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Evaluation of the Quality at Entry of the African Development Bank Group's Sovereign and Non-sovereign Operations (2013–2017)

Executive Summary



AFRICAN DEVELOPMENT BANK GROUP

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Executive Summary

Introduction

This report presents findings, conclusions and recommendations from IDEV's Evaluation of Quality at Entry of the African Development Bank Group (the Bank's) Operations. The evaluation covers all sovereign and non-sovereign operations (NSOs) approved between 2013 and 2017, excluding emergency and equity operations.

The objectives of this report are to: i) assess the quality at entry of the Bank's operations approved over the evaluation period against an evidence-based standard; ii) examine the extent to which the Bank's conceptual and procedural framework for quality is positioned to promote the quality at entry of new operations and contribute to strategic decision-making; and iii) identify recommendations to inform the Bank's forward-looking quality agenda.

Background

The evaluation responds to persistent challenges observed over the past 25 years with respect to the quality at entry of the Bank's operations. Since the release of the 1994 "Report of the Task Force on Project Quality for the African Development Bank," (the Knox Report), various evaluations and institutional assessments have determined that many challenges identified in the report have remained relevant despite the introduction of new processes and tools.

Particular challenges have been observed with respect to: i) the clarity and realism of the project intervention logic; ii) the quality of project design and feasibility studies; and iii) ensuring that adequate resources are devoted to project preparation in terms of time and skills sets. These challenges have been found to influence the efficiency and effectiveness of projects in terms of: i) underestimations of cost; ii) implementation delays; iii) sub-optimal outcome achievement; and iv) poor sustainability. Together,

these challenges limit the value for money of the Bank's operations.

The Bank possesses no standard definition of project quality at entry. In the context of this evaluation, quality at entry is defined in terms of its outcomes, such that a project demonstrates good quality at entry when it possesses characteristics that make it: i) ready for implementation; and ii) likely to achieve its expected outcomes. In the case of non-sovereign operations, quality at entry is also expressed in terms of an operation's likelihood of being repaid according to its agreed terms.

Evaluation Approach and Design

This evaluation examines the quality at entry of the Bank's sovereign and non-sovereign operations approved between 2013 and 2017. The evaluation approaches quality at entry from both a **conceptual perspective** and a **procedural perspective**. This approach assumes that: i) quality at entry is both an objective, measurable characteristic of a project at the moment it is approved by the Board of Directors; and ii) quality at entry is the product of the different reviews and clearances implemented throughout project identification preparation and appraisal. As such, quality at entry is inextricably tied to the initial phases of the Bank's project cycle.

To this end, the evaluation assessed the quality at entry of the Bank's operations at approval as well as the effectiveness, efficiency and sustainability of the existing project preparation and approval process as identified in Presidential Directive 03/2013. The latter assessment involved an examination of the extent to which specific review tools are contributing to the quality at entry of operations, including: i) the peer review; ii) Readiness Review; iii) ADOA (NSOs); iv) Credit Risk Review (NSOs); and v) the Country Team Meeting.

The evaluation implements a **mixed-methods design** that is both **formative** and **theory-based**.

The evaluation is formative such that it examines the effectiveness of the project preparation and appraisal process while it is still ongoing. Emphasis is placed on examining the relevance of the current approach and understanding how contextual and institutional factors influence its performance.

Overall, the evaluation addresses four key questions regarding the Bank's conceptual and procedural framework for quality at entry:

1. To what extent do the Bank's existing tools address factors that predict the performance of projects? (Are we measuring the right things?);
2. To what extent has the quality at entry of the Bank's operations changed over the evaluation period? (Where do we stand against an evidence-based standard?);
3. To what extent is the existing project preparation and appraisal process efficient, effective and fit-for-purpose?; and
4. To what extent does the Bank demonstrate an enabling environment for quality?

