AFRICAN DEVELOPMENT BANK GROUP

Project Supervision at the African Development Bank 2001–2008

An Independent Evaluation

Final Report

OPERATIONS EVALUATION DEPARTMENT
(OPEV)

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ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
ADF-X	Tenth General Replenishment of the African Development Fund
ADF-XI	Eleventh General Replenishment of the African Development Fund
ADB	African Development Bank (referring to ADB funding window)
APPR	Annual Portfolio Performance Review
CDW	Corporate data warehouse
CPR	Country portfolio review
CPAR	Country procurement assessment review
CIMM	Department for Information Management and Methods
EAR	External audit report
FFCO	Department of Financial Control
FNVP	Finance Complex
GECL	General Counsel and Legal Services
IADB	Inter-American Development Bank
IT	Information technology
KPI	Key performance indicator
OAGL	Office of the Auditor General
OM	Operations Manual
OPEV	Operations Evaluation Department
ORPC	Department for Operations Policies and Compliance *(before July 2008)* Department for Operational Resources and Policies *(since July 2008)*
ORPF	Department for Procurement and Fiduciary Services
ORQR	Quality Assurance and Results Department
OSAN	Department for Agriculture and Agro-industry
OSGE	Department for Governance, Economic and Financial Reforms
OWAS	Department for Water and Sanitation
M&E	Monitoring and Evaluation
MTR	Mid-term review
PAR	Projects at risk
PBL	Policy-based loan
PCR	Project completion report
POPR	Operations, Policies and Review Department
PP	Problem projects
PPP	Potential problem projects
PPRU	Procurement Unit *(until 2006 reorganization)*
QPR	Quarterly progress report
RMC	Regional Member Countries
SAP	System of Applications and Products
SAP PS	SAP projects database and management system
SPR	Sector portfolio review
SWAp	Sector wide approach
TFIR	Task Force for Institutional Reform
UA	Units of account

EXECUTIVE SUMMARY

1. Project supervision can play a key role in achieving development impact, through pro-active problem solving and trouble shooting, a focus on results and long-term development objectives, and smart management of risks. Since the landmark "Knox Report" of 1994, several reports and evaluations on project supervision have pointed out strengths and weaknesses in the Bank's project supervision, including an OPEV evaluation on supervision in 1999. While marginally improving in recent years, project supervision still faces an uphill battle at the Bank. The Bank is certainly doing or at least trying to do many of the right things, but needs to adjust its supervision concept to new realities and demands, and to its budget and project realities. The Bank needs to perform better in carrying out supervision effectively and to good quality standards. More often than not, key information on project performance from supervision and other sources is not widely known, accessible, and communicated well: largely because the electronic data management system for project information at the Bank is ineffective.

2. Bank Management has already recognized the need to enhance supervision and made new commitments under ADF XI in December 2007. Since then, the Bank has taken several actions, including the establishment of a Presidential working group on development results in June 2008 that included a review of supervision. Several institutional key performance indicators now specifically refer to enhanced supervision. OPEV hopes that this evaluation will add value to a stronger results-orientation at the Bank by providing evidence on supervision performance, its constraints and potential, based on a comprehensive review of supervision data and extensive staff surveys.

Summary of findings and conclusions

3. The evaluation examined the relevance, performance and information systems of project supervision for public sector projects at the Bank[1]. The main findings and conclusions can be summarized as follows.

Relevance

(1) Supervision policies and guidelines at the Bank, as formulated between 1999 and 2002, were by and large relevant, clear, and well defined. But the institutional arrangements for supervision were less well defined and organized. The interaction, communication, and pooling of supervision findings of the various departments with responsibilities for project supervision were not well established. The Department for Operations Policies and Compliance (ORPC) was mandated to provide supervision guidance and oversight but lacked the capacity to facilitate effective interaction[2]. Its capacity was further diffused by ORPC's broad work portfolio and several reorganizations.

[1] Private sector projects were not covered by this evaluation as they follow different policies, guidelines, and conventions.
[2] In 2008, a newly created department took on this mandate: the Quality Assurance and Results Department (ORQR).

(2) Responsibilities in supervision were not established with sufficient clarity within a multi-disciplinary team approach, across departments and complexes. Results-oriented supervision currently rested on too few shoulders, overburdening project task managers.

(3) Results and risks were and are not sufficiently addressed in supervision policies and practice. Managing risks is an important part of managing for results, yet the Bank does not have a clear concept or practice of project risk management. The current instruments and institutional capacity of the Bank to track, report, and respond on project risks are insufficient. Monitoring and evaluation at project and country level continue to be weak areas as many regional member countries (RMCs) still have limited capacity for effective monitoring and for consistent collection of reliable data.

(4) The existing supervision policies and institutional arrangements are not fully relevant for current and future Bank requirements, given successive organizational changes within the Bank over the past decade. The concept and paradigm of project supervision at the Bank is not up-to-date. A revised supervision policy would have to take account of gradual shifts from a centralized system to a field-based arrangements; from reliance upon a single task manager to a team approach; from the focus on a single supervision instrument (ie. periodic field missions) to an approach integrating a range of instruments; from an administrative and fiduciary focus to a focus on managing risks and achieving results; and from a single agency approach to a concept of partnership with other development agents, particularly within co-financed projects.

Performance

(5) The performance of supervision has improved marginally over recent years and the number of Bank supervision missions to the field does show an upward trend over time, particularly since 2004 when the Bank made commitments on supervision in ADF X. Yet supervision remains overall unsatisfactory. Although Operations carry out on average about 1.5 periodic supervision missions per project each year, about 20 percent of projects do not receive any supervisions in a given year and many projects are under-supervised. The Bank does not focus enough on risky projects and projects with problems which are likely to translate into poor quality and weak results.

(6) The use of other supervision instruments, beyond periodic supervision missions, is low. Although there has recently been a dramatic improvement in timely submission of Project Completion Reports (PCRs), the frequency and quality of launching missions, mid-term reviews, and country portfolio reviews has been patchy. Borrower compliance with external audit requirements is weak. The contribution of these instruments to an integrated, results-oriented supervision system could be substantially improved.

(7) The fundamental factors that continue to affect supervision performance at the Bank include (i) a persistent approval culture and incentives stacked towards that end, while the overall accountability for results remains low; (ii) portfolio fragmentation and a large number of aging projects, despite recent improvement

in this area; (iii) shortage of dedicated administrative funds for project operations and a high ratio of projects to task managers, with task managers receiving little team support; and (iv) a weak support system in terms of electronic data base management and supervision guidance.

(8) Frequency of supervision missions matters, but quality standards are equally important in supervision. Quality standards are currently not well defined, monitored, and enforced.

(9) In policies or in practice the Bank does not explicitly and sufficiently differentiate supervision by project type and risk category. It also does not account for the special requirements of multi-donor operations. The frequency of supervision and the choice of instruments should be determined according to specific project characteristics and demands, for instance in proportion with size and risk exposure.

(10) The project performance ratings system for ongoing projects is highly deficient. Current supervision indicators and ratings cannot be credibly used to measure results or monitor the major project risks.

(11) Supervision recommendations are not followed up well. This includes the follow-up on back-to-office and supervision reports, the discussion of such reports in country teams, the timely conveyance of supervision follow-up recommendations to the borrowers, and tracking of borrower response. The SAP project system is currently not effective in supporting follow-up.

(12) Supervision is clearly under-resourced. The inadequate frequency, duration, skills mix, and overall quality of supervisions are testimony to this. Moreover, resources going into supervision are not transparent. Potential savings in supervision through decentralization and smarter project design (less complex projects, with better-defined objectives) are not tapped. In the end, better resourced and more effective supervision is likely to lead to savings far in excess of the cost of additional short-term inputs.

Information

(13) The electronic data and management information system for projects within the Bank, the SAP projects system, is highly unsatisfactory. The system is currently not sufficiently reliable to monitor the performance of the Bank's projects in "real time" at each level of the Bank's institutional hierarchy. It takes management more time than necessary to acquire accurate information on the status of the portfolio at any given point in time. Among others, this causes major problems for the production of Annual Performance Progress Reports (APPR), the Bank's Annual Reports, or the aggregation of up-to-date data at the level of complexes and their utilization for independent evaluations.

