, however, that several of the hypotheses to be tested by OED are presented in negative terms. The answers will also be inevitably negative. There should be some positive hypotheses also.
8. Mr. Kikuchi said the nature of Bank projects has changed considerably during the last 15 years. For example, highway projects financed by the Bank previously were from point A to point B. Now they cover the whole sector and the country. Obviously, supervision has become more difficult. Mr. Grimshaw added: "We are trying to pull together several projects into a large project which is not workable."
9. Mr. Hope also endorsed the above concerns and said that some projects are "unsupervisable" because they include too many components. Moreover, the staff have no incentives. The managers also have no incentives, even to read the staff reports on supervision. Mr. Skolnick

said that there is a limit to what the staff can do. For example, how can the staff review safety of dams and also meet all other supervision requirements"? Mr. Grimshaw said: "We specify many requirements in loan agreements. We should also see that we have the means to supervise them".

10. Mr. Cleave asked whether a questionnaire would be sent to borrowers also. Mr. Kirmani said it was not in the program now but OED would consider the suggestion.

11. Mr. Kirmani thanked the participants for their useful comments and suggestions. OED is trying to examine all issues relevant to the task assigned to it. The comments indicate that there is an explicit or implicit concern that Bank's project supervision is not effective in achieving the objectives. If OED's study comes to this conclusion, it would be a serious matter because OED also has outside audience. The comments that poor quality of project preparation and that projects are appraised before they are adequately prepared would make the matter worse. He thought the cases of inadequate preparation must be few because considerable time is spent on feasibility studies, pre-appraisal and appraisal. It is important that the OED study does not deal merely with problems of project implementation and supervision effectiveness, but it also addresses the question: what should the Bank do if the study indicated that project supervision is not effective in achieving the objectives of the project, the borrower and the Bank.

12. In a separate discussion after the meeting, Mr. Ettinger pointed out that it was the understanding of the office of SVPOP that the Questionnaire to the staff would not be issued. Mr. Kirmani said he did not know whether OED would issue the Questionnaire or not. Mr. Ettinger suggested that a questionnaire to borrowers would be useful particularly to know their reaction to need for creating an independent second tier of supervision in the country which is one of the hypothesis to be tested by the study.

SSKirmani:ya

OED Study on Effectiveness of Bank Supervision

Summary of Comments made by Directors of LAC Region at
the Meeting held on July 27, 1988

Present:

Everardo C. Wessels	Director, Technical Department
Jan Wijnand	Representing, Director Country Department I
Miguel E. Martinez	Representing, Director Country Department II
Katherine Marshall	Representing, Director Country Department III
Pieter P. Bottelier	Director, Country Department IV
Stephen J. Ettinger	Economic Advisor, COD
Syed S. Kirmani	Consultant OED

1. Mr. Kirmani described the purpose of the meeting, explained the scope of the task assigned to OED by the Joint Audit Committee and outlined the actions proposed by OED to address the task. [All issues and actions described in OED's internal paper -- "An Outline of OED Study on Effectiveness of the Bank's Project Supervision" dated July 20, 1988 -- were explained in detail. They are not repeated here in the interest of brevity].
2. Mr. Wessels asked the participants to give their comments and suggestions.
3. Mr. Bottelier remarked that OED has an enormous plan for the study. He said he was keenly interested in the study. He thought many Country Directors like him, who were not involved in project implementation before, would likewise welcome the study because they were now seeing the gravity of the supervision problems. Lack of a clear definition of objectives of supervision is one major issue but lack of adequate resources is more serious. The CAM exercise clearly shows that more resources are needed than what the Regions could afford and the managers have no option but to cut the budget provision for supervision. Failure to reflect the supervision experience in project preparation and appraisal is also a major issue. He said he did not know whether the OED study would address these problems but the study would be useful in bringing up these issues. Replying to a question from Mr. Bottelier, Mr. Kirmani explained that the study does not cover SAL projects.
4. Mr. Bottelier suggested that the study should also look at the supervision practices of IDB because IDB carries out more intensive field supervision and charges the cost to borrowers. Mr. Wessels explained that IDB's charges are not related to the size of its supervision effort because it includes a flat rate of one percent of the project costs in the loan amount. However, IDB's supervision is more intensive. It has large

supervision missions stationed in the countries to cover all major sectors. The size of resident missions varies from 10 to 15 staff in large countries and not less than 4 staff in small countries. Local staff are employed to a large extent; they provide a good source for Bank's recruitment. Almost all of IDB's supervision work is done in the field. Its Washington staff get involved only when major issues arise. IDB also has a stronger audit system than the Bank. It has laid great stress on the need to have someone in the field to address problems as they arise. IDB's total field staff is larger than Bank staff of the LAC Region. IDB's system has important advantages, but it also has some costs. For example, IDB field staff tend to be less strict; feedback of supervision experience for improving the quality of project preparation and appraisal is weak; and the countries do not respond as promptly to interventions of the field staff as they do to visiting supervision staff from Washington. USAID also has large supervision missions in the countries. USAID headquarters staff work mainly on administration.

5. Mr. Bottelier said good supervision does not always mean good implementation but it is important for achieving overall good results. His experience in Indonesia has demonstrated it.

6. Mr. Ettinger said some of the hypotheses proposed by OED for testing are too general. He thought it would be useful to include some specific hypotheses such as: Greater supervision in the field would achieve the objectives more effectively and greater involvement of the borrower in supervision would produce better results. He suggested that the success of Korea in implementing projects through effective supervision by Korean authorities should be reviewed. Mr. Kirmani agreed with the suggestion and said that, as stated earlier, OED's program includes a study for exploring new strategies for improving the effectiveness of Bank's supervision; the various options suggested at this meeting would be examined as part of that study.

7. Expressing concern with the Bank's supervision work Ms. Marshall said that providing incentives to supervision staff is a major problem. It is extremely difficult to extract real implementation problems from the current reporting system because, with few exceptions, the forms are filled in a mechanistic way. She said small and large supervision portfolios present different problems. Integration and consistency could be ensured better in small portfolios, but large portfolios are difficult to handle. For example, it is difficult to keep track of what is happening in Brazil.

8. Discussing the vehicles for improving effectiveness of Bank's supervision, Ms. Marshall said the ARIS review is done on a country and sector basis, but the people who prepare ARIS reports are farthest from supervision work and implementation problems. Country Implementation Reviews, Country Strategy Papers and Public Investment Reviews are useful vehicles to address implementation problems, but they have limitations. She then quoted the successful experience of supervision of agriculture projects in Kenya based on Benor's proposal which showed that intensive supervision in the field produces good results. She said there is a strong correlation between intensity of supervision and success of a project.

9. Mr. Martinez said that lack of resources is the major constraint in achieving the objectives of supervision. The Bank is more involved now in sector loans which include many projects and components, but the resources are not adequate to supervise such projects effectively. The staff are not able to devote the time needed for such projects--both on the physical components as well as on components relating to policy and institution building. It is difficult to read all the reports generated by the studies included in such projects. Country Implementation Reviews are useful, but supervision by Bank's Resident Missions would be more effective. He suggested that supervision decisions including procurement, but excluding Bank policies, should be centralized in Resident Missions.

10. Mr. Wijnand said there are major problems in Bank's supervision. The hypotheses of OED's study should focus more sharply on them. He said resources are clearly the major issue. He referred to the experience of supervising agriculture projects in North East Brazil. Earlier, Bank's headquarters staff used to supervise these projects. This practice was modified later and the supervision missions included a mix of Bank and local staff. Now, supervision responsibility is vested largely in the Regional Authority in Brazil and the cost is financed under the loans. The results are very encouraging. Mr. Wessels also mentioned the experience of water supply projects where similar arrangements produced good results.

11. Mr. Wijnand said that supervision is also being contracted in some cases, particularly for extension work. The results of privatization of this activity is encouraging. The ability of the Bank to supervise such diverse activities is limited because the Bank does not have adequate skills and resources. The shift in Bank's policy to de-emphasize technical staff and recruit broad types of staff is making the situation worse. He said supervision has low priority in the Bank.

