
Executive Summary
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Introduction

This report summarizes the findings, conclusions and recommendations of the independent evaluation of Quality Assurance across the Project Cycle for both public and private sector operations of the African Development Bank Group (the Bank), during the period 2012–2017. It builds upon the two stand-alone evaluations of Quality at Entry and Quality of Supervision and Exit. It also analyzes the quality assurance processes for compliance with the Bank’s Environmental and Social Safeguards (ESS). The evaluation is based on a sample of operations over UA 1 million, excluding emergency and equity operations.

Quality assurance (QA) at the project level is one of the most important drivers of development impact. The “Bank’s Quality Assurance Framework” is a series of reviews that the Bank carries out to ensure quality of the portfolio at each stage of the project cycle. Previous institutional assessments have shown that one weak link can impact the integrity of the entire QA chain. The evaluation responds to persistent challenges observed over the years with respect to the quality at entry and quality of supervision of the Bank’s operations.

This evaluation is particularly timely given the ongoing initiatives to reform the Bank’s corporate processes. It is expected that the evaluation findings will inform the Mid-term Review (MTR) of the African Development Fund 14. The evaluation examines the relevance, efficiency, effectiveness, and institutionalization of the Bank’s QA framework across the project cycle. It addresses four broad institutional questions that are used to articulate the findings, namely:

- Whether individual QA processes are fit for purpose and operating as a coherent system;
- What is the level of compliance with Bank’s existing quality assurance standards;
- Which factors facilitate or constrain the application of the framework as designed; and
- To what extent is the QA framework contributing to risk management, the achievement of development results, and organizational learning.

Evaluation Findings

The Bank has recently undertaken reforms related to quality assurance and development effectiveness in order to improve project quality and the likelihood of achieving results. The evaluation assessed the direction of travel of these reforms as positive. Nevertheless, the evaluation identified certain gaps in relation to best practices, both before Board approval and during the implementation and closing of projects. It also found challenges in adherence to the existing Bank procedures, and proposes recommendations to reinforce the system. The evaluation also makes recommendations to strengthen key internal and contextual factors that interact with the Bank’s Quality Assurance system.

Is the Bank’s QA framework fit-for-purpose and aligned to best practices?

The Bank’s project preparation and approval processes do not differentiate projects on the basis of risk, with potential implications for resource allocation. The Bank differentiates projects on the basis of risk only at the final clearance stage, whereby large or higher-risk operations must be reviewed and cleared by the Operations Committee (OpsCom). Comparators, on the other hand, have established separate systems to approve high and low risk interventions, the latter with fewer reviews.

The Bank’s current QA framework shows gaps in key dimensions identified as best practices to ensure the effectiveness of the QA processes, viz. independence, contestability and verification. Unlike most comparators, the Bank does not have an independent group that critically reviews and provides feedback and advice on the quality of projects before approval. In addition, there is no clear guidance to ensure broad participation of different functions of the
organization to ensure quality of operations, including those not involved in the preparation of a certain project. Across both sovereign and non-sovereign operations, the Bank lacks a systematic means to verify that feedback is incorporated or addressed adequately. The quality control of Implementation Project Reports shows gaps in the review and validation by sector managers.

The current system of QA at the Bank lacks the support of integrated data systems across the project cycle. This limits the extent to which this data can be used to inform strategic decisions. Good practice requires that QA processes operate in an integrated manner to ensure that information generated at each stage is carried forward to the next stages and informs new operations.

The existing Quality at Entry tools for public operations do not sufficiently capture the dimensions of project quality emphasized by Bank staff, comparators and the literature review: i) evaluability; ii) economic analysis; iii) implementation readiness; and iv) proactive risk management. These dimensions were used to create a Best Practice Standard (BPS) tool to identify an evidence-based threshold at which projects had a likelihood of 0.65 of achieving their expected outcomes. The evaluation found that a composite score of evaluability and implementation readiness is a significant predictor of public investment projects’ performance. However, these factors are currently averaged with other dimensions in the existing Bank tools. Therefore, existing Quality at Entry tools for public sector operations do not sufficiently target factors that predict the extent of project outcome achievement.