(14) The availability of up-to-date and reliable information on projects at all levels of management is low. Data in the SAP projects system is often of poor quality and reliability, and often not up-to-date. The system is poorly linked with other electronic data systems at the Bank, such as those on finance or workflow.

Inadequate interface, technical sophistication, and user-friendliness of the system, as well as quantity and quality of training and technical support affect performance. The limited effectiveness and accessibility of the SAP project system contribute to lack of transparency in the sharing of project and supervision information, undermining effective project and portfolio management. There is no central project information hub which could facilitate team work on projects. To tackle these and other issues, the Bank has recently established an interdepartmental working group to upgrade SAP with a particular emphasis on project management.

Recommendations

4. Despite some recent improvements, the Bank is unlikely to achieve acceptable standards of project supervision, even with good intentions and policies in place, unless some major steps are taken. This includes the setting of clear targets for the required reforms, with regular monitoring and progress reporting to top management. As priorities, the evaluation recommends the following:

(1) The Bank should pay more attention to results and risks in supervision policies and institutional arrangements, particularly in terms of integrating these aspects into operational guidelines and everyday supervision practice.

This should particularly include the development of a comprehensive concept of project risk management at the Bank. An efficient and effective results-based supervision system must be first and foremost risk-based. Secondly, consistent efforts are required, particularly at country level, so that project-level monitoring and evaluation systems function more effectively to ensure the performance of the broader results system.

(2) The Bank must develop an appropriately resourced project supervision system with better integration supervision instruments and activities, while ensuring differentiation by project type and phase.

This entails an expansion of team work in supervision, more decentralization to the field, and better integration of the various supervision instruments. The frequency and quality of supervision instruments beyond regular periodic missions must be enhanced, particularly of launching missions, mid-term reviews, and external audit reports. Supervision policy and practice should be better brought in line with the requirements of different project categories and project cycle phases; and in proportion to project size and risk exposure. Supervision guidance and oversight need more attention. The Bank must determine an appropriate resource envelope for supervision, in line with policy requirements, and needs to better monitor the resources expended on supervision on the basis of full-cost accounting.

(3) The Bank needs to pay more attention to the quality of supervision and the quality of follow-up on supervision recommendations.

The quality of activities and inputs into the supervision process needs to be enhanced, such as the length of missions, appropriate skills mix during missions, project ratings, and staff incentives. Equal attention needs to be paid to the quality and communication of supervision outputs, in particular supervision reports and follow-up on supervision recommendations. The quality of supervision must be measurable, with clear indicators and targets that can be regularly monitored.

(4) The Bank urgently needs to overhaul and upgrade the SAP electronic project data and management information system for projects.

The SAP projects system requires urgent redesign to ensure better quality, reliability, and scope of supervision and other data; to enhance the interface and user-friendliness of the system; and to generate transparency and accessibility of important project data and documents. The SAP projects system, in conjunction with the Data Warehouse System, should be developed into a central hub to serve the various project and portfolio data needs and management functions at the Bank, particularly to support follow-up of supervision recommendations.

1. Why supervision is important and why we evaluated it

1. Supervision can play a key role in achieving development results and impact, through pro-active problem solving and trouble shooting, a focus on results and long-term development objectives, and smart management of risks. All major development agencies including the Bank are now fully committed to a strategic shift of staff time and money from design to implementation. Effectively investing these resources in supervision and, where needed, implementation assistance can contribute significantly to better aid effectiveness. As far back as 1982, Baum observed that *"Supervision is the least glamorous part of project work, but in several respects it is the most important. [It] is primarily an exercise in collective problem solving, and, as such, is one of the most effective ways in which the Bank provides technical assistance to its member countries."*[3]

2. This evaluation comes at a point when Management is re-considering and re-designing the project supervision system and operations manual at the Bank. The evaluation is expected to add value to this effort to become more results-oriented by providing key evidence on supervision performance, reasons for this performance, and best practices. Based on extensive data reviews and staff interviews (Box 1) the evaluation looked at three questions:

(1) Are we doing the right things in supervision? *(Is supervision relevant?)*
(2) Are we doing what we said we would do? Are we doing things right? And to good quality standards? *(How is performance?)* and
(3) Do we know how we are doing? How do we manage our information? How do we report and communicate? *(Managing information)*

The main findings and conclusions of this report are organized accordingly, starting off with a brief review of supervision over time and ongoing Bank commitments and actions.

Box 1 - Supervision evaluation approach

Activities. The evaluation consisted of three major activities:

- a comprehensive desk review of supervision systems, supervision frequency, and compliance with policies;
- a multiple-question electronic survey, focusing on evaluation quality, and applied to 300 professional Bank staff, with a 43% response rate; and
- in-depth interviews and focus group discussions with Bank staff at all levels.

Period. The evaluation covers projects that were disbursing between Jan. 2001 and Dec. 2007, plus those not yet disbursing but approved by Dec. 31, 2007. The year 2001 was selected as the starting point since the Bank's Operations Manual was redesigned in 1999, an earlier OPEV supervision evaluation was completed in the same year, and the SAP project data base commenced in 2001. The Annual Portfolio Performance Review 2008 (APPR) and informal interviews with Bank operational staff provided updated information for 2008 and 2009.

Interaction. The evaluation was designed and implemented in close consultation with the various Departments of the Bank concerned with project supervision.

[3] Baum, W.C., *The Project Cycle*, Washington, The World Bank, 1982

2. Supervision over the years and current Bank commitments

2.1 Past reviews and evaluations of Bank supervision

3. The Bank's supervision and monitoring system has evolved over time and has been given more focus ever since the Knox report drew attention to implementation effectiveness and supervision in the mid-1990s. The 1999 OPEV evaluation on supervision pointed to several deficiencies in supervision and came up with a number of specific recommendations that also serve as a benchmark for performance and improvements to this evaluation[4]. In 2004, the independent evaluation of ADF VII-IX[5] underscored that the Bank's supervision system was not sufficiently used as a tool for decision-making and that monitoring in the Bank remained in general an area of considerable weakness. Over time, the Bank reinforced and introduced new supervision and monitoring instruments and processes, at corporate and project levels.

2.2 ADF X commitments and achievements

4. The Action Plan to improve ADF Operations approved by the ADF Deputies in December 2004 called for improved skills-mix of supervision missions, the need for 1.5 supervision missions per project, and 2 supervision missions for projects with problematic performance. Mid-term reviews should ensure that non-performing operations are identified and corrective actions taken before too much implementation elapses. These goals were also reflected in the Bank's Strategic Plan 2003-2007 that aimed to create a stronger implementation culture.

Much of what is needed in supervision is well-known and straightforward, but it needs to be done fully and well. New institutional KPIs (2009) include a number of supervision indicators.

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5. During the negotiations of ADF XI Bank Management reported some progress on implementation including (i) strengthening the use of logical frameworks in project design; (ii) increasing supervision ratios; (iii) speeding up procurement processes; (iii) reducing aging and non-performing projects; (iv) lowering the share of problem and at-risk projects; and (v) expanding the preparation of project completion reports for enhanced learning[6]. Yet, the report also recognized that pace of progress was slow. Much of what needed to be done was *'well-known and straightforward—but needs to be done fully and done well'*[7]. Thus the report suggested for ADF-XI to aim at instilling a continuous supervision culture to support implementation; creating incentives for results-oriented supervision; strengthening portfolio

[4] For a summary of conclusions and recommendations from the 1999 OPEV evaluation see Annex III of Technical Report

[5] AfDB. 2004. *Stepping up to the Future: an Independent Evaluation of ADF-VII, VIII and IX*. Tunis, African Development Bank, Operations Evaluation Department.

[6] 'Results Reporting for ADF-10 and Results Measurement Framework for ADF-11. Background Paper for ADF-XI Replenishment. African Development Fund. December 2007.'