Evaluation Findings: The Bank's Conceptual Framework for Quality

IDEV first sought to identify an evidence-based standard for quality at entry that: i) reflects the best practices of comparators; and ii) is able to predict project outcomes. The predictive validity of quality at entry tools is important; otherwise, the value for money achieved by their implementation is questionable. Subsequently, this standard was applied to a sample of projects to determine the extent to which project quality at entry has changed over the evaluation period.

Are we measuring the right things?

Consultations with stakeholders at the World Bank, IDB and MCC demonstrated consensus on the importance of 4 key factors for project quality at entry, including: i) "problem analysis" and evaluability;

ii) economic and financial viability; iii) implementation readiness; and iv) proactive risk management. Existing best practices from comparators were compiled and adapted to create a Best Practice Validation Tool representing a conceptual ideal and evidence-based standard for quality at entry.

A predictive analysis involving 20 completed investment operations revealed that the Composite Score of the evaluability and implementation readiness dimensions predicts the extent of outcome achievement. In contrast, Readiness Review scores for the same projects did not predict performance. These data were used to identify an evidence-based threshold (a score of 2.75) at which projects have a likelihood of .65 of achieving all expected outcomes.

Overall, the analysis suggested that existing Quality at Entry tools for sovereign operations do not sufficiently target factors that predict the extent of outcome achievement and, therefore, do not distinguish between projects based on their likely performance. Although the BP Validation and the Readiness Review address many of the same topics, the BP Validation Tool identifies more specific and stringent requirements. By contrast, the Readiness Review demonstrates a "signal versus noise" problem, such that it averages scores together for concepts that do not necessarily speak to project readiness and the likelihood of achieving results.

Furthermore, a Qualitative Comparative Analysis of country case studies revealed that contextual factors influence the relationship between quality at entry and the achievement of results, including: i) the strength of an RMC's Public Investment Management System; ii) the capacity of the PIU; and iii) the complexity of the project. **However, the Bank's existing procedural framework for quality at entry does not assess these factors systematically.**

With respect to non-sovereign operations (NSOs), the Bank's existing conceptual framework for quality at entry is aligned with that of comparators, including the IFC, IDB Invest and the EBRD, with respect to selectivity for contribution to development

outcomes and credit risk management. **However, in addition to identifying development outcomes, comparators were found to be placing emphasis on the evaluability of NSOs and their contribution to private sector development.** As such, the evaluability of NSOs was assessed against an existing best practice.

A predictive analysis involving 42 projects approved over the evaluation period determined that **the Bank's existing credit risk framework for NSOs is relevant, such that the number of unmitigated risks predicted the occurrence of negative project outcomes.** Different types of projects were found to be more sensitive to specific risks, with project finance and corporate loans being more sensitive to risks pertaining to the financial capacity of the sponsor and Lines of Credit sensitive to the presence of risks related to operating ratios and institutional governance together. In the case of Lines of Credit the presence of risks related to operating ratios and institutional governance together may be a means of triaging projects as "high risk."

Where do we stand against an evidence based standard for quality?

After demonstrating its ability to predict outcome achievement, IDEV applied the BP Validation Tool to a random sample of 85 investment projects and 35 PBOs and ISPs approved over the evaluation period. **When this standard was applied, it was found that project quality at entry has not changed significantly over the evaluation period for both investment projects and PBOs/ISPs.** Furthermore, approximately half of projects approved each year meet the evidence-based threshold for quality at entry.

Whereas investment projects are generally evaluable, they demonstrate more variable ratings for financial and economic analysis, implementation readiness and risk management. PBOs and ISPs tend to be less evaluable than investment projects, particularly with respect to: i) the clarity of the implementation logic; ii) identification of lessons learned; iii) the credibility of indicators selected to measure project outcomes; and iv) confirmation that these data are available.

NSOs demonstrated the weakest evaluability among all of the project groups, with challenges observed with respect to: i) the sufficiency of data to justify the development rationale; ii) presentation of a coherent vertical logic; and iii) identification of credible indicators to assess project outcomes.