12. Mr. Kirmani thanked the participants for their comments and suggestions. He said OED's task is both difficult and sensitive. If OED's study also concludes, as the comments seem to suggest, that supervision is not effective, then the issue would be serious for the Bank. OED, therefore, should simultaneously address the question: What should the Bank do to improve effectiveness of its supervision work if the study indicated that it is not effective now. This is not an easy task. Replying to a question, Mr. Kirmani said he did not know whether the Questionnaire to Bank staff would be issued by OED, but he was told that OED has not taken a final decision on this issue. Mr. Wessels said he saw the Questionnaire before because he was one of those who participated in testing the draft. He thought the Questionnaire was too long and that it was not necessary to issue it to all staff. If OED decided to issue it ultimately, he suggested that it should be issued to no more than 10% of the staff because the staff are already busy with other work and the results of a limited survey would be as good. Mr. Kirmani agreed to convey this suggestion to OED.

SSKirmani:ya

OED Study on Effectiveness of Bank Supervision
Summary of Comments made by Directors of Africa Region at
the Meeting held on July 28, 1988

Present:

Hans Wyss	Director, Technical Department
Pierre M. Landell-Mills	Representing, Director, Central Africa Department (AF1)
Andres D. Jaime	Representing Director, South Central and Indian Ocean Department (AF3)
Surendra K. Agarwal	Representing, Director, Western Africa Department (AF4)
Ignatius A. Menezes	Representing, Director, Sahelian Department (AF5)
Hardyal Singh	Representing, Director, Southern Africa Department (AF6)
Syed S. Kirmani	Consultant, OED

1. Mr. Kirmani described the purpose of the meeting, explained the scope of the task assigned to OED by the Joint Audit Committee and outlined the actions proposed by OED to address the task. [All issues and actions described in OED's internal paper -- "An Outline of OED Study on Effectiveness of the Bank's Project Supervision" dated July 20, 1988 -- were explained in detail. They are not repeated here in the interest of brevity].
2. Mr. Wyss said the proposed study is comprehensive and very ambitious. He asked the participants to give their comments and suggestions.
3. Mr. Landell-Mills said the scope of the study is impressive. It is necessary to think about all issues because supervision is a problem. The wide scope of the activities proposed to be covered by the study is appropriate. The fundamental issue, however, is management. The Bank has shifted from "blue print type" of projects to broader types that require adaptation and learning as one goes along. They cannot be defined fully upfront. But the Bank's procedures for managing such projects have not been adjusted to address the new conditions. Appraisal reports say that these projects require heavy supervision, but in practice this is not done. Even the annual reviews of supervision work are not addressing these problems satisfactorily. Looking at local consultants and mobilizing local resources to do supervision, as proposed by the study, is good. The Bank is beginning to grapple with these issues now. This approach has proved successful in Senegal. The experience of Cote d'Ivoire, where the borrower established an organization to supervise project implementation, is also interesting. The

President of Cote d'Ivoire established this organization; he likes it because it is achieving good results. However, it has been successful in implementing physical works and technical matters. Its performance in building institutions has been poor. Moreover, it has assumed other responsibilities in addition to supervision and has become rather high-handed. However, one could envision a more benign version of this model.

4. Mr. Singh said that he has been a member of the Task Force for revising Supervision Guidelines (OMS). The Task Force meetings discussed a great deal about the inadequacy of resources available for supervision, but it did not address the question: What should the Bank do about it. However, it was generally recognized that supervision is not effective in achieving the Bank's objectives. He thought the proposed Questionnaire to the staff would bring out the facts. Mr. Kirmani clarified that although the Questionnaire to the managers and staff is in OED's work program, OED has not decided whether it would issue it ultimately or not. Mr. Singh said the study would not be complete without it.

5. Mr. Singh described the changes in the nature of Bank projects that have taken place over the years. Projects have become more complex; the works are small and widely scattered; and they include rehabilitation of existing infrastructure in many cases. They are in fact programs which include policy actions, studies and physical works. To supervise such projects, one needs a mix of competent disciplines but the lack of resources and the lack of skills are serious constraints. There is also the critical issue of incentives. Staff have incentives to succeed in other types of work but nobody gets "brownie points" for successful supervision. The Bank is investing so much on projects. It has a responsibility and a partnership role for ensuring the success of implementation. He said that African countries particularly lack competent people to manage projects. Their problems are more difficult to address. Adequacy of staff skills for supervision is important for all Regions but it is more important for the Africa Region. It needs multi-disciplinary teams for supervision but they are not available because both the resources and the skills are inadequate.

6. Mr. Agarwal suggested that the study should look more closely at the experience of Bank's Resident Missions in supervising projects. It should also examine the differences in the experience of implementing infrastructure projects and sector loans. He asked whether the study also covers discussions with borrowers. Mr. Kirmani said it is not included in OED's work program at present but OED might consider discussing the strategies for improving effectiveness of Banks' supervision after analyzing various options. Mr. Agarwal also raised the issue whether separating supervision from appraisal, as done by IDB, would be considered as one of the options. Mr. Wyss explained the problems inherent in IDB's practice, particularly the lack of feedback from implementation experience for improving project preparation and appraisal. IDB supervision staff often complain about inadequate project preparation, but the opportunity to integrate the experience and deal with the project cycle as a whole is very limited. There is little interchange of views and experience between the IDB field and headquarters staff. In response to a question from Mr. Kirmani, Mr. Wyss said IDB projects do not have any better record of successful implementation than Bank projects.

7. Mr. Jaime said that lack of incentives to supervision staff is the most critical issue. It is unrealistic to expect successful supervision unless this problem is addressed.

8. Mr. Wyss cautioned that the borrowing countries have different capabilities and outlooks. There are not many Koreas in the Bank's world. Strategies that work well in competent countries may not work so well in other countries. Proposals for improving supervision effectiveness, therefore, should not be based merely on a logical and coherent approach, but the wide spectrum of Banks' borrowers and their capabilities should be recognized and taken into account. Given these conditions, what should the Bank do? What is its responsibility. These issues are important.

9. Mr. Kirmani thanked the participants for their useful comments and suggestions. He agreed that there is no single solution that meets all conditions. OED's study is not only difficult, but it is also sensitive. It is not enough for OED say supervision is not effective. OED has to demonstrate the validity of its conclusions and also suggest what should the Bank do.

SSKirmani:ya

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

De
① c.c. Burky
② file

Date: July 29, 1988
To: Asia Management Team
From: A. Golan, Director, ASTDR *AG*
Extension: 72713
Subject: Effectiveness of Project Supervision

Earlier this week Mr. Kirmani met with regional representatives to outline OED's study on effectiveness of Bank's supervision efforts. I understand that the proposed study is giving rise to considerable apprehension among Bank managers. In connection with this study and a recently completed report by a Bank-wide Task Force on Dissemination and Utilization of OED Findings in the Policies, Procedures and Operations of the Bank, I would like to share with you my concerns about the effectiveness of our supervision efforts and our success in reflecting the lessons of ongoing projects on subsequent operations.

Let me demonstrate the issue by quoting from a recent supervision report. The supervision report is for a project comprising some 30 flood control, drainage and irrigation subprojects, which enjoy a short gestation period, low cost per hectare and high rate of return. Four years after Credit signing the project will be about 20% completed as against appraisal target of 90%. Main reasons for the delay are: slow land acquisition, delays in soil testing, delays in tendering, inefficient contractors, and administrative delays. The major problems identified by the supervision report are: slow implementation progress; poor quality of embankment construction; delays in processing project document revision for TA; unsatisfactory accounting procedures; non-compliance with covenants; insufficient land acquisition funds; and late audit.

According to the supervision report, in order to address the above mentioned problems, the implementing agency has agreed to: (i) complete the project two years later than planned and make sufficient funds available to achieve this target; (ii) speed up process of land acquisition; (iii) improve quality of embankment construction; and (iv) improve accounting procedures. Needless to say, the agreed actions are hardly commensurate with the magnitude of the problems described above and the extent of delays to date. But what more could/should the mission request government to do? The ineffectiveness of the proposed action compared with the severity of the problem highlights one of the major dilemmas faced by staff engaged in project supervision and is the root cause of the perception that our supervision efforts are ineffective.