[7] 'Results Reporting for ADF-10 and Results Measurement Framework for ADF-11. Background Paper for ADF-XI Replenishment. African Development Fund. December 2007.'

management information; preparing timely project completion reports; and harmonizing internal ratings systems.

6. The Bank's 2008 Medium-Term Strategy reiterates on these aims and stresses the 'imperative of enhanced supervision and quality at entry', including the enhancement of an 'underexploited SAP system' to track operations data throughout the project cycle (Medium Term Strategy para. 2.15). The Bank's 2009-2011 Programme and Budget reflects the Bank's commitment to improve project cycle management, to enhance quality at entry, implement a results-oriented supervision culture, improve learning and accountability through ex-post evaluation, integrate results reporting into information system, and advance decentralization and harmonization for better development results on the ground.

2.3 Ongoing management efforts to enhance project supervision (ADF XI)

7. In the last two years, the Bank has taken a number of actions to enhance supervision, most importantly (1) the presentation of a report on development results by a Presidential working group in June 2008 that included proposals for supervision; (2) the establishment of an inter-departmental working group to revise the supervision report format and harmonize project performance ratings, (3) the beginning of a redefinition of responsibilities in project supervision through the new decentralization guidelines (June 2008), with a focus on stronger interdepartmental cooperation and team work and an expanded role for field offices. More responsibility for loan administration and supervision has been delegated to the Field Offices; and (4) the establishment of the Quality Assurance and Results Department (ORQR) in 2008, to ensure internal communication, coordinate implementation across complexes and liaise with shareholders and donors on quality and results-related reforms, including supervision.

8. Management set specific measures and progress indicators that were included in the Bank's key institutional performance indicators and those for reporting on ADF-XI (Table 1) Among others, by the end of ADF-XI, 50% of operations should be formally supervised twice a year; the percentage of problem projects in on-going portfolio should be reduced to 10%; and average elapsed procurement time should be reduced from 70 to 40 weeks. 15% of projects should be managed and supervised from field offices. The rate of timely project completion reporting was targeted to increase from 9% to 33%.

9. The Annual Portfolio Performance Review 2008 reports some remarkable project cycle improvements, among others an exceptional progress in the rate of PCRs that were completed on time - 96% for 2008 (up from 9%)– and an increase of the share of operations supervised at least twice a year to 46% in 2008 (up from 36%) - above the rate targeted.

10. It is clear that Management is responding to key challenges related to effective supervision and in some areas is exceeding its own targets. It will be important to maintain this momentum. However, the following chapters will show that some significant issues have not yet been addressed, and that much remains to be done to build a comprehensive supervision system able to help the Bank achieve operational results with greater efficiency and impact.

Table 1 - Key Bank Performance Indicators (KPI) for project supervision (2007/09)

	Baseline 2007/2008	Target 2009*	Institutional KPI	ADF-11 Results Indicator
Portfolio Management				
Problematic projects	14%	10%	X	X
Operations supervised twice a year	36%	50%	X	X
Supervision missions conducted jointly (Paris # 10)	16%	25%		X
Lapse of time between approval and first disbursement *(months)*	24	12	X	X
Annual disbursement rate of ongoing portfolio	18%	22%		X
Average elapsed procurement time *(weeks)*	70	40		X
Share of projects eligible for cancellation	27%	15%		X
Portfolio managed from field offices	0%	15%		X
Enhancing learning and accountability – quality at entry and exit				
Exiting projects with timely project completion report (PCR)	9%	33%	X	X
Project completion reports rated satisfactory	45%	75%		X
Projects with satisfactory baseline data at entry	37%	60%		

* Targets and baseline are for ADF XI. They slightly differ for the Institutional KPI.

3. Relevance of Bank supervision

Are we doing the right things?

3.1 Supervision at the Bank – purpose and instruments

11. The Bank's Operations Manual (OM) of 1999 is clear on the importance of project supervision. It emphasizes pro-active learning and follow-up actions on supervision to enhance development effectiveness. The Bank sees supervision as an integrated activity, carried out at each stage of the project life cycle *'that begins with loan signature and runs through the preparation of the project completion report"*. (Operations Manual 1999, Section 800 and 900, Para. 4) Bank includes loan administration during implementation in its supervision concept. Implementation assistance to borrowers and related capacity building have also been a mandate and integrated feature of Bank supervision policy over time (see Appendix 1 for some more details). Yet the premise in supervision remains that implementation of the project including the achievement of results, is primarily the responsibility of the borrowing country, while the Bank is primarily responsible for supervision. This evaluation focuses on six project specific supervision instruments, including regular periodic supervision, project launching, mid-term reviews, quarterly project reports, project completion reports, and external audits (Table 2). Several other instruments, mainly portfolio reviews, are evaluated qualitatively.

12. Ever since the Bank's 2001 reorganization the principal responsibility for project supervision has rested with the sector departments (with the exception of policy based loans until 2006 when responsibility for these was moved to OSGE). Sector task managers and their superiors are fully in charge of all aspects of project specific supervision. But other parts of the Bank play an important role in portfolio and fiduciary supervision, and increasingly so, in particular the Regional Departments, ORQR (formerly ORPC), ORPF, and OAGL. The decentralization guidelines of 2008 propose more task sharing in project implementation and supervision. They are expected to be followed up by new supervision policies soon.

Supervision policies were by and large relevant and clearly defined.
Institutional arrangements were less well defined.

3.2 Relevance of policies and guidelines

The Bank's guidelines and provisions on supervision in the 1999 Operations Manual were by and large adequate and relevant. Most are still relevant today although some updates are called for. The main supervision instruments, their purposes, and specific requirements have been spelled out in detail, and responsibilities were clearly assigned. But the evaluation also identified areas where relevance was not optimal. In particular, policies did not well take into account the great diversity of projects at the Bank, from regular investments to PBLs and technical assistance operations. In general, policies and guidelines were too ambitious for available resources and operational reality at the Bank. Policies could have provided more guidance on how to be creative and set priorities under these constraints. Also, policies and guidelines were only slowly adjusted to changing institutional commitments, eg. ADF X in 2003 and re-organization, or not at all.

Table 2 - Supervision Instruments

Project Specific Instruments			
Bank			
1	**Launching mission**	once per project cycle	Sectors
2	**Periodic supervision**	1.5 per year	Sectors
	Field mission	1 per year minimum;1.5 preferred	Sectors
	Desk review	complementary to or in place of field missions	Sectors
3	**Mid-term review (MTR)**	once per project cycle	Sectors
Bank & Borrower			
4	**Project completion report (PCR)**	once per project cycle	Sectors / Borrower
	PCR Report Borrower		Borrower
	PCR Mission PCR Report Bank		Sectors (since 2008 Sectors, supported by Field Office Staff)
Borrower			
5	**External audit report (EAR)**	1 per year	Borrower
6	**Quarterly progress report (QPR)**	quarterly or semi-annually	Borrower
Portfolio Instruments			
Bank			
7	**Country portfolio review (CPR)**	once every 2-3 years	Regions
8	**Sector portfolio review (SPR)**	occasionally	Sectors
9	**Country procurement assessment review (CPAR)**	annually, in collaboration with World Bank	ORPF
10	**Confidential procurement audit**	annually, in 6-8 projects	ORPF
11	**Audit missions**	10 countries per year	Audit (OAGL)
12	**Annual portfolio performance review (APPR)**	annually	ORQR

13. For the most part, policies and guidelines were formulated clearly. There were some ambiguities, such as how the required 1.5 supervision missions per year were to be implemented. However, major deficiencies were found in communicating policies and policy changes to staff, in maintaining an updated and accessible Operations Manual, and keeping staff informed and alert through regular training. The Operations Manual was not established as a 'living document' that could be regularly updated and available on line for all concerned, and since early 2006 the OM has not been available on-line, as it was outdated in key provisions. The production of a new Operations Manual under the overall responsibility of ORPC is now planned for 2010.