For private sector operations, the Bank’s practices for selecting and appraising operations are aligned with those of comparators. However, comparators are increasingly emphasizing the evaluability of projects. The Bank’s existing credit risk framework is relevant, such that the number of unmitigated risks predicts the occurrence of negative project outcomes.

Supervision policies and guidelines are considered relevant, but some further adjustments are needed. Recent reforms have improved the alignment of the Bank’s QA framework with comparators. The Bank’s decentralization may require further guidelines and fine-tuning to ensure a common understanding of new roles and responsibilities. In addition, it would be advisable to adapt certain supervision tools to different types of Bank operations, in particular multinational and multi-donor operations and operations in fragile situations, as the comparators are already doing.

The Bank’s overall approach to public sector project supervision is not sufficiently proactive, despite significant advances in portfolio monitoring. Recent quality assurance tools, such as the Portfolio Flashlight and the Portfolio Delivery Dashboard reviews, are helpful in raising alerts and providing information to senior management about portfolio progress. Nevertheless, the project supervision frequency is only increased once projects are identified as problematic.

The private sector department of the Bank follows a risk-based approach to supervision, which is assessed as relevant to its context and well aligned with comparators. In addition to regular project supervisions performed by portfolio officers and close monitoring by the credit risk team, the Special Operations Unit provides solutions to highly distressed operations. Nevertheless, the decision points and timeline in the case of problematic projects could be better defined.

For both public and private sector operations, the Bank’s efforts in the management of Environmental and Social risks are still heavily concentrated before project approval. The ESS support function at the Bank has been significantly under-resourced and staffing levels are lower than comparator organizations, which have bigger teams specialized in public and private sector operations. Comparators are increasing their resources for the monitoring of effective implementation of the environmental and social (ES) mitigation measures agreed with the borrower.

What is the level of compliance with the Bank’s existing quality assurance standards?

Regarding the adherence to current procedures, project briefs are not completed consistently, with implications for resource allocation for project preparation. This is a key milestone for the identification of public sector projects, as well as assessing the time and resources required to bring projects to maturity and identifying corporate benchmarks for project preparation. Comparators use tools such as budget preparation coefficients (WB), to identify resource requirements for project preparation based on key characteristics and pipeline management.
The evaluation identified certain compliance issues during implementation, but also improvements in some dimensions over time. The ideal frequency and team composition of missions proved to be challenging with current staff allocation. However, the evaluation noted an increase in the frequency of supervision of problematic projects. MTRs are not performed systematically to address projects where major changes are required. Other organizations have created incentives to make project restructuring and cancellation terms more flexible. Timeliness issues were identified in the elaboration and validation of completion reports, with recent management efforts to clear a backlog of Project Completion Reports.

More efforts need to be made to ensure that the new Integrated Safeguards System (ISS) is fully applied to Program-Based Operations (PBOs). Strategic ES impacts potentially derived from the PBOs reforms are not fully identified at appraisal, as is expected by the ISS, approved in 2013. PBOs are assumed to have no adverse ES impacts (category 3 projects). This represents a missed opportunity to support countries to transition to green growth paths through sector reforms.

Which factors facilitate or constrain the application of the framework as designed?

Implementation progress during preparation and appraisal of projects. The QA framework at the Bank recognizes that the main responsibility for the quality of design and implementation resides with the borrower, while the AfDB has a supporting role. The evaluation revealed that the strength of the Regional Member Countries’ Public Investment Management System and borrowers’ capacities (project implementation units) influences project performance. The limited assessment of these factors jeopardizes the capacity of the Bank to identify the need to provide additional support for project preparation and implementation. The existing Project Preparation Facility (PPF) and TA funds are not used strategically to complete key studies and build the Bank’s pipeline of public and private sector projects. The comparators are expanding the use of preparation facilities, and making repayment provisions more flexible.

In terms of internal capacity, the evaluation found inconsistent allocation of staff to operations, and non-standard training and support to staff to perform their role. The Bank presents a high project-to-task manager ratio in comparison with similar organizations, with an unequal distribution across sectors and regions. It lacks a comprehensive induction program and guidance to support staff.

The number of QA ecosystem staff supporting projects, such as risk and legal specialists, ADOA team, fiduciary staff, and ESS experts, is not commensurate with the growth of the portfolio. Nearly half of all projects in the evaluation sample were approved in the fourth quarter of each year. They were found to have poorer quality at entry and a reduced likelihood of achieving project outcomes. The bunching of approvals and field supervision missions at the end of the year puts additional strain on staff.