Another point illustrated by this project is the way we reflect the lessons of ongoing/completed projects on subsequent operations. According to the supervision report, one of the few aspects of the project showing satisfactory progress is the preparation of a second phase project. But in view of the ongoing project's dismal performance to date, what lessons can we reflect in the next project short of predicting long implementation delays, low development impact, inadequate project management and inadequate funding? Furthermore, what sort of signal are we sending to government, and our own staff, by emphasizing that the next mission would specifically look into the preparation of the second phase project?

OFFICE MEMORANDUM

H-6083

file

JUN. 21 1988
File on RKC's
BA file

DATE: June 21, 1988

TO: Mr. Walter Schwermer, CODOP

FROM: Julian Blackwood, OEDD1

EXTENSION: 32895

SUBJECT: Working Party on OMS 3.50 - Supervision

In response to your request yesterday I attach herewith a marked up copy of the draft covering memo for the revised OMS 3.50. My suggestions are self-explanatory except for the points below:

(a) I may not have understood the process, but I thought that the OMS was first to be issued as a SVPOP "directive," which would later be formalized, following a period for comments, as the new OMS. If so, where will readers be so advised?

(b) The concept of "selectivity" announced in the first sentence of 4 (i) has not, to my knowledge, been explicitly discussed in our meetings. I would imagine we might spend several meetings on this topic alone! While "selectivity" may have been practiced in the past in response to resource and expertise constraints, this appears to be the first suggestion of a formal reference to such an approach. (Of course, some may argue that the current "problem-solving" approach to supervision is "selective" - but others, myself included, would intervene that this is precisely the failing of supervision at present; that we don't know as much as we should, or contribute as much as is warranted, to the non-problem part of the portfolio.)

Selectivity is potentially a dangerous Pandora's Box of management license to manipulate resources in response to the crisis of the moment. This is especially so in the absence of transparency on what is, and is not, being supervised and without great care could contribute to the build-up of staff cynicism as to the Bank's real priorities. In short, we should rephrase or delete the sentence. If "selectivity" has more substantial foundations than I am aware of, then I would suggest that the Working Party needs to discuss the concept, and to develop specific guidelines and controls.

(c) In para. 4 (ii) on the Aide Memoire, as it stands the borrower would be left in uncertainty as the Bank has an open-ended "shooting license" to qualify the mission's findings. The arrangement must be time-bound by revising it to read - "...unless it is amended in exceptional circumstances by Bank Management within 14 calendar days of the date of the Aide Memoire." (It follows from this that the

regions must set up review systems to catch any Aide Memoire problems promptly.)

I trust the above is helpful. Note that I have not commented on the matrices - leaving that to those with more knowledge of current practice and requirements in the 'new Bank.'

Attachment

cc: Messrs. Rovani, Chopra, van der Lugt, Donaldson, Nowicki, Buky, Duane
Mandev Singh (LEG), Alan Mole (LOA)
Michael McGarry (LAT), Claude Blanchi (EMT)
Hardyal Singh (AF6), Izzet Zincir (AS5)
Ulrich Thumm (EAS)
Michael Wilson (PHR), Zafar Farooq, Bob Johnston (OPN)
Eugene Schertz, Vinh Le-Si (COD)
Ms. Avivah Litan (FINIF)

June 20, 1988

TO: Members of the Working Party
FROM: Walter Schwermer, COD
SUBJECT: OMS 3.50 - Annex A and Cover Memo

As mentioned in my note of June 17, attached are the revised Annex A to OMS 3.50 and the draft cover memo highlighting the main revisions from the previous OMS version. I would be grateful if you would kindly give me your comments on these two items also by c.o.b. June 24.

Thanks for your help.



cc: Messrs. Mandev Singh (LEG), Alan Mole (LOA)
Michael McGarry (LAT), Claude Blanchi (EMT)
Hardyal Singh (AF6), Izzet Zincir (AS5)
Ulrich Thumm (EAS), Julien Blackwood (OED)
Michael Wilson (PHR), Zafar Farooq,
Bob Johnston (OPN), Eugene Schertz,
Vinh Le-Si (COD)
Ms. Avivah Litan (FINIF)

BL Ackwood

increase the development impact of Bank operations by

MANUAL CIRCULAR

Operational Manual Statement (OMS) 3.50 Project Supervision

1. Attached for insertion in your Operational Manual is the revised OMS 3.50, "Project Supervision." It replaces the June 1985 version which should be discarded.

2. The revisions are designed to: (a) reflect the new organizational structure of the Bank; (b) improve supervision effectiveness and efficiency; and (c) provide better guidance for supervising adjustment operations. The text has also been partly reorganized on a subject-matter basis, and refocused with more emphasis on the supervision process. The main changes are set out below.

Revised Responsibilities/Accountability

3. The revised OMS reflects the changed organization of the Bank, and the increased delegation of responsibility, accountability and authority for project supervision. While leaving flexibility for the Regions to determine their own internal procedures. It provides also a clearer definition of supervision responsibilities (including the allocation of resources and portfolio management) at various levels of Regional management.

Improved Supervision Effectiveness and Efficiency

4. Improvements in supervision effectiveness and efficiency are expected from improvements in (a) supervision planning, and (b) mission reporting and follow up.

(i) Supervision Planning

The revised OMS emphasizes the need for increased selectivity in the Bank's supervision effort. It also underlines the need for strengthening of borrowers' own supervision capabilities, and for the effective use of borrowers' progress reports to reduce Bank supervision costs. The revised OMS furthermore introduces the "Supervision Plan" as the basic planning instrument for the supervision of each project; And it stresses the importance of issues/action-oriented mission Terms of Reference; and of pre-mission issues papers and meetings where there are complex implementation problems, or in the case of mid-term reviews and missions preparing tranche releases.

This seems to conflict with the delegation concept in the first sentence

See my covering memo.

X
X
X
X

it sets certain minimum standards and reporting requirements to

ensure that cross-regional compatibility is retained and that senior management is kept informed of the status of operations.

1/4 "Project" includes program loans and credits, SARs and SFCAs.

[Must be time-bound - see my covering memo.]

(ii) Mission Reporting and Follow-up

As previously, the Aide Memoire remains the Bank's main channel of communication with the borrower on the findings of the supervision mission; but until now, it became the Bank's official position only after it was confirmed by letter or telex. To reflect the Task Manager's more prominent role following the Bank's reorganization, the Aide Memoire from now on is the Bank's official position unless it is amended by Bank management ~~after the mission's return.~~

X

in exceptional circumstances

within 48 calendar days of the date of the Aide Memoire.

The Implementation Summary (Form 590) has been substantially revised to (a) make the Form a more effective tool for portfolio and supervision management, and (b) provide better information on the effectiveness of supervision. In particular, more aspects of a project will be rated to highlight problem areas, and the text in Form 590 will establish an explicit link between actions recommended previously and actions actually taken by the borrower and the Bank. The new Form also links up with the Bank's "Audit Report Compliance System" (ARCS) now being introduced; and it provides flexibility for regional enhancement in the areas of disbursement and ratings. Much of the additional information provided in Form 590 will be output data of the Portfolio Management Module of the Management Information System (MIS). The Module will be re-programmed to reflect the changes in Form 590. This is expected to be completed by January 1, 1989, when a new "Portfolio Module User Guide" will be issued.

in part by improving reporting linkages with earlier missions and TOR,

A new "NOT RATED" category is introduced for occasions when missions have not the time or expertise to review specific aspects.

Two additional Annexes will become part of the Supervision Report, one detailing "Compliance with Legal Conditions", the other "Key Performance Indicators". The data base for these two Annexes will normally be established at the time the initial Implementation Summary is prepared, and will be updated during each supervision mission. Computer programs to produce these Annexes will be established under the Portfolio Management Module. Until this is completed the addition of these two standard Annexes to the Supervision Report is at the discretion of the Regions.

Journal

Mission Debriefing. The OMS now emphasizes the need for discussing the supervisions mission findings with the Sector or Country Operations Division Chief concerned. If the findings are of wide significance, they should be discussed in a de-briefing meeting which may be chaired by the Country Department Director, and a brief record of the meeting ^{is} circulated.