3.3 Institutional arrangements of supervision within the Bank

14. Most responsibilities for supervision were clearly and relevantly assigned within the Bank. Many of the original deficiencies of the early 2000s, such as defining the role of field offices in supervision, the responsibility for monitoring external audits, and the role of the Bank's procurement department in supervision have at least partly been relieved in recent

years. While it is too early to assess the impact of these relatively recent changes they have to be monitored carefully over the next few years.

3.3.1 How effectively did Bank departments interact on supervision?

15. The extent to which the various project supervision instruments at the Bank are integrated and the various partners cooperate in their analyses and actions will determine the effectiveness and impact of the supervision system as a whole. However, policies and guidelines in the Operations Manual still pay little attention to how the various supervision instruments and systems are supposed to interact to generate better management information. The different instruments do not play well together.

Responsibilities in supervision are not sufficiently established within a multi-disciplinary team approach.

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16. For a long time, almost all responsibilities for project implementation and supervision at the Bank rested with the sector task managers and, indirectly, their supervisors. Assigning a broad range of supervision tasks to a single task manager makes sense in terms of establishing a clear responsibility for a project. Yet in practice, this focus on a single manager proved too much of a burden for many. Inevitably the Bank ended up with supervision addressing only the most urgent administrative issues. Moreover, for a long time delegation of authority was often not sufficient for task managers to assume their supervision responsibilities effectively. All these factors point towards the need for more sharing of tasks and effective delegation of authority in implementation and supervision, without diluting individual responsibilities.

17. Supervision as it stands at the Bank is still divided into separate instruments, assigned to staff from different departments, that are neither well sequenced nor integrated. Interaction on supervision of individual projects and portfolios between the various departments at the Bank leaves much to be desired. Until recently, neither procurement nor financial management staff were regular partners in field supervision. Internal audits by the Office of the Auditor General were often good, yet some staff interviewed during the evaluation considered follow-up to audits from operations as insufficient. Project task managers had few incentives to cooperate with colleagues from regional departments in project supervision. Cooperation was often strained. Lack of transparency and limited access to project information at the Bank is a stumbling block.

18. In the last two to three years, the Bank has taken first steps towards a stronger team approach for project management and supervision, starting to put the responsibility for projects on more shoulders and introducing new checks and balances. But supervision functions are not yet well integrated into effective multidisciplinary teams working across departments and complexes. Many important specifics on roles and responsibilities still need to be established and clarified[8]. Creating new country teams in 2006 helped with inter-

[8] Decentralization Practical Operational Guidelines. May 30, 2008. African Development Bank. Para. 9.2: "The Bank's Delegation of Authority Matrix and the Operations Manual (yet to be approved) will further clarify the roles and responsibilities for project implementation between field offices and sector departments."

departmental coordination, although staff report the performance of these teams to be uneven as yet.

3.3.2 How effective were country field offices in supervision?

19. The Bank has now opened field offices in almost half of its Regional Member Countries. An important justification for these field offices was to enhance supervision and monitoring. Yet, until 2007, country offices were not used particularly well to enhance the quality of supervision. The 2007 Presidential Directive on Departmental Responsibilities in the project cycle and the 2008 Decentralization Guidelines are a good basis for strengthening field offices, out-posting more senior staff in these offices, and creating stronger country teams.

20. There are now a number of positive examples with field offices assuming a larger role in supervision, loan administration, and implementation assistance (eg. on health in Mali or agriculture in Uganda). Where it has worked, there were committed and technically qualified staff in these field offices. Country presence of qualified staff in implementation assistance and supervision facilitates communication with borrowers, particularly on procurement and disbursement. Presence on the ground helps with local capacity building in critical skills, implementation assistance, and enhanced follow-up of supervision recommendations. Yet, effective decentralization is conditional on real delegation of authority and empowerment to the field, requiring more senior staff to be posted in the field, and the maintenance of certain safeguards[9] (see also the independent evaluation of AfDB Decentralization, 2009). Effective supervision and auditing from headquarters remains necessary to ensure monitoring of administrative and fiduciary risks.

3.4 Managing for results and risk orientation

21. The Bank is clearly committed towards development effectiveness and results. Managing risks well is an important part of managing for results. Yet, in practice, staff still perceive too little emphasis on results and risks (Appendix II, Tables A.1 to A.3). Staff see the main objective of the current supervision system to be identification and resolution of administrative and financial implementation problems, be they in disbursement, procurement, or project staffing, with attention to development results often lagging. The management of project risks and the capacity of design and supervision to mitigate such risks, is rated far down the list. Supervision is seen as useful for addressing some selected operational and fiduciary risks, but less so risks impacting on development objectives.

22. ***The case for risk orientation in managing for results.*** Development in much of Africa is inherently a risky business. High risk environments cannot be avoided by a public sector institution such as the African Development Bank, but these risks need to be managed. This refers both to risks classified as *internal* (those that are under the direct control of the project teams and where they can take corrective action) and *external* risks over which managers of projects and programmes do not have direct influence but against which they can only mitigate. A better recognition of the fundamental role of risk in supervision had already been a principal recommendation of the 1999 OPEV evaluation on supervision. Risk analysis in project appraisal at the Bank was also the topic of a landmark report by ORPC of June 2006[10]

[9] See also OPEV's independent evaluation decentralization at the Bank (OPEV, 2009).
[10] *Framework for Project Risk Analysis.* African Development Bank. ORPC. June 2006.

responding to Board concerns over the quality of risk analyses presented in project appraisal documents.[11]

22. A key function for project supervision is to identify and mitigate potential problem areas and problem projects. Successful supervision first and foremost works to identify sources, or potential sources, of trouble. Once these are clearly known and understood, which may happen as early as project design, launching, or any point during implementation, efficient and effective measures can be planned and executed. Were Bank policies and guidelines anchored in a results and risk management mentality? And to what extent is supervision being managed for risks?

Managing risks is an important part of managing for results. Results and risks are insufficiently addressed in current supervision policies and practice.

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23. ***Project risk management at the Bank.*** The absence of a clear and comprehensive concept of risk management in the Operations Manual is notable. Arguably, the current instruments in place, such as the country risk categorization, the planning Logframe with its assumptions/risk column, and the supervision reporting format are insufficient. Ongoing efforts to revise the supervision format and LogFrame are partly trying to address this. To some extent the supervision system is being managed for risks, but far from the extent desirable. The evaluation found major problems in identifying projects at risk and mitigating these problems (for more details see Ch. 4.4 on the effectiveness of supervision in managing risks and projects-at-risk). These problems are partly related to the lack of candor in ratings, partly to the definition of criteria for projects-at-risk. Supervision in problem projects and potential problem projects is only marginally higher than in those without problems or high risks.

24. Several staff pointed out that risk management starts at the beginning of the project cycle, as early as preparation and appraisal, with a proper charting of risks and a continuous follow-up of pertinent risk factors during implementation (Box 2). In sum, the institutional capacity of the Bank to identify, track, report, and respond on risks is weak. The Bank does not have a convincing concept and practice of risk management to underpin its results-based agenda.

25. ***Implementing a stronger results and risk orientation.*** Making current policies and guidelines relevant for results in the Bank is complex and there is still too little emphasis on transforming the goal into specific policies, guidelines, and formats, the *'how to do it'*. The Bank also may still be *'simply too far away from the action to know the risks'* as a respondent pointed out during the evaluation interviews. Many staff argue that a stronger role of the field offices in assessing and mitigating risks and in measuring results and capacity building in the field through implementation support are absolutely essential. In the past two years the Bank has moved steadily towards achieving a stronger role for field offices in supervision.

[11] The ORPC report concluded that risk analysis and management should start with analyzing the risk facing the projects early on, followed by the design of sound risk management measures, allocating the budget to implement these responses and reporting on risks during all phases of the project cycle. The follow-up on risks and risk management measures throughout implementation is critical.