The articulation of responsibilities for project supervision among team members is not fully clear. Task Managers are responsible for project supervision, but support received from other Bank staff could be enhanced to ensure team members remain accountable across the project cycle. Comparators such as IFAD and the World Bank have created initiatives to strengthen support to task managers dealing with risky and complex projects to ensure risk-based monitoring and problem-solving.

Nearly all stakeholders noted the importance of incentives in ensuring the quality of projects, particularly with respect to results delivery. The fact that Key Performance Indicators (KPIs) are linked to approvals and disbursement creates unbalanced incentives for Bank staff, favoring approvals over quality designs, and disbursement over achievement of development outcomes (DOs) and capturing key lessons.

To what extent is the QA framework contributing to project risk management, the achievement of development results and promoting learning across the Bank?

There is a significant distance to best practice with respect to risk management for public sector operations. Key weaknesses at appraisal are related to prioritization of risks and the identification of mechanisms to monitor, reassess and take required actions if certain risks materialize. There is room for improvement in effectively addressing public sector
project implementation challenges in real time. Similarly, most of the project completion reports (PCRs) in the sample identified risks to sustainability but did not provide sufficient information about the mitigation measures taken.

**The quality of investment projects and PBOs before approval has not changed significantly over 2013–2017, when applying the IDEV best practice tool.** However, the maintenance of the same level of design quality can be considered a good result considering the extraordinary circumstances the Bank went through during the evaluation period. Furthermore, approximately 50% of projects approved each year did meet the IDEV best practice threshold for quality at entry.

**Public sector operations showed some improvement in capturing outcomes, but the mechanisms to ensure credible reporting need to be reinforced.** The evaluation found some good practices in building the Borrowers’ capacities to monitor projects. More efforts are however required to systematize the practice. The limited completion data of validated sample PCRs show that self-assessment of the Bank’s projects during completion was satisfactory overall for 63% of projects in 2014 and 73% in 2015. Similarly, the level of disconnect between self-assessment ratings and the independent validations has improved over these years, from 22.5% to 14% (although this is still above the Bank’s quality assurance target of 10%).

**PCRs are not yet fully performing their function of recording lessons learned.** This finding resonates with a review of recently validated PCRs, which showed an increased rejection rate of lessons learned in IDEV validations during 2014–2015.

**The management of risks of private sector operations is rated low at entry and during implementation, according to the review of the the Bank’s project appraisal and supervision documents.** Most of the 50 non sovereign operations (NSOs) reviewed were found to carry at least one credit risk that was not addressed at the time of approval or for which no relevant Condition Precedent for Signature or Disbursement was proposed. Comparators such as IFC and IDB Invest now have corporate governance teams to proactively address these issues. The majority of recommendations of previous field supervision missions were not fully addressed in a timely manner according to the desk review of projects.

**Private sector operations were found to be less evaluable than investment projects and PBOs.** Identified weaknesses suggest that although the potential development impact of a project is identified, NSOs are not designed to credibly and comprehensively measure their potential DOs. The evaluation also found a weak alignment between the project development rationale, the ADOA and the Logframe, suggesting limited prioritization of DOs.

**For private sector operations, the Monitoring and Evaluation (M&E) and reporting capacities of clients need strengthening, especially for financial sector projects.** The interface with clients has not been ideal in many projects, especially in helping clients on results reporting. Supervision reporting is excessively focused on administrative and fiduciary issues, with lesser attention given to development results. The maturity period of private sector operations was found to be key to decide the timing to prepare the completion report (XSR) to be able to capture DOs.

**The evaluation found a lack of incentives for NSOs to optimally assess and learn lessons from the Bank’s contribution to private sector development.** Once an acceptable rating of potential development impact has been obtained, there is little incentive to further enrich the development argument and thus better articulate a project’s contribution to more strategic private sector development impacts. In addition, the Bank does not have a dedicated team to support the tracking of DOs’ progress.

Based on these findings and conclusions, IDEV identified the following recommendations to strengthen the current Quality Assurance framework and to address the challenges observed:

**Recommendations**

**Recommendation 1 – 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 before project approval;
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 and supervision “ecosystem” to support the effectiveness of review processes.