Furthermore, 75% of NSOs demonstrated a lack of alignment between the development rationale in the PAR, the ADOA and the results framework. **This lack of alignment was reflected in emphasis placed on "marginal" outcomes in the project rationale and logframe, whereas other relevant development outcomes were not measured systematically.** Logframes often neglected the following outcomes: i) infrastructure-related results; ii) supply chain development; iii) regional trade and integration; and iv) longer-term loan maturity.

Evaluation Findings – The Bank's Procedural Framework for Quality at Entry

The Bank's procedural framework for quality at entry was examined from three perspectives. First, consultations with comparators identified five key factors underlying the effectiveness and efficiency of project preparation and appraisal, including: i) risk-based differentiation; ii) contestability; iii) independence; and iv) verification. The Bank's existing process was compared to those of comparators with respect to these factors.

Secondly, IDEV examined the extent to which the existing preparation and appraisal process, as designed, is capable of contributing to strategic decision-making. To this end, the process was assessed against a Business Process Maturity Model for Risk Management processes inspired by the Information Security literature.

Finally, the institutional context was examined to determine the extent to which the Bank demonstrates key characteristics of an enabling environment for quality at entry. Specific factors examined include: i) clarity of roles and responsibilities; ii) tools and systems; iii) capacity and training; iv) resources; v) incentives; and vi) consequence management.

To what extent is the Bank's preparation and appraisal process efficient, effective and fit-for-purpose?

Relative to comparators, the Bank's procedural framework for quality at entry demonstrates fewer characteristics that promote the efficiency and effectiveness of project preparation and appraisal. With respect to cost-efficiency, the Bank's processes do not differentiate among operations on the basis of risk, with the exception of the final clearance stage. However, unlike comparators, projects of different risk profiles produce the same number of milestones and are subject to the same number of reviews. Additionally, the Bank's preparation and approval process involves a larger number of sequential reviews and clearance stages relative to comparators.

Whereas the Bank demonstrates a similar time for project appraisal and time to first disbursement to comparators, these data do not provide a good indication of cost-effectiveness. Contrary to the assumptions underlying current corporate KPIs, time for project appraisal and time to first disbursement were not found to be related to project quality at entry or implementation progress. The data suggest that it is more important to ensure that project appraisal addresses the factors that predict performance and that disbursement supports meaningful implementation progress.

With respect to effectiveness, the Bank currently lacks mechanisms to promote contestability, independence and verification relative to comparators. First, although staff from different sectors and functions may be implicated at each review stage, the ultimate decision to clear a project rests with the concerned sector or country/regional team. By contrast, some comparators leverage inclusive meetings chaired by a neutral party to review proposed projects and encourage dissent.

Whereas each comparator had an independent unit responsible for the reviewing and advising on the quality at entry of sovereign operations, the Bank has lacked a similar function since the decentralization of the Readiness Review to Country Program Officers in 2015. The Operations Quality

team (SNOQ) now acts as the independent curator of standards only.

Finally, in contrast to comparators, the Bank does not have a mechanism to systematically verify that feedback on quality at entry provided throughout preparation and appraisal is addressed prior to the approval of an operation. This finding is supported by the observation that approximately half of the comments provided through the peer review, Readiness Review and Country Team Meeting are addressed in a verifiable way.

With respect to process maturity, the Bank's preparation and appraisal process was found to be operating at a "standardized" level.

The preparation and appraisal process is clearly documented in the Operations and Business Manual and clear standards exist for the implementation of certain review tools, including the Readiness Review, ADOA and Credit Risk Review. However, the Bank lacks an integrated system for managing project preparation and appraisal data to support strategic decision-making. Furthermore, gaps in the standardization of the peer review and Country Team Meeting have limited the effectiveness of these tools such that approximately 1/3 of the feedback provided is not relevant to project quality at entry.