26. ***M&E at project and country level.*** One of the largest challenges for a stronger results and risk orientation in supervision is that Monitoring and Evaluation at project and country level continue to be very weak areas at the AfDB, in spite of some recent progress with corporate indicators and the definition of standard indicators by sector. Better M&E will depend on improved project design, such as more effective definition of indicators and targets in LogFrames and good project M&E arrangements, and on the M&E capacity of implementing agencies. Many RMCs still have limited capacity for effective monitoring, and for consistent collection of reliable data. Capacity for evaluating projects, programs and development effectiveness is even weaker. Strengthened AfDB field offices could lead the way towards a stronger focus on M&E and results.

Box 2 - Staff call for candid assessment and mitigation of risks, starting with project design

'We have to pay more attention to critical risks for project implementation already at the time of project identification and appraisal. During implementation one has to monitor these risks carefully and be attentive to any warning signals that may come up. Therefore the supervisor has to establish a permanent dialogue with those responsible for the project in the country and establish specific instruments that would allow him or her to monitor from a distance, if possible via the local field office.'

'Above all, potential risks have to be addressed during preparation. It should not come as a surprise to end up with problem projects when we ask the Board to approve projects that are not really ready for implementation (with implementation plans not yet ready, project management not being recruited etc.). Secondly, we need to detect problem and potential problem projects much earlier, and with an open mind. Then put more emphasis on these projects during supervision. For this reason we have to carefully map the risks, what triggers problems, and their solutions. We need to share this information widely and improve the systems that monitor whether the Bank's supervision recommendations are being followed by the borrowers.'

Source: Electronic staff survey

3.5 Relevance of policies and institutional structures for future Bank requirements

27. Until very recently supervision practices at the Bank have been mainly relying on periodic missions from headquarters. Yet, the context for supervision is rapidly changing with the Bank's accelerating decentralization and an emerging supervision concept that includes more implementation assistance and the delegation of certain administrative and day-to-day monitoring and supervision functions to the field. With the opening of more Field Offices in recent years and the expanded staffing of these offices with sector experts the field is gaining increasing importance in supervision and loan administration. While formal SV missions from headquarters are certain to remain a cornerstone of future supervision their nature, numbers, and standards may have to change. The rapid advances of enhanced communication technologies with the field offer new opportunities, and new managerial concepts that are being introduced at the Bank bode well for future supervision, which by definition has to bring together the field and headquarters.

Current policies and institutional arrangements of supervision are not fully relevant for the Bank's future needs. The paradigm of project supervision at the Bank is not up-to-date with emerging requirements and opportunities.

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28. The Bank has formally undertaken to meet its commitments under the Paris Declaration. The harmonization, alignment and partnerships agenda entails putting supervision more firmly into a partnerships context. Current policies and guidelines do not differentiate between single and multi-donor financed projects. Joint supervisions and delegation of supervision are often seen as difficult (see Box 3). A completely new set of supervision issues arises out of the growing demands from the private sector portfolio, in particular the new range of private enterprises and other non-public partners[12]. These are some of the new challenges to which the new supervision policy at the Bank will have to respond.

Box 3 - Partnerships in supervision in co-financed projects

Partnerships with other donors through co-financed projects have long been a feature of the Bank's portfolio. Yet, surprisingly, the evaluation found very little evidence of the Bank paying attention to the needs and opportunities for supervision in co-financed operations and partnerships. The number of joint supervision missions increased, yet there is widespread skepticism regarding joint supervision. Co-financed projects are seen as creating often more, rather than less supervision work for the Bank. Joint supervision mission are notoriously difficult to organize and coordinate. Mission members promote different partner interests with different reporting procedures. For these and other reasons, few Bank staff currently regard the delegation of supervision to partners as a viable option. Procedures and reporting requirements remain too different. Most importantly, staff believe that the Bank has to be seen engaged. In particular, high-stake projects cannot be left to others.

3.6 Supervision guidance and oversight

29. Is there a clear role for guidance and oversight of the supervision system at the Bank? For ensuring that the various supervision instruments and actors perform in line with what's required by policies and guidelines and that they act together as an integrated system, unified in purpose? Since 2008, the main responsibilities for guiding and overseeing supervision are with the *Department for Quality Assurance and Results (ORQR).* They include the formulation and update of operational policies and guidelines, advice and guidance on project management and portfolio improvement, and the Annual Portfolio Performance Review (APPR). Previously, these responsibilities were with the *Department for Operations Policies and Compliance (ORPC)*[13].

3.6.1 How relevant and effective was supervision guidance and oversight?

30. ORPC performance in developing and updating operations policies was only partly satisfactory. The ORPC mandate for guidance and oversight was less of a problem for fulfilling its supervision oversight function than the department's capacity to actually implement and deliver on this mandate. This was due to a combination of factors, including deficient Bank-wide systems of data and information management, poor enforcement mechanisms, and resource constraints in the Department.

[12] Supervision of private sector operations was beyond the scope of this evaluation.
[13] ORPC replaced the Operations, Policies and Review Department (POPR) in 2006

The former ORPC did not have the capacity to implement and deliver on its mandate to guide and monitor project supervision.

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31. ORPC contributed to several policy initiatives on business processes and introduced new guidelines and formats, such as a revised supervision report format in 2006 which was however only partly adopted. Communication of policies was ineffective and not pro-active. The preparation of the Annual Portfolio Performance Reports (APPR) consumed a large part of ORPC's time and resources. Annual reports were produced and submitted to the Boards, although sometimes with delays. These reports contributed substantially to the information and knowledge on the Bank's portfolio performance effectiveness. Overall, cooperation between ORPC and Operations was often difficult. ORPC had limited enforcement mechanism for data entry, quality assurance, and information sharing. Only 5% of respondents in the staff survey assessed the former ORPC's guidance and oversight of supervision as effective, 55% call it ineffective or only fairly effective and 39% had no opinion. To quote one view: *'…from [the] Operations [perspective] ORPC seems to be locked up in splendid isolation. There is no contact let alone synergy'.*

32. There were four major constraints to ORPC performance: (1) the ORPC mandate was broad, and internal priorities were often set differently from implementation and supervision, focusing more on broader policy review, development effectiveness, and quality-at-entry; (2) from 2001, the department (then known as the Operations, Policies and Review Department) was institutionally delinked from sector operations which reduced its relevance, credibility, and involvement as a partner in quality assurance; (3) the capability of ORPC to implement its mandate in supervision was low, as the Bank's electronic project data systems were deficient, staff turn-over was high, and few resources were put behind a systematic overhaul of supervision and the defunct data-base; and (4) guidance and oversight by ORPC in the past was not primarily geared towards achieving a better integration and interaction of the various instruments and systems.

3.6.2 Ongoing work by ORQR and ORPC

34. In view of the issues noted above, it is not surprising that supervision did not achieve the prominence it deserves. However, since its establishment in 2008, ORQR has been very active in reforming project cycle management, starting with work on new reporting procedures and responsibilities for Project Completion Reports (PCRs) and on enhancing Quality at Entry (also a focus of the 2009 ADF Mid-term Review). In early 2010, ORVP and ORQR organized a seminar on project supervision, as part of the ORVP Learning and Knowledge Series. The seminar was well attended by staff from operational departments, CIMM, and OPEV, and served to launch current work by ORQR and ORPC to develop a new supervision policy and instruments by the end of 2010. However, the constraints which held back ORPC's performance in this area could also affect ORQR if the Department is overburdened and if other departments fail to respond to its lead.

3.6.3 Future directions on oversight and guidance *(staff views)*

33. For the future, staff suggest to enhancing and expanding the role of ORQR in providing training on supervision, in pulling together supervision information across departments and making it widely available, and in monitoring and enforcing good quality standards of supervision. Staff also call for better communication of supervision policies, in collaboration with CIMM.