Recommendation 2 – 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 Indicative Operational Program, including Economic Sector Work (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 3 – Planning and budgeting:
Strengthen the Bank’s IOP and resource allocation for project preparation and supervision by:

- Enforcing the project brief and enhancing its content, including clear criteria for the inclusion of projects in the preparation pipeline and allocation of resources (time and budget) for preparation;
- Developing an integrated and automated management information system across the project cycle to foster accountability and to improve access to data to inform strategic decisions.

Recommendation 4 – The review tools at entry:
Enhance the relevance and effectiveness of the Readiness Review and Peer Review by:

- Adjusting the content of the Readiness Review to reflect 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 5 – Quality 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 6 – 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 7 – Corporate governance risk of NSOs:
Increase emphasis on corporate governance risks among non-sovereign operations by:

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

Recommendation 8 – 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 the project cycle;

- 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 Indicative Operational Programme.

**Recommendation 9 – Proactive project management:** Improve management of risks and project performance by:

- Ensuring alignment of project level supervision with portfolio monitoring to provide appropriate support to problematic projects, and address challenges in the implementation and achievement of results;

- For public sector operations, promoting a proactive approach to project supervision according to the project type and risk exposure established at pre-implementation stage;

- Specifically for private sector operations, strengthening project supervision with special missions to monitor outcome reporting over the lifecycle of the project;

- Reviewing the PCR through formal validation meetings in order to create a space for contestability and clear articulation of lessons.

**Recommendation 10 – Compliance with Bank’s rules:** Ensure adherence with quality standards for supervision and completion:

- Reinforce quality control mechanisms for project supervision reporting and follow-up;

- Establish clear guidance and performance criteria for monitoring and supervision practices within the Bank’s Regional Offices and across the respective Country Offices;

- Adopt early planning of project completion through the last supervision mission to ensure appropriate resourcing and improved performance;

- Streamline supervision reporting tools to reduce duplication of content, number of required reporting and ensure differentiation by operation type to maximize usefulness;

- Strengthen the project-supervision instruments to improve development outcomes reporting with special missions within the lifecycle of the project.

**Recommendation 11 – 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 12 – Incentives:** Strengthen incentives for portfolio quality by:

- Identifying meaningful indicators of quality at entry with a demonstrated relationship to project implementation progress and monitoring these indicators over time;

- Including indicators of quality at entry and pipeline development among the Bank’s corporate Key Performance Indicators (KPIs);

- Establishing measures to link indicators of QA for supervision with the performance assessment of Task Managers and managers.
About this Evaluation

This report presents the findings, conclusions and recommendations of the independent evaluation of Quality Assurance across the Project Cycle for both public and private sector operations of the African Development Bank Group (the Bank), during the period 2012–2017.

The evaluation seeks to determine the extent to which the Bank’s quality assurance (QA) processes are appropriate; comply with QA standards; address risk management; and contribute to organizational learning as well as to the achievement of development outcomes. Its results are expected to inform the ongoing reforms of the corporate processes at the Bank. The evaluation builds upon two stand-alone evaluations: i) Quality at Entry and ii) Quality of Supervision and Exit of Bank Group Operations. It also analyzes the quality assurance processes for compliance with the Bank’s Environmental and Social Safeguards (ESS).

The evaluation assessed as positive the direction of travel of the recent reforms undertaken by the Bank related to QA and development effectiveness. However, some gaps were noted in the QA framework in relation to best practices, such as in applying the dimensions of independence, contestability and verification. It also noted challenges in adhering to existing Bank procedures, like inconsistent use of project briefs and mid-term reviews. The evaluation noted a high project-to-task manager ratio, compared to similar organizations, and that the number of specialist (risk, legal, fiduciary, ESS) staff to support QA was not commensurate with the growth of the Bank’s portfolio.

The evaluation makes various recommendations to the Bank to enhance its QA system. These include reducing the number of required steps in the review process, while enhancing the relevance and effectiveness of the various reviews, setting differentiated pathways for the approval of operations based on risk, and strengthening resource allocation and incentives for project quality at entry, supervision and completion. It also makes recommendations to strengthen contextual factors that interact with the Bank’s quality assurance system, such as improving the readiness of regional member countries and their capacity for public investment management.