Adjustment Operations

5. The revised OMS includes a separate Annex dealing with specific supervision aspects of adjustment operations.
6. Any questions regarding the use of the revised OMS 3.50 should be directed to the Chief, Operations Policy Unit, Central Operations Department.

PC#2:WS2:MC:AKO

DEC. - 2 1987

December 2, 1987

Mr. Ram K. Chopra


Ram,

Subject: Procurement, Monitoring and Supervision

In respond to my note to you of November 25, I received the attached note from Mr. Wilfred Candler, which I am distributing to all those who received my preceding note. I fully agree with the two points made by Will and I mentioned it to him already.

However, he blames Mr. Yuksel unnecessarily for the points made in the matrix attached to my note to you, which is not Mr. Yuksel's but my invention. Therefore, the blame is mine.

I suggest that we meet for discussion of the whole subject immediately upon Mr. Buky's return to town, but before the retreat and subsequent departure on home leave of Mr. Landau. Therefore, I am reserving our conference room for Monday, December 7 at 3:00 p.m. We checked the availability of Mr. Rovani and yourself on these dates.


A. Nowicki

Attachment

cc: Messrs. Y. Rovani, G. Donaldson, R. van der Lugt, J. Buky, L. Landau, W. Candler, T. Byer, R. Ribí, G. Yuksel, J. Blackwood, G. Maniatis.

Memo to : A. Nowicki
From : Wilfred Candler *Will*
Date : 1 December 1987

Subject : Procurement Study.

1. It is very useful to have Mr Yuksel's Draft Approach Paper. Two brief comments may be relevant in setting the agenda for the proposed discussion:

i) It seems to me that for once in an OED study we have a clear and testable hypothesis, i.e. that ICB results in our borrowers getting their requirements at lower cost than from bilaterals, or less structured procurement with their own foreign exchange. Is this true? There should be no difficulty in finding highly comparable investments financed in different ways at about the same time; we could then see whether ICB pays off. This would require more than a desk study, but is such a good opportunity to show what OED can do with a well structured problem, that it should not be missed. (I know that there are other arguments for ICB based on a "level playing field" for potential suppliers, but if this does not result in the best price for our borrowers, we would need to have a careful re-think of the rationale for ICB).

ii) there is a slightly "technocratic" tone to the paper. (See for instance para. 14 which refers to "importing non-essential goods", and para. 9 "percieved urgent needs of the borrower"). This tends to lose sight of the fact that the "shortage of foreign exchange" is largely self-imposed, due to an unwillingness to free the foreign exchange market. Given a self induced shortage some mechanism has to be put in place to "ration" the resulting "scarce" foreign exchange, which in turn is almost bound to conflict to some extent with Bank guidelines. Thus the whole "problem" of whether the right types of goods were imported, arrises exactly out of the Bank's decision to assist Government in maintaining an over-valued currency. (Which may well be the right decision, but should not be allowed to obscure the fact that some sub-optimal imports are very likely to result from the original policy decision).

2. I would endorse the suggestion of seperating the study of SAL and project procurement. I believe that there was an OED study of procurement in about 1980, which should probably be looked at carefully.

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WFS ARCHIVES

November 25, 1987

Mr Ram K. Chopra

Subject: Procurement, Monitoring and Supervision

Judging from our recent discussions I presume that now is the appropriate time to start thinking hard and discussing the above issues. I prepared a small table as a canvass for this discussion (please see attachment 1). I did not discuss it yet with anybody in this Division but I am distributing it for discussion so some feedback should reach me before we start discussing it with you.

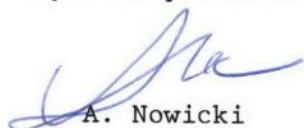
I am also attaching a draft Approach Paper on Procurement prepared by Mr. Yuksel which I consider an important input into this discussion. I discussed the first draft with Mr. Yuksel and I agree broadly with the present second draft (see attachment 2).

What emerges from the very initial thinking is the following:

(i) Procurement and monitoring (or supervision) should be taken and studied separately for (a) structural adjustment loans (including sectoral adjustment loans) and for (b) projects. There is very little relation between what is (or should be) going on in structural adjustment and in projects. The questions are different, the dramatic personae (both on the executing and on the receiving end) are different and the questions are different. This does not exclude, however, the possibility that the results of this enquiry could be put together in one OED document.

(ii) There will be a substantial resistance on the part of the Regions to our initiative. I suspect that while we were riding a white horse of procedures and supervision, until mid 70s, the tremendous pressure to meet lending targets as well as the declining role of engineers might have hobbled the hindlegs of this horse since then. For us to demystify (or perhaps demythologize or x-ray) the Bank's lore about procurement and supervision could be a painful exercise but it is unavoidable if we want to construct an improved edifice. For these reasons--and, ultimately, to become useful--we have to tread very carefully and to obtain as much high level consultants' assistance and operations' cooperation as possible. With this, and considering the importance of our aim, the results should definitely prove highly worthwhile, in particular for the new post-organization generation of managers who may tend to have an eye on internal management programs and problems disproportionately more than on the external, hard realities of project implementation.

I suggest that we begin our discussions within the broadest possible group within the next week or 10 days, if possible.



A. Nowicki

Attachments

cc: Messrs. Y. Rovani, G. Donaldson, R. van der Lugt, J. Buky, L. Landau, T. Byer, R. Ribic, G. Yuksel, J. Blackwood, G. Maniatis

Structural Adjustment Programs (SALs and SECALs)

Projects

i. Procurement (Yuksel)

a. Investment Goods

Did procurement delay disbursement?

Was the procurement procedure related to purchase of these goods of the "normal" type, and if so, did it make the delivery so long that it invalidated the purpose of the SALs, namely the "quick" transfer?

Had the choice of equipment been related to old or newly created requirements?

Had the equipment (and the sector) been classified as of "priority" type in the Bank economic and sector work or Bank public investment reviews?

Was it related to the relevant sector (to which the loan was made)?

Institutions (preparedness, procedures, etc.)?

Were the goods sold to the public or private enterprises and, if so, how were the proceeds (in domestic currency) used?

Countries of origin?

b. Current Goods

Was there any well specified procurement rule applied or did the investment procurement rule apply "by proxy"?

Were the prices "spot" or from ongoing long-term contracts? If the latter is true, what is the price difference between the former and the latter?

What was the part of material inputs and what that of purely consumption goods?

Were the goods sold to the public or private enterprises (see some question with reference to equipment goods)?

Countries of origin?

Institutions (preparedness, procedures)?

ii. Monitoring (Landau)

a. Design

Has monitoring been a part of original loan design?

Has it been a condition of tranche release?

Did it naturally lead to subsequent SA loan (signalling a need for more funds)?

i. Procurement (Who?)

a. Proper preparation of procurement

- differences between practices:

i. Amongst Bank's Regional Offices.

ii. Amongst groups of countries.

iii. Amongst sectors.

Reasons for these differences and outcomes in terms of

- room for corruptive practices

- losses in terms of ultimate project costs

- delays in project construction

- quality and technical level of goods procured under different arrangements and their effect on operation of completed projects.

b. Bank's role in and influence on procurement

- influence on rules and regulations

- influence on application of rules and regulations

through:

- project design and conditions

- initial stages of supervision

c. Counterveiling influences

- by or within the country: pressure for domestic procurement (with loading of the dice of cost-price, of exchange rate, of apparent need for "domestic technologies", etc.

- by exporters (leakages of information, dumping, etc.).

d. Recommendations

- with respect to preparation of procurement

- with respect to strengthening of the Bank's role (guiding-preventing-supervising)

- with respect to elimination of inside and outside distorting pressures.

b. Content

Is monitoring rooted in ongoing economic and sector work and how deep these roots are?

Is it focussed exclusively on policies and their outcomes included in the loan agreement, or also on other policies and economic events, related to (or even conditioning) the above?

Is there a pre-monitoring procedure during which a framework for each forthcoming monitoring exercise is determined?

Is the monitoring descriptive, prescriptive, focussing on deviations from the original program or (as the case may be) on the need for its change, in the future?

c. Feedback

Are the results of the monitoring discussed internally and externally, with whom, with what purpose?

What can one deem as "implementation" of the feedback, e.g. adjustment of the original program, introduction of "other" hitherto untouched policies, stopping of disbursement, visits and discussions by Senior Management, etc.?

d. Recommendations

With respect to loan design.

With respect to content of monitoring.

With respect to feedback from monitoring.

ii. Supervision (Buky, ^{Gardner} Blackwood)

a. Dual role and its execution in practice.

- on the client's side--correcting the course of project implementation
- on the Bank's side--providing a management tool for improvement of future projects' design, for discussions of policy change with the country, and finally, being usable as input into PCRs.

How is this dual role conceived and executed?

b. Who carries out the supervision in the Bank and how the choice of supervisors colors the results of supervision?

- engineers (and their penchant for civil works)
 - financial analysts, (and their penchant for accountancy)
 - political scientists and loan officers (and their penchant for institutions)
 - economists (and their penchant for sectoral policy changes)
- How can all these four disparate (and useful) directions be combined in one supervision? (Are they, at least sometimes?)

c. When is the supervision carried out and how does the choice of timing influence the results:

- as an afterthought (appendix) to the appraisal or field discussion mission
- as a part of multi-country supervision safari
- as an escape from Washington bad weather (sounds flippant but true for at least two large Regions)

How does the timing correlate with the implementation cycle--i.e. does it intervene at truly decisive junctures of the construction of the project or is it random?

d. Cost of the supervision (compared to project cost, etc.) and effects of supervision (does anything really happen as a result of it)? Can the supervision be carried out by the client country? (or some of the more mature client countries)? How is the supervision carried out by the Resident Missions' staff?

e. Recommendations

- with respect to the role (what should it become)
- with respect to the executant (who should carry it out)
- with respect to timing (when should it occur)

DRAFT APPROACH PAPER

PROCUREMENT IN POLICY BASED LENDING

Introduction

1. Policy based lending includes structural adjustment (SAL) and sector adjustment (SECAL) loans/credits. Structural adjustment lending was first introduced in 1980 in response to the rapidly worsening international economic situation and the difficulties facing developing countries. By the end of FY1986, 38 SALs had been approved by the Executive Directors; a further 25 are in the pipeline for FY1987-88. In addition, more than 40 sector adjustment loans have been approved by the Board since 1982. In terms of lending volume, the Bank's management has indicated that the volume of adjustment lending-- defined as including both structural adjustment lending and sector adjustment lending--is expected to be in the range of 15 to 20 percent of total lending over the coming few years.

2. In policy based lending, disbursements are linked to the procurement of imported goods and services in general, rather than to the particular inputs that are needed to implement specific investment projects. Quick disbursements are a key feature of this type of lending, and several simplifications regarding advertising and currency provisions are introduced to achieve this end. However, the Bank's general procurement policies and, in particular, concerns about economy and efficiency, and providing opportunities for all eligible firms to compete for contract awards, apply to policy based lending as well as to specific investment projects.

update

3. In general, policy based lending involves large amounts of money, and the responsibility for importing goods to be financed are widely decentralized. The lack of previous experience with the Bank's procurement guidelines and procedures on the part of several national agencies, both public and private, with responsibility for the procurement and the Bank staff's overriding preoccupation with the implementation of policy measures may result in departures from the spirit of the Bank's procurement guidelines and deviations from the procedures agreed to in the loan documents. Trade-offs between fast disbursements and the Bank's normal control over procurement matters may be overtaxing the Bank's supervision staff resources.

4. The study rests essentially on the analysis of the procurement aspects of the structural adjustment and sector adjustment loans/credits approved by the Board of Executive Directors since the beginning of 1980, and listed in Attachment 1. Thus, the study covers 84 loans/credits in some 50 countries distributed over the Bank's four regions. As of the beginning of FY1988, OED has issued Program Performance Audit Reports (PPARs) or has passed through the Project Completion Reports (PCRs) for 23 of these loans/credits. As of September 30, 1987, 49 of the loans/credits were fully disbursed, the remainder being at various stages of disbursement (Attachment 1).

5. The study will focus primarily on the Bank's performance in preparing and supervising procurement components of policy based loans/credits, with a view to draw lessons which are relevant for future operations. Thus, the study falls within OED's specific mandate, and dovetail

to studies on lending for structural adjustment, export development, and support for public enterprises reform included in the Rolling Program of OED Studies, FY 88-90. It is closely related to, and could be combined with, the proposed study on the monitoring of structural adjustment.

Study Outline

6. The research for the analysis includes desk studies and interviews with the Bank staff. No missions are planned to the borrowing countries, since all documentation concerning procurement, with the exception of statements of expenses (SOEs) related to small procurement packages, is contained in the Bank's loan/credit files. These files also contain the reports of the Bank staff on spot reviews in the field of the SOEs.

7. The study of procurement under policy based lending will review (i) the design of the procurement component, (ii) the implementation experience, and (iii) the supervision of procurement by the Bank/IDA, and endeavor to highlight the findings and lessons to be learned.

8. Preparation. The review of the preparation includes the selection of items financed with the proceeds of the loans/credits, the number and average size of procurement packages, money limits for various types of procurement, agreed departures from the Bank's normal procurement guidelines/practices, and disbursement arrangements.

9. The following points deserve attention under this heading: (i) the evolution of conditionality with respect to items financed under SALs and SECALs from investment goods to current goods, from sector-specific to general goods, and from positive lists to negative lists; (ii) the correspondance between agreed lists of goods and the perceived urgent needs of the borrowers; (iii) the extent to which procurement packages were defined at the loan/credit preparation stage; (iv) the appraisal of the procurement practices of various beneficiaries; (v) criteria applied to determine money limits for various modes of procurement, and the relationship, if any, between these and the total loan amount and the procurement efficiency of beneficiaries; (vi) the rationale for the agreed departures from the Bank's standard procurement guidelines; and (vii) types of agreed arrangements to ensure compliance with procurement rules and quick disbursement.

10. Implementation Experience. Under this heading the study will review the number of national institutions in charge of procurement and their familiarity with the Bank's procurement guidelines and practices, the average length of procurement cycle for various procurement modes, the status of procurement related activities at the time of loan/credit effectiveness, actual and estimated disbursement profiles and schedules of tranche release, and the effect of procurement difficulties, if any, on deviations from original forecasts, and procurement related complaints and their resolution.

11. Speedy injection of foreign exchange into the borrowing country's economy was one of the objectives of SALs and SECALs, and the main justification for the relaxation of the Bank's procurement rules. However,

*Country
version
in*

besides this relaxation, fast disbursement also requires a certain degree of efficiency on the part of the beneficiaries in procuring goods. Was this generally the case? If not, which factors contributed to reducing procurement and, hence, disbursement efficiency? What was the role of the Bank in identifying and remedying the causes of less-than-optimal procurement performance? Has such performance materially affected estimated disbursement profiles and tranche release schedules? Have the procurement practices of the beneficiaries caused an unusual amount of complaints from potential suppliers? If yes, how were these complaints handled by the Bank? Finally, answers will be sought to the following two questions: (i) how effective were the agreed procurement procedures in ensuring economy and efficiency; and (ii) how did actual imports correspond to identified priorities?

12. Supervision of Procurement. The analysis will focus on the adequacy of the Bank supervision of procurement under SALs and SECALs. The main points to be researched are: (i) the frequency and depth of procurement-related supervision by the Bank staff; and (ii) the effectiveness of spot reviews of contract awards in ensuring compliance with the agreed procurement procedures.

13. Findings and Lessons. This chapter will attempt to summarize the study's findings on the effect of local procurement regulations (government approval, import licensing, etc.) on procurement and disbursements, the importance of non-price factors (e.g. standardization) on contract awards, the relevance of Bank procurement guidelines in some special cases (e.g. petroleum imports), the implications of cofinancing for procurement, changes, if any, of the relative access of foreign suppliers to Bank financed procurement as a

result of the selection of items financed by the proceeds of policy based loans/credits, and the evolution of the Bank's approach to procurement issues under policy based lending.

14. On the basis of the study's findings answers will be sought to the following questions: (i) have departures from standard procurement guidelines been effective in ensuring quick disbursement of the loans/credits? If not, what are the shortcomings of the current practice and their possible remedies? (ii) has the financing of priority goods by the Bank under SALs and SECALs freed foreign exchange for importing non-essential goods? and (iii) has the import of Bank-financed goods resulted in significant mobilization of domestic resources through sales to the public?

Scope of Work

15. In the context of the proposed study, the following activities will be carried out: (i) review of the 23 PPARs already issued by OED; (ii) review of Bank files and loan documents for the 84 loans/credits listed in Attachment 1; (iii) review of the disbursement records of the 49 loans/credits that were fully disbursed as of September 30, 1987; and (iv) interview with the Bank staff who have been responsible for the preparation and supervision of the loans/credits to be reviewed. As the end product of the study a draft report will be prepared for discussion with the interested Bank departments. The submission to the Board will be in the form of a combined report based on the draft reports for this study and the one on monitoring structural adjustment (para. 5).

Budget and Implementation Timetable

16. A tentative time and manning schedule for the proposed study is given as Attachment 2. The preparation of the report will require an input of some 36 man-weeks of OED staff, and 26 man-weeks of consultant's time. A realistic forecast suggests that OED should be able to deliver the final report to the Joint Audit Committee before the end of CY 1988.

PROCUREMENT UNDER POLICY BASED LENDINGLOANS/CREDITS TO BE REVIEWEDI. STRUCTURAL ADJUSTMENT LOANS/CREDITS

<u>No.</u>	<u>Description</u>	<u>Date App'd</u>	<u>% Disb'd 1/</u>
L1818-TU	Turkey- SAL I	03.25.80	100
L1865-BO	Bolivia- SAL	06.05.80	100
L1903-PH	Philippines- SAL	09.16.80	100
L1915-TU	Turkey- SAL Supplement	11.18.80	100
L1931-SE	Senegal- SAL	12.18.80	46
L1948-GUA	Guyana- SAL	02.03.81	100
L1987-TU	Turkey- SAL II	05.12.81	100
L2010-MAS	Mauritius- SAL	06.02.81	100
L2026-MAI	Malawi- SAL I	06.25.81	100
L2058-IVC	Coted'Ivoire- SAL	11.24.81	100
L2071-KO	Korea- SAL	12.17.81	100
L2097-TH	Thailand- SAL	03.02.82	100
L2105-JM	Jamaica- SAL	03.23.82	100
L2158-TU	Turkey- SAL III	05.27.82	100
L2166-PAK	Pakistan- SAL	06.01.82	100
L2190-KE	Kenya- SAL II	07.01.82	100
L2256-TH	Thailand- SAL II	03.31.83	100
L2266-PH	Philippines- SAL II	04.26.83	100
L2315-JM	Jamaica- SAL II	06.14.83	100
L2321-TU	Turkey- SAL IV	06.23.83	100
L2326-YU	Yugoslavia- SAL	06.28.83	100
L2332-IVC	Cote d'Ivoire- SAL II	07.05.83	100
L2354-KO	Korea- SAL II	11.08.83	100
L2357-PAN	Panama- SAL	11.15.83	100
L2361-MAS	Mauritius- SAL II	12.08.83	100
L2441-TU	Turkey- SAL V	06.14.84	100
L2478-JM	Jamaica- SAL III	11.20.84	100
L2518-CR	Costa Rica- SAL	04.16.85	100
L2625-CH	Chile- SAL	10.22.85	100
L2711-IVC	Cote d'Ivoire- SAL III	06.03.86	40
L2767-CH	Chile- SAL II	11.20.86	100
L2768-PAN	Panama- SAL II	12.11.86	50
C0999-KE	Kenya- Structural Adjustment Credit (SAC)	03.25.80	100
C1084-SE	Senegal- SAC	12.18.80	100
C1098-GUA	Guyana- SAC	02.03.81	100
C1255-PAK	Pakistan- SAC	06.01.82	100
C1276-KE	Kenya- SAC	07.01.82	100
C1365-TO	Togo- SAC	05.17.83	100
C1427-MAI	Malawi- SAC II	12.20.83	84

1/ As of September 30, 1987

C1599-TO	Togo- SAC II	05.30.85	100
C1644-MAI	Malawi- SAC III	12.19.85	100
C1656-SE	Senegal- SAC II	02.04.86	100
C1659-GUI	Rep. of Guinea- SAC	02.11.86	48
C1660-NIR	Niger- SAC	02.18.86	53
C1705-BU	Burundi- SAC	05.22.86	65
C1730-GM	Gambia- SAC	08.26.86	0
C1732-CA	Central African Rep.-SAC	09.09.86	15
C1769-NEP	Nepal- SAC	03.24.87	0
A 002-TO	Togo- SAC II	08.20.85	100
A 009-MAI	Malawi- SAC III	12.19.85	100
A 010-SE	Senegal- SAC II	02.04.86	100
A 011-GUI	Rep. of Guinea- SAC	02.11.86	57
A 012-NIR	Niger- SAC	02.18.86	92
A 017-BU	Burundi- SAC	05.22.86	53
A 022-GM	Gambia- SAC	08.26.86	84
A 023-CA	Central African Rep.- SAC	09.09.86	66
F 003-TO	Togo- SAC	06.16.83	100

II. SECTOR ADJUSTMENT LOANS/CREDITS

L2377-MOR	Morocco- Ind. and Trade Policy Adj.	01.31.84	100
L2468-UR	Uruguay- Agricultural Sector Loan	08.28.84	100
L2469-PH	Philippines- Agricultural Sector/Inputs	09.04.84	100
L2551-CO	Colombia- Trade Policy and Export Div.	05.23.85	100
L2552-PAK	Pakistan- Energy Sector Loan	05.23.85	35
L2585-TU	Turkey- Agricultural Sector Adj.	06.18.85	51
L2590-MOR	Morocco- Agricultural Sector Adj.	06.20.85	100
L2604-MOR	Morocco- Ind. and Trade Policy Adj. II	07.16.85	100
L2626-EC	Ecuador- Agricultural Sector Loan	10.22.85	85
L2675-AR	Argentina- Agricultural Sector Loan	04.03.86	50
L2677-CO	Colombia- Trade and Agricultural Policy	04.15.86	52
L2714-TU	Turkey- Financial Sector Adjustment	06.10.86	97
L2720-BR	Brazil- Electric Power Sector	06.19.86	100
L2745-ME	Mexico- Trade Policy	07.29.86	98
L2754-TUN	Tunisia- Agricultural Sector Adj.	09.18.86	57
L2758-UNI	Nigeria- Trade Policy and Export Dev.	10.16.86	55
L2781-TUN	Tunisia- Ind. and Trade Policy Adj.	02.24.87	23
C1672-GH	Ghana- Industrial Sector Adj.	03.27.86	45
C1691-MAG	Madagascar- Agricultural Sector Adj.	05.08.86	21
C1708-ZR	Zaire- Industrial Sector Adj.	06.10.86	49
C1711-SO	Somalia- Agricultural Sector Adj.	06.19.86	36
01717-KE	Kenya- Agricultural Sector Adj.	06.23.86	0
01744-GH	Ghana- Education Sector Adj.	12.09.86	0
A 013-GH	Ghana- Industrial Sector Adj.	03.27.86	56
A 016-MAG	Madagascar- Agricultural Sector Adj.	05.08.86	21
A 020-SO	Somalia- Agricultural Sector Adj.	06.19.86	40

A 021-KE Kenya- Agricultural Sector Adj.

06.23.86

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PROCUREMENT UNDER POLICY BASED LENDINGTENTATIVE TIME AND MANNING SCHEDULE

<u>Period</u>	<u>Activity</u>	<u>Personnel</u>	<u>Man-weeks</u>
11/87	PPAR Review	SEO (1)	2
12/87	Review of Project Files, Loan Documents and Disbursement Records	{ SEO (1) { Cons(1)	20 20
04/88	Preparation of Initial Draft Report	SEO (1) Cons(1)	4 4
05/88	Interview with Bank Staff	SEO (1) Cons(1)	1 1
06/88	Preparation of Final Draft Report	SEO (1) Cons(1)	3 1
09/88	Discussion of Report with OPN and PPR	SEO (3)	3
10/88	Finalization of Report	SEO (1)	3
Total Man-weeks Required		SEO Consultant	36 26

December 7, 1987

Messrs. Y. Rovani, R. Chopra, G. Donaldson,
R. van der Lugt, J. Buky, L. Landau,
W. Candler, T. Byer, R. Ribí,
G. Yuksel, J. Blackwood, G. Maniatis

Subject: Procurement, Monitoring and Supervision

Because of Mr. Chopra's prior engagements the meeting that we were supposed to hold on Tuesday afternoon is now rescheduled for Thursday, December 10 at 3:00 p.m. in our Conference Rm.


A. Nowicki

DEC - 7 1987

December 7, 1987

Messrs. Y. Rovani, R. Chopra, G. Donaldson, R. van der Lugt, J. Buky, L. Landau, W. Candler, T. Eyer, R. Ribic, C. Yuksel, J. Blackwood, G. Maniatis

Subject: Procurement, Monitoring and Supervision

I just read the attached pages of discussion paper on FY89 Priorities and Budget Policy directions presented to the Committee of the Whole of the Bank Board on November 25, 1987. As you will find in the attached, our budgetary staff--possibly with concurrence of the Senior Management--thinks that there should be a link between monitoring, evaluation, supervision and technical assistance. I suggest that this aspect of our supervision evaluation be also considered at tomorrow's meeting. For this reason I am also inviting to tomorrow's meeting Mr. Decaux who is about to begin a study on technical assistance.



A. Nowicki

Attachment

cc: Mr. B. Decaux

the mix of lending instruments could have implications for administrative resources. Like adjustment lending, sector investment lending places at a premium country economic and sector work and may entail substantial efforts in cofinancing. However, because sector investment loans tend to be relatively large, their administrative cost per dollar loaned has often been significantly less than the cost of investment projects. Other things being equal, if the proportion of sector investment lending were to increase further within a given level of dollar commitments, administrative funds might be saved. However, strong client demands for project lending services would have to be taken into account, as would the institutional constraints associated with sector lending. While a shift away from project lending would reduce the need for specialized technical staff, it would simultaneously increase the demand for skills in sector economics and public sector management. Irrespective of cost considerations, particular country needs must continue to be the driving force in the design of administrative resource constraints, the optimum mix of lending instruments.

4.05 Sectoral Balance. While agriculture and rural development is still the largest user of administrative resources (31% of lending and supervision staffyears in FY87), the fastest growing requirements have been in the industry, energy and human resources sectors. Multi-sectoral and technical assistance activities have also absorbed a rising share of manpower resources. The administrative costs per operation for the Bank in lending for sectors such as transport, water supply, and telecommunications are significantly less than the costs of lending for population/health, technical assistance, and reconstruction. In principle, other factors being equal, the average cost of lending could be lowered by shifting lending from the high-cost to the low-cost sectors. Social sector lending, however, is often indispensable irrespective of cost, technical assistance is especially vital in SSA, and reconstruction loans, as well as being economically important, serve valid humanitarian purposes. The country assistance management process is, in any event, specifically designed to facilitate such trade-offs where they might be appropriate, and under the new organization, the Country Directors enjoy considerable autonomy in allocating administrative resources in ways which optimize Bank services in the country's behalf. Once again, within the envelope of available administrative resources, the appropriate mix of sectoral activities must be based on development effectiveness, taking account of country needs and the Bank's comparative advantage.

4.06 Implementation Assistance vs. Monitoring in Loan Supervision. It has been estimated that perhaps half of the Bank's supervision work is de facto implementation assistance rather than work strictly necessary to monitor progress and ensure compliance with loan agreements. As the Bank spends more than \$100 million each year on supervision, the resources that would be freed by a reduction in its implementation assistance dimension -- perhaps principally in the countries with relatively high levels of indigenous skills -- would be sizeable. On the other hand, since a major

purpose of lending is results, not mere resource transfer, and supervision is the instrument of choice for helping to ensure development effectiveness, a reduction in the supervision effort may be undesirable -- especially in these difficult times when implementation problems tend to multiply as development priorities change, shortages of key inputs become apparent, and investment budgets are curtailed. In the FY88 budget, the proportion of supervision resources was increased (although the total was slightly decreased). In the years ahead, the possibilities of realizing savings and achieving greater efficiency are probably less from a reduction of the overall supervision effort than from a more systematic involvement of local institutions in the monitoring and evaluation of operations, or from targetted technical assistance or greater use of field offices and their local staff. However, the latter two options would entail expanding the scope of our current technical assistance program and strengthening field offices.

B. Advisory and Other Client Services

4.07 As the Bank has sought to become a "full service" development assistance institution, a rapidly growing portion of the budget has been allocated to advisory and other client services (including country economic and sector work, research, special grants, development training, and aid coordination). Arguably, these services might be curtailed to free resources for lending and supervision. On the other hand, some of the services are increasingly central to the Bank's country assistance programs.

4.08 Country Economic and Sector Work. CESW, the advisory service most closely allied to lending -- and especially adjustment lending -- has grown significantly in the last decade in response to the debt crisis, the volatility of the economic environment, the increased policy content of lending, and the need to provide advisory assistance with respect to programs of adjustment and to play a supporting role in debt rescheduling packages. These advisory activities now provide a principal underpinning of the policy-oriented dialogues that convey much of the Bank's beneficial impact. Efforts to improve the management and efficiency of CESW are expected to be intensified -- through sharper targeting of the work, more effective work planning, closer collaboration with clients, greater use of local capabilities, and streamlining of report preparation. Even with these gains, however, increased resources will undoubtedly have to be made available in priority CESW areas and an increase in overall effort might also be necessary for an adequate response to the challenges ahead.

4.09 Research and Policy Work. In times of crisis and budget stringency, research and policy work often are regarded as deferrable luxuries, mainly because the payoffs -- while potentially large -- are slow in coming. In the current year, Bank resources for research, especially basic research, and policy work were in fact reduced, although the reductions were to some extent offset by eliminating organizational

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

Mr. Chopra
file
Supervision

DATE: October 21, 1987

TO: Mr. Walter Schwermer, COD

FROM: A.J. Blackwood, OED

EXTENSION: 32895

SUBJECT: Project Supervision: Revision of Guidelines
COD Working Party

1. This responds to your request for comments in your memo of September 25. My remarks refer more to general matters than to the specifics of revising OMS 3.50, for self-evident reasons.

2. It seemed to be agreed at our first meeting on September 23, amongst a wide circle of staff representing most concerned departments, that the Working Party should consider the general principles of supervision before doing more detailed work. Your memo of September 25 notes especially the concern that any new guidance for staff should reflect the Bank's new organization. Your note also recorded the points I made from an OED perspective on some of the issues that might be reviewed. I thought, however, that further background would prove useful for our later work. First, a comment on the original objective of the Working Party--revision of OMS 3.50 (Project Supervision).

Why Guidelines?

3. The reorganization strategy delegates "a high degree of day-to-day operational management to line managers" while "quality controls outside the line managers themselves are reduced to a minimum". Although the second phrase refers specifically to upstream work, in such a context the need for detailed central instructions on supervision such as OMS 3.50 is not immediately obvious. Brief statements could suffice instead on minimum requirements with respect to supervision objectives and management's information needs, with the regions deciding how supervision is to be carried out in detail. Such an approach would acknowledge the existence already of a variety of supervision practices in the different regions. We should discuss this point further before plunging in and revising OMS 3.50.

Objectives--Real and Apparent?

4. During the reorganization exercise, some work was done involving a wide selection of Bank staff on "the culture of the Bank". There was thought to be little point in reorganizing the Bank if we continue to operate in the same old (discredited) ways because the

culture of the Bank remains unchanged. Mr. Conable refers to the Bank's culture in his introduction to the reorganization Guide. My recollection as a participant is that the discussion groups focussed on such issues as (a) the divergence between stated institutional objectives and practice, (b) the divergence between stated institutional objectives and signals and incentives to staff, (c) second-guessing of management by staff, (d) an extended and diffuse management structure resulting in decision-making inertia and poor accountability, and (e) innovation and risk-taking disincentives. The new structure of the Bank is designed to respond to some of these concerns, but the real test will be to make sure that our work on the guidelines responds to these points such that the culture of the Bank is modified appropriately. We have to change signals and incentives so that the way managers, the staff and others see the Bank is more positive and contributes to meeting institutional objectives.

5. This is a complicated but important task. How the Bank views supervision and the messages the Bank sends to staff can either reinforce unwanted cultural tendencies or reduce them. Our work on the supervision process must strive to reverse any negative views on the priority and purpose of supervision. This will be difficult in the face of undiminished lending pressure and suggests that more is required than a mere adjustment of current guidelines.

6. What can be said about the Bank's objectives in the context of supervision? First, the Bank is a development institution and should view resource transfers as but one means to that end. Loan approval sets aside resources and marks the beginning of the implementation period; it is not a development objective of itself. For accounting purposes, however, approval is customarily used as a (too) convenient measure of visible performance, but at a very elementary level compared with the real objective. Second, the reorganization to date is unlikely to have changed the Bank's culture away from measuring and rewarding performance primarily in terms of commitments, or "lending" as it is often prematurely called. Indeed, quite the contrary at a time when the Bank is seeking a capital increase and with the current weakness of the lending program. Thus the emphasis will be on commitments for the foreseeable future, as has been made clear by senior management. Many new managers, some of them with little operational experience, are now under enormous pressure to meet lending targets. Third, therefore, following from the above, supervision activities (which help ensure that the means achieves the end) are under even more pressure to contract. The "poor cousin" is in real danger of becoming the "destitute cousin."

7. What can be done about this? We know from past experience that no amount of protestation and exhortation to the contrary by management will in practice change this fact of the Bank's culture

that loan processing and the pipeline will take precedence over supervision. Lower supervision coefficients have been rationalized into the need for more "efficient" supervision. Perhaps it is the Working Party's main task to help achieve this greater efficiency. It is therefore critical that the Working Party consider ways and means of redirecting the supervision effort so that the fundamental objective of effective development (and sustainability) gets maximum mileage out of whatever resources supervision receives. (OED audits have frequently noted how good projects are associated with good supervision, but there may be a cause and effect problem here as innately good projects will tend to make supervision look good.)

Possible Changes in Supervision Concept and Procedures

8. Effective Development. The need for supervision to respond to the Articles' requirement that funds be spent for the purpose intended can lead to slavish adherence to appraisal designs, even when these are patently wrong or no longer appropriate in changed circumstances. Redefining the main objective of supervision as "effective (and sustainable) development" opens the door to continual review of whether the project design still meets that test and generally downgrades the "appraisal Bible" in favor of a more responsive and flexible approach. We should get away from the simple concept of supervision as the means of ensuring that a given project is implemented. The Working Party should keep this point in mind, without losing sight of the Bank's institutional responsibility to ensure that its resources are employed with "economy and efficiency."

9. Supervision Audience. Management's duty to ensure that funds are used as intended has tended to overshadow the technical assistance role of supervision.^{1/} This role is real, despite concerns that Bank staff should not be seen as implementing projects or provide technical assistance. The reality is that much of supervision is technical assistance and, furthermore, to many staff that is what makes supervision tolerable and worthwhile. (Some disenchantment with supervision work in part derives from its being seen as a sterile reporting activity, both unrewarding and unrewarded.) But the anomaly remains that supervision reports are directed towards Bank managers, with copies in whole or part being sent to project staff only at the discretion of managers and staff. This can result in the strange situation of Bank managers making important decisions on the basis of documents which are not available to government staff. In the past, when the subject

^{1/} There is also the secondary point of whether the two roles are compatible when fulfilled by the same staff. This alone argues strongly for the more "policing" functions of supervision being handled by separate specialist staff; for example, SOE matters by disbursement staff.

of supervision report distribution came up, the decision was to leave it to managers' preference. This seems to have been addressing the wrong question. The better question is: Why are not supervision reports addressed to Borrowers as a routine, rather than management's copy being forwarded when it suits us? The suggestion that sensitive matters could not be handled in a report sent to borrowers is not valid because a tear-off section could take care of this problem.

10. Some advantages of borrower-oriented reporting are:

- (a) Both borrower and Bank managers have access to the same information and perceptions of supervision staff on which to exchange views and base decisions.
- (b) The valuable technical assistance function of supervision is stimulated, properly recognized and more fully recorded.
- (c) The impact of supervision activities is increased and made more visible, making such work more attractive to staff and consultants alike.
- (d) The needs of the Borrower are more openly recognized and addressed (the increased "client focus" objective of the reorganization).
- (e) The clearer recognition of the value of the technical assistance function of supervision may balance to some extent the poor-cousin syndrome of supervision vis-à-vis upstream work.
- (f) The feedback of supervision issues and lessons into identification, preparation and appraisal should be strengthened.

11. Accountability. A purpose of the reorganization is to "strengthen accountability for all aspects of output much closer to the working level." This being the case there is a missing link in the current supervision process that has apparently gone unnoticed. Although named operational staff and lower level managers are required by the current process to make specific recommendations for resolving problems and for future actions (which then become part of the institutional record), senior managers' responses remain unspecified and unrecorded in most cases. In many cases only lack of response is a clue to managers' acquiescence, or careful detective work in the files indirectly reveals the decisions taken. Just as requiring staff to recommend actions in a few brief sentences helps to crystallize thoughts, so the response of senior managers would benefit from being recorded in like fashion. There seems little reason not to take the process to its logical conclusion on the record in this way. Moreover, devolved responsibility implies such a recording procedure

becoming routine if ex-post evaluation of management performance is to be objective and fair. The Working Party should devise appropriate minimum recording procedures for management decisions, and this means a routine more rigorous than a note on the files at a manager's discretion.

12. I hope that these ideas prove useful to the Working Party. I would welcome hearing the views of others on these points.

cc: Messrs. Rovani (OEDOD), Chopra (OEDDR), Donaldson (OEDD1), Nowicki (OEDD2), M. Singh (LEG), Vorkink (LEG), Mole (LOA), McGarry (LAT), M. Saeed (EMT), H. Singh (AF6), Zincir (AS5), Thumm (EAS), M. Wilson (PHR), R. Johnston (OPN), Schertz (COD), Le-Si (COD)

cc: Ms. Litan (OPN)

cc: Messrs. Rajagopalan (VPPRE), Aguirre-Sacasa (LAC), Denning (AFR), El Maaroufi (EMN), Wiehen (ASI), Goldberg (VPLEG), Jennings (LOADR), Blanchi (EMT), Cleaver (AF1), Wijnand (LA1), Joyce (LA4), Ridwan Ali (AF6), van der Lugt (DGO), Dubey (EAS), Abbott (OPN), Baudon (SVP), Robless (SVPOP), Lee (COD), Harris (COD), Casley (COD), Srinivasan (COD)

OFFICE MEMORANDUM

① Proj Supervision ✓
② Manual

DATE: September 22, 1987

TO: Distribution

FROM: Graham Donaldson, Chief, OEDD1

EXTENSION: 32893

SUBJECT: Revision of OMS 3.50 "Project Supervision"

1. OED is to be represented tomorrow afternoon by Julian Blackwood on a working party being established to help COD to revise OMS 3.50 "Project Supervision" (see attached memo). This is a substantial opportunity to make OED's contribution to the Bank's work more relevant and current. It is important that we make a solid contribution to this exercise on a departmental basis.

2. Given the short notice there is little time to feed in the comments of all OED staff, but we propose to open our usual division brown bag lunch tomorrow (Wednesday) in the Conference Room to all who wish to contribute. We meet for lunch at 12:30 pm, but we will start the supervision discussion at about 1:00 pm. Written suggestions would also be most welcome, either for this first meeting or later. Perhaps at this early stage it would be useful to focus mostly on the overriding objectives of the revision and the major problems identified by OED work that a revised OMS 3.50 might address.

Distribution

Messrs. Rovani, Chopra, Nowicki, van der Lugt
OED Senior Staff

Attachment

JBlackwood:rs