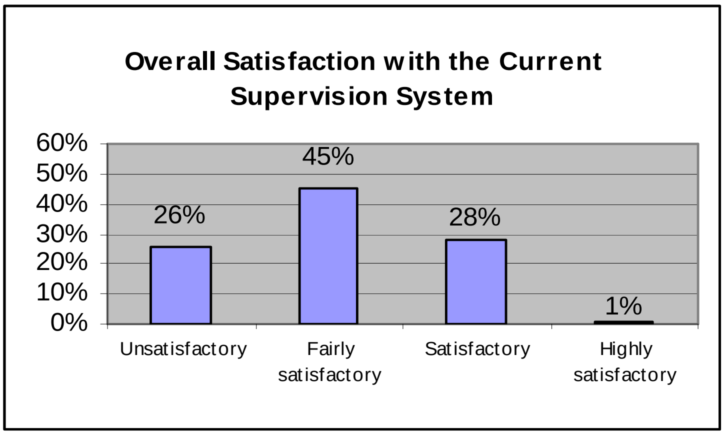
4. Compliance, effectiveness, and quality of supervision

Are we doing what we said we would do?
Are we doing things right?
And to good quality standards?

4.1 Staff views on project supervision

35. The large majority of staff, about 70%, judge the current project supervision system at the Bank as *unsatisfactory* (26%) or only *fairly satisfactory* (45%) (Figure 1). But staff also acknowledge that project supervision changed for the better in recent years:*'We have come a long way in supervision over the years'* a 10-year Bank veteran said during one of the interviews. Others agreed. Supervision reporting on project performance became more systematic. But supervision quality and quality standards, such as duration and skills mix of supervision missions, remained low[14]. For many there is still far too much attention in supervision on administrative matters, on inputs, and above all, on procurement and disbursement. The achievement of technical excellence, efficiency, and development goals in projects are still often neglected, including gender, environment and poverty alleviation.

Figure 1



Source: Electronic staff survey

36. Many recent project completion reports still identified poor supervision as a major problem in implementation with the consequence that too few problems are caught early on. Yet, some at the Bank still do not regard supervision and good planning of supervision as a high management priority, with staff observations reaching from *'There is a continued lack of consistent supervision at the AfDB'* and '*Rigorous supervision planning process does not seem to exist at department level.'* to *'Usually, supervisions rank rather low on the agendas/work programs of our department*'. There is a palpable sense among those interviewed that management still puts too much emphasis on portfolio building compared to portfolio implementation. Below the results rhetoric, for many the approval culture is still alive: '*As managers we still stare at overall external ratings criteria for the African Development Bank, which mainly are financial indicators'*.

37. Two factors are still weighing heavily on supervision. One is the number of aging and non-performing projects, an issue that is gradually being addressed at the Bank in recent

[14] as will be discussed in more detail later in the paper

years. Secondly, there is an excessive number of projects per staff, or in other words, a high project to staff ratio. Task managers are often overloaded with the result that many things are *'simply slipping away'*. Some staff felt that there is too little thinking at the Bank on what essentially constitutes good project supervision, and how that may differ by project type or cycle phase. For them, we may not be looking at the right things in our supervisions. They tend to see current supervisions as repetitive and irrelevant, a reason why reports are often not taken very seriously.

38. Clearly, staff are very much aware that there is a problem with supervision at the Bank, but many feel helpless given their limited resources and high workloads. Many wish to see an active debate on the Bank's concept of project supervision and how supervision can be carried out more effectively in the future. The enthusiastic staff participation in the electronic survey of this evaluation testifies to this and the survey recorded many practical suggestions for improving supervision at the Bank.[15] ORQR propose to consult widely in developing a more effective approach to supervision at the Bank.

Performance of supervision has been marginally improving over the past years, yet remains overall unsatisfactory.

4.2 Supervision compliance with policies 2001-2007

39. How frequently are projects supervised at the Bank and how does this correspond to policy requirements? And what changes do we observe over time? There clearly is an upward trend in the frequency of supervisions, although overall policy compliance levels remain unacceptably low. For the period of 2001-07 all supervision instruments are below, and sometimes far below full compliance, which would be 100%[16].

40. ***Periodic supervision missions.*** Currently, **s**upervision at the Bank pays most attention to the core instrument of *periodic supervision missions to the field.* Policies require 1.5 missions per project and year[17], with 1 field mission being regarded as the absolute minimum for each project. Policy compliance of field missions[18] was found to be 51% for 2001-2007 which means that only half of all projects received on average 1.5 supervision missions per year, ie. three every two years (Figure 2). Compliance went up to 77% for the bare minimum of 1 field mission per year. But about 20 percent of ongoing projects failed to comply with the minimum threshold of 1 field mission per year: in other words, they were not visited and field-supervised by the task manager. This number fell slightly to 17% in 2007.

41. ***Project launching missions*** **and** ***mid-term reviews (MTR)*** are still highly deficient, despite some progress in recent years. For 2001-2007 they average no more than 20% compliance for launching missions and 17% for MTRs, albeit with an increasing trend fort

[15] For detailed suggestions see Technical Annex on OPEV web-site.
[16] Basically, project level compliance was calculated on a simple binary scale assigning a one for policy adherence and a zero for non-adherence. From this system of zeros and ones, individual project compliance scores are aggregated to generate the percentage of projects in compliance, and hence a compliance rate.
[17] In exceptional cases a desk review can substitute for a field mission, for instance when the security or political situation in a country is not amenable for a mission.
[18] This includes desk reviews.

launching missions. Yet, launching missions are still often not well staffed and geared towards effective start-up. Equally, MTRs are not effectively used as a comprehensive review of progress and the validity of project design at mid-term, an opportunity to adjust the project if necessary. One reason for low compliance of MTRs are administrative difficulties involved in reformulating projects, a disincentive for management to carry them out. The importance given to *launching missions and mid-term reviews* by the Operations Manual and earlier supervision reviews and the current practice at the Bank are in stark contrast.

42. For the period under review, only 60% of the ***Bank Project Completion Reports (PCRs)*** falling due were submitted, and many of these were late. But as a result of Bankwide efforts to revise the completion reporting procedures and to prepare them jointly with borrowers, the Bank in 2008 and early 2009 made exceptional progress by achieving a 96% timely completion reporting rate for 2008 public sector operations (APPR 2008). Challenges remain to sustain this breakthrough, enhance the quality of PCRs, and mainstream lessons learned into the preparation of new operations.

43. ***Borrower Supervision.*** For supervision instruments under borrower responsibility, compliance with *external audit reports* is highest at about 51% over the study period (Figure 3). These reports are normally a condition of disbursement, helping Bank and Borrowers to identify financial management weaknesses, flagging areas for assistance and follow-up in fiduciary governance, from record keeping to accounting and procurement procedures. The Bank has been making special efforts for higher compliance since 2005. Yet, the figure is unacceptably low for an instrument of such stated importance. The will to enforce sanctions in cases of non-compliance appears to be muted.

44. ***Borrower quarterly progress reports*** are only submitted regularly for less than a quarter of projects (22%), and so are *borrower project completion reports* (24%). *Quarterly progress reports*, if well done, could be a valuable input to overall supervision, but the instrument is currently underutilized.

Performance of other supervision instruments beyond periodic supervision missions is low. Their contribution to an integrated, results-oriented supervision system could be substantially improved.

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45. ***Portfolio instruments.*** In the study period, many country portfolio reviews (CPR) were not done well, although quality and compliance has improved in the past two years.[19] Portfolio procurement reviews were regularly carried out, jointly with the World Bank, yet findings appear to have been given little attention in day-to-day operations at the Bank. Internal audit missions by OAGL that typically cover the Bank's portfolios in approximately ten countries per year are widely considered as useful, yet were not seen to be sufficiently integrated with operations management and follow-up supervision.

[19] Technical Report, Ch. 6.2.1.

Figure 2

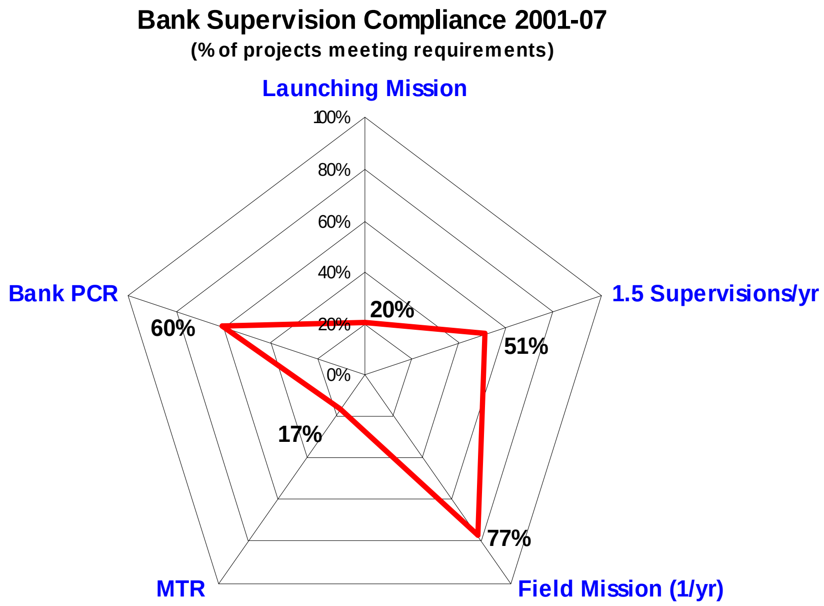


Figure 3

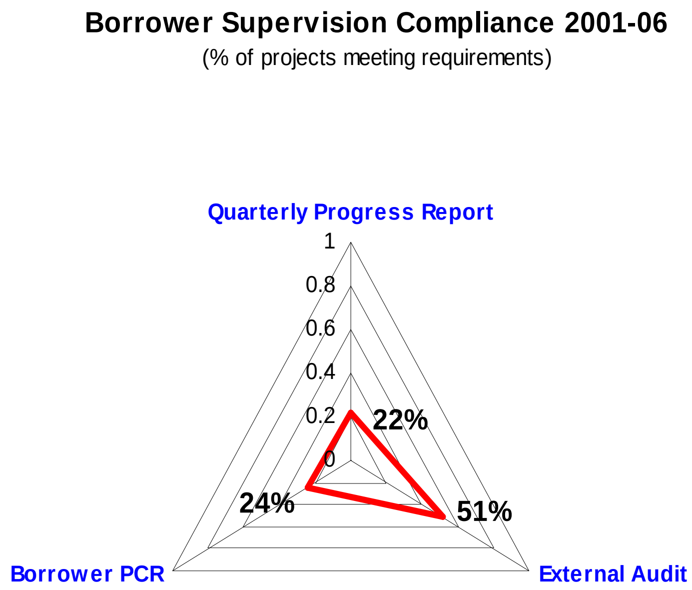
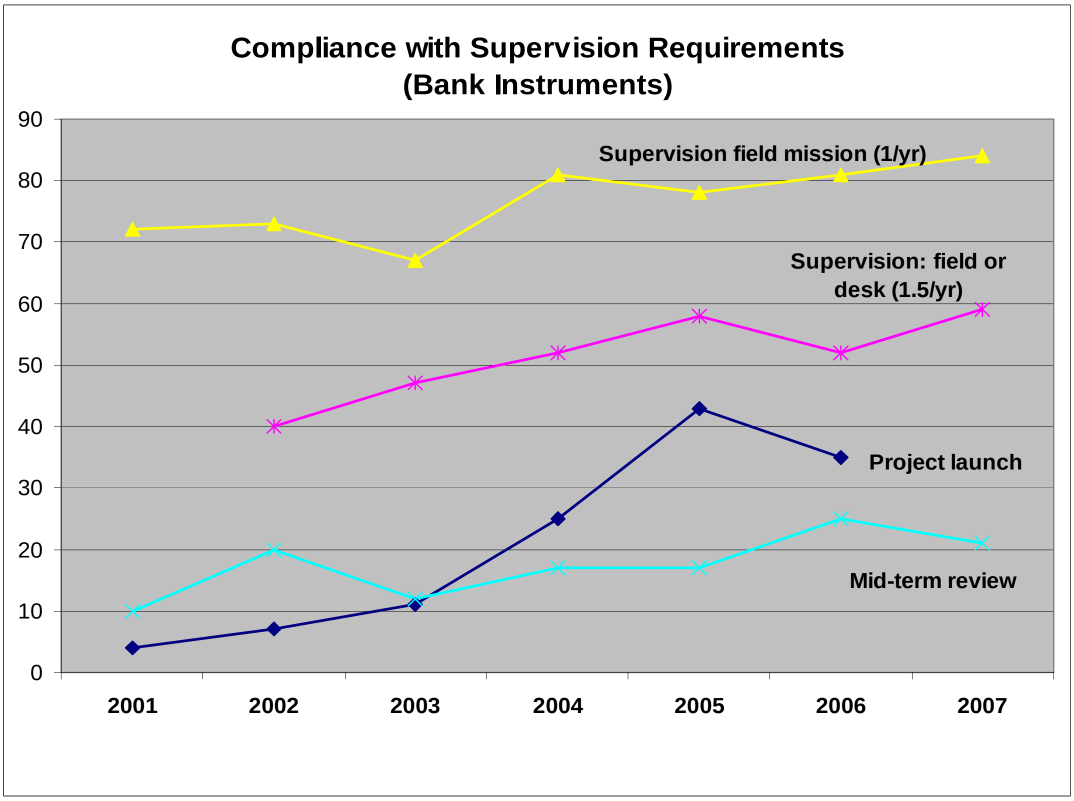
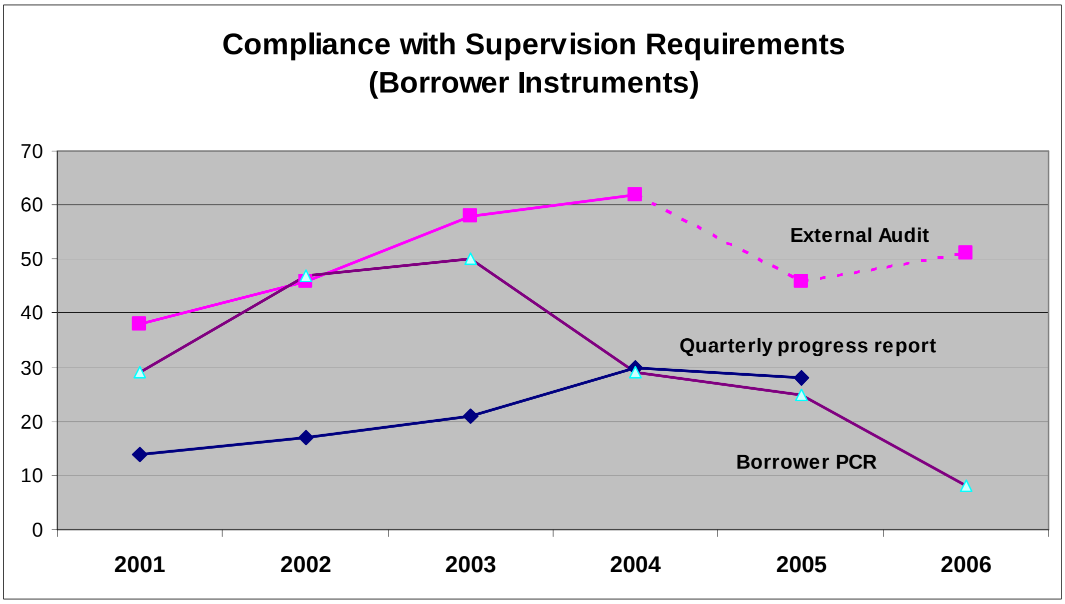


Figure 4



Note: Bank PCRs are not included in this graphic

Figure 5



Note: Data availability required use of a different methodology to determine compliance with regard to External Audit

46. ***Management bias towards periodic supervision.*** As the figures and charts above indicate, there has been great disparity in compliance between instruments. There has been a clear management bias towards periodic field missions and a neglect of other instruments. More effective application of these (and some other supervision instruments not mentioned here) could contribute substantially to an improved and better integrated results-oriented supervision system.

47. ***Compliance trends.*** How did compliance develop over the years? The Bank's *periodic supervision missions to the field* show a clear upward trend, reaching 59% compliance in 2006/07 for 1.5 supervisions per project and year, and a high of 84% in 2007 for at least 1 field mission per project and year (Figure 4). The low point was during the Bank's move from Abidjan in 2003. The positive trend in supervision frequency appears to be continuing. The APPR 2008 reports that the share of operations supervised at least twice a year increased to 46% in 2008, from 36% in 2007. Two factors appear to have contributed to the overall progress according to the APPR. Sectors have been encouraged to budget for supervisions, and, secondly, there has been an increased use in missions led by the Bank's Field Offices

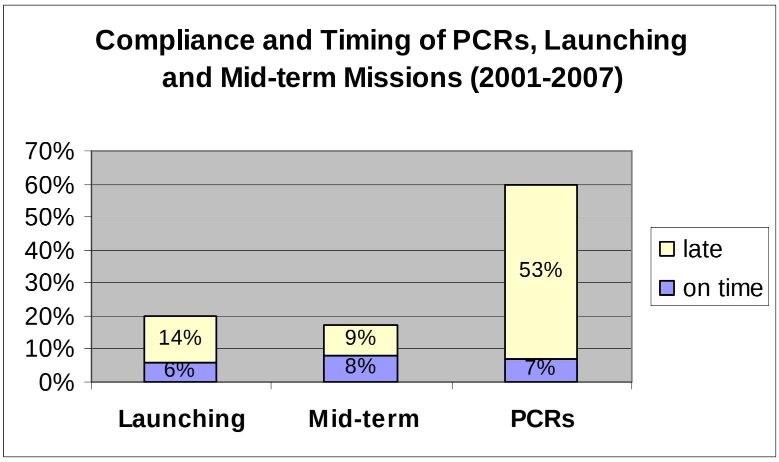
48. The rate of compliance for ***launching missions*** went up strongly, from 4% in 2001 to 43% in 2005 before slightly dropping again to 35% in 2006. There is also a small upward trend in the rate of compliance for ***mid-term reviews,*** from the mid-teens in 2001-2003 to slightly above 20% in recent years, yet still very low. The rate of compliance for Bank PCRs was much higher, averaging 60% over the study period.

49. The trend in compliance for two of three supervision instruments undertaken by the Borrowers is upwards (***external audits*** and ***quarterly reports***), in contrast to the downward trend in relation to ***borrower project completion reports*** (Figure 5). Partly for this reason, Borrower and Bank completion reports are no longer prepared separately but jointly since 2008. As noted above, the compliance rate for external audit reporting is low, averaging only 51% over the period.

50. ***Timing*** is a factor in compliance, but is not reflected in these figures. The Operations Manual sets time frames for non-periodic supervision instruments: project launch missions are to take place between project approval and loan effectiveness; and mid-term reviews around mid-point between project start (loan effectiveness) and planned completion. When taking timely performance into account, the rate of compliance is more than halved for launching missions and MTRs. Similarly, for the period under review, Borrower PCRs and Bank PCRs were usually late, with only 7% of Bank PCRs submitted on time (Figure 6) [20]. However, as reported above, 2008 saw a remarkable increase in timely delivery of PCRs.

[20] Borrower PCRs and PCR missions were to take place no later than 3 months after completion, and the Bank PCR is due no later than 6 months after completion.

Figure 6



51. ***Aggregate supervision compliance.*** The evaluation also compared the total number of annual missions actually carried out against the total number of supervisions required overall (Figure 7). The trend of *required* supervisions was rather flat, with some ups and downs, and a 15 % increase in 2006/2007 compared with 2001/02. But the number of actual supervisions increased steadily from 758 to 1011 for the same period, a remarkable 33% increase. Between 2005 and 2007, Operations on average carried out 1.68 supervisions per project. Of these, 1.51 were field missions and the rest were desk reviews[21]. Ever since 2004 the total number of supervisions actually conducted has exceeded the number of supervisions required to meet the policy standard, *in the aggregate*. However, only half of all projects were supervised 1.5 times per year or more as required by policy, while one in five projects was not field supervised at all in any given year. In other words, the distribution of supervision activity has been patchy and compliance has been uneven, despite the considerable (and increasing) overall effort put into supervision.

Operations are field supervised on average 1.5 times per year. Yet, only half of all projects are supervised 1.5 times per year or more as required by policy. One in five projects is not field supervised at all in any given year.

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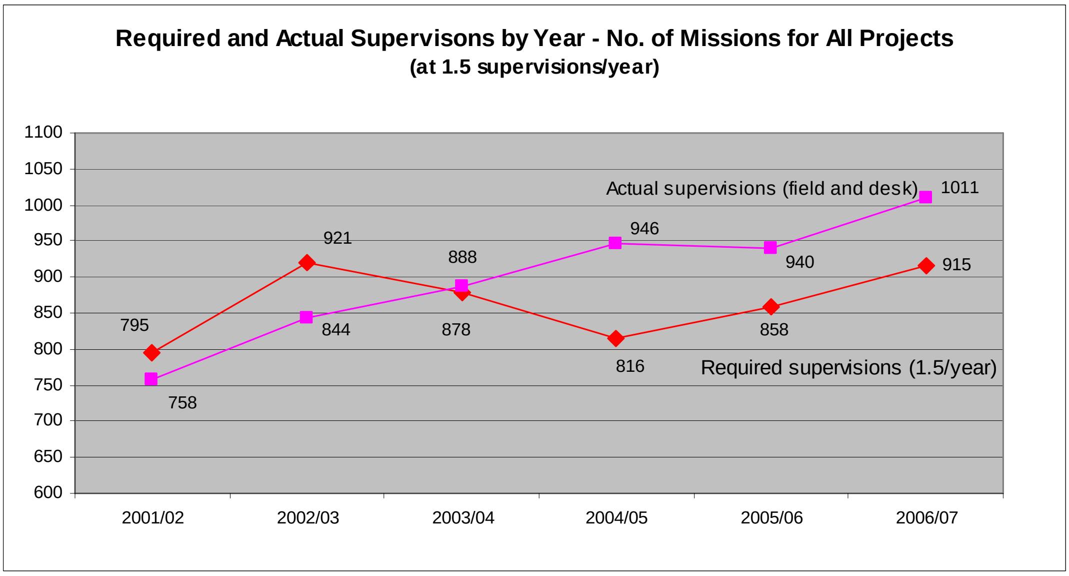
[21] In recent years desk reviews substituted for field missions in no more than 10% of all periodic supervisions, their trend declining since 2003/04 (Technical Report, Figure 5)

Figure 7



52. ***Supervision by project category.*** Rather similar policy compliance for the major sectors, except for Policy-Based-Loans and Industry and Mining, suggests that there is currently very little differentiation of supervision by project category (Table 3). This also suggests that problems related to supervision are systemic, rather than problems related to specific departments. Supervision is higher in ADF than in ADB countries and for regular investment projects than policy-based loans. Smaller projects and very large ones are less frequently supervised than those in the middle. Significantly lower supervision in fragile than non-fragile states reflects the general problems the Bank often has in keeping or getting these projects moving forward.

Table 3 - Supervision Compliance by Project Category 2001-2007		
Findings	**Project Category**	**Projects with 1.5 missions/year**
Sectors: Supervision is relatively similar across the major sectors: compliance is highest in the social sector, followed by infrastructure and agriculture. Finance, multi-sector, industry and mining projects are least supervised.	Social Infrastructure Agriculture Finance and multi-sector Industry and mining	57% 53% 48% 40% 25%
ADF and ADB: Project supervision is higher in ADF than in ADB countries	ADF ADB Multinational	47% 40% 13%
Fragile states. Projects in fragile states are visited less often	Fragile Non-fragile	28% 53%
Policy-based loans: Policy-based loans are significantly less likely to be supervised than regular investment projects	Regular investment projects Policy-based loans Institutional support & project cycle grants	53% 17% 16%
Project size: Smaller projects and very large ones are less regularly supervised than those in the middle,	UA 2-5m UA >5 – 10m UA >10 – 50m UA >50m	44% 53% 54% 27%
Risk