To what extent does the Bank possess and enabling environment for quality?

The Bank currently lacks an enabling environment for quality at entry, demonstrating gaps with respect to: i) the use of integrated systems to manage operations data; ii) evidence-based budgeting and management of project preparation; iii) provision of training and support to operations staff; iv) ensuring consistent and appropriate allocation of staff to operations; and v) consequent management and incentives for quality.

Particular challenges were observed with respect to resource allocation and the management of project preparation. First, the project brief is not being used to assess the time and resources required to bring each project to maturity and identify corporate benchmarks for project preparation. Furthermore, project preparation funds are not being leveraged

systematically to address weaknesses in RMC capacity for project preparation and ensure that new projects are supported by the required data and preparatory studies. Finally, operations staff throughout the project preparation “ecosystem” demonstrate heavy workloads, with the Bank demonstrating a project to task manager ratio that is higher than that of comparators and also highly variable.

These constraints were found to have tangible implications for project quality at entry and the effectiveness of the project preparation and appraisal process. Deficits in the management of project preparation has contributed to nearly half of all projects being approved in the fourth quarter of each year. Projects approved in Q4 were found to have poorer quality at entry and a reduced likelihood of achieving project outcomes.

Additionally, staff do not have the time to properly conduct thorough project reviews, limiting the quality of feedback provided through existing review mechanisms. With the intense workload and time pressure created by emphasis on project approvals, staff are less likely to devote time to ensuring feedback on quality at entry is incorporated so long as corporate KPIs continue to emphasize the volume of approvals rather than the quality and performance of operations.

Evaluation Recommendations

Based on the evaluation findings and conclusions, IDEV identified the following recommendations for management to consider in addressing the key challenges that were observed.

Recommendation 1 – The review tools: Enhance the relevance and effectiveness of the Readiness Review and Peer Review by:

- Adjusting the content of the Readiness Review to reflect factors shown to influence project performance, including evaluability, economic analysis, implementation readiness and risk management.
- Increase the independence of the Readiness Review and Peer Review by mandating

an ‘arms-length’ unit to coordinate both processes.

- Develop detailed terms of reference and selection criteria for technical peer reviewers.

Recommendation 2 – The quality assurance review process: Increase the effectiveness and efficiency of the quality review process by:

- Identifying approval ‘tracks’ to differentiate among operations on the basis of risk.
- Reducing the number of steps that are sequential, in favor of a single meeting in which all QA inputs are considered.
- Providing task managers with more systematic quality enhancement support, particularly for projects that fail to meet quality standards.
- Identifying and allocating the required resources along the preparation “ecosystem” to support the effectiveness of the review process.

Recommendation 3 – Counterpart readiness: Improve RMC readiness and capacity for Public Investment Management by:

- Identifying RMC capacity deficits during project identification, with mechanisms for providing additional support as required throughout preparation and appraisal.
- Identify countries where counterpart readiness is a consistent obstacle to project design and implementation and offer programs of support to address these constraints and complement development of the IOP.

Recommendation 4 – Planning and budgeting: Strengthen the Bank's IOP and resource allocation for project preparation by:

- Enforcing the project brief and enhancing its content, including clear criteria for inclusion of projects in the preparation pipeline and allocation of resources (time and budget) for preparation.

- Identifying an integrated platform for managing the project pipeline, including identification, preparation and appraisal.

Recommendation 5 – Business development: Increase the use of project preparation facilities to promote project quality at entry by:

- Ensuring staff are sensitized and encouraged to use these funds to support the identification and implementation of the IOP, including ESW.
- Increasing the total funds and maximum allocation for the PPF, MIC-TAF and other sources of funds.
- Diversifying the approved use of preparation facilities to reduce transaction costs and address systemic constraints to project preparation.

Recommendation 6 – Staffing and training : Enhance the capacity of staff to manage projects effectively by:

- Introducing a comprehensive and mandatory training program for all task managers.
- Identifying benchmarks for the number of projects per task manager and allocating resources appropriately. These benchmarks should reflect the different workloads associated with the preparation and supervision of operations.

Recommendation 7– Incentives and resources: Strengthen incentives for portfolio quality in addition to approvals by:

- Identify meaningful indicators of quality at entry with a demonstrated relationship to project implementation progress and monitor these indicators over time.
- Including indicators of quality at entry and pipeline development among the Bank's corporate KPIs.

Recommendation 8 – Quality at entry of NSOs: Identify a framework for reinforcing the evaluability of non-sovereign operations by:

- Assessing the evaluability of NSOs in addition to their potential development outcomes, including the identification of a clear and substantiated intervention logic and credible performance measures.
- Identifying a quality enhancement mechanism to strengthen the development rationale and intervention logic of NSOs, particularly for projects demonstrating weak evaluability.

Recommendation 9 – Credit risk of NSOs : Strengthen mechanisms for verifying the mitigation of credit risks for non-sovereign operations by:

- Implementing a readiness filter for project finance and corporate loans to provide good practice guidance to investment officers and inform the review process.
- Reinforcing the role of credit risk officers in ensuring that key risks are adequately addressed and enforced in loan agreements.

Recommendation 10 – Corporate governance risk of NSOs: Increase emphasis on corporate governance risks among non-sovereign operations by:

- Re-engaging with the DFI Working Group on Corporate Governance and provide training to investment officers on corporate governance issues.
- Identifying Technical Assistance Funds devoted to corporate governance issues for NSOs, particularly for operations involving lower-tier banks.
- Leveraging Technical Assistance more systematically to mitigate corporate governance risks prior to disbursement of a loan and monitoring performance on the basis of changes in behavior. ■



About this Evaluation

This report presents findings, conclusions and recommendations from IDEV's Evaluation of Quality at Entry (QaE) of the Operations of the African Development Bank Group ("the Bank"). It covers all sovereign and non-sovereign operations (NSOs) approved between 2013 and 2017. The main objectives of the evaluation were (i) to assess the QaE of the Bank's operations against an evidence-based standard; (ii) to examine the extent to which the Bank's conceptual and procedural framework for quality influenced the QaE of new operations as well as strategic decision-making; and (iii) to derive recommendations to inform the Bank's forward-looking quality agenda.

The evaluation responds to persistent challenges that have been observed over the years with respect to QaE, which have lessened the impact of the Bank's operations. The evaluation used a mixed-methods design that was both formative and theory-based. Evaluation findings drew from several sources of information (document reviews, interviews of Bank staff, clients and comparator institutions, site visits) and applied both qualitative and quantitative analytical methods. The evaluation team also developed an innovative tool which represents an evidence-based standard for QaE based on the best practices of comparator organizations and which can predict the likelihood of projects achieving their expected outcomes.

The evaluation revealed that the existing Bank QaE tools for sovereign operations do not distinguish projects based on their likely performance, and that the existing procedural framework for QaE does not systematically assess some of the crucial contextual factors such as the capacity of the borrower's project implementation unit. In regard to NSOs, the Bank's conceptual framework for QaE is aligned with those of comparators on many aspects except on evaluability and the effect of NSOs on private sector development. Other challenges were observed with respect to differentiating projects on the basis of risk, mechanisms for contestability, independence and verification, and the Bank's enabling environment for QaE. A number of recommendations were made to the Bank that touched upon the review processes and tools for quality assurance; member country readiness; planning and budgeting; business development; staff capacity; incentives and resources; and credit as well as corporate governance risk of NSOs.



IDEV

Independent Development Evaluation
African Development Bank

African Development Bank Group
Avenue Joseph Anoma, 01 BP 1387, Abidjan 01, Côte d'Ivoire
Phone: +225 20 26 20 41
E-mail: idevhelpdesk@afdb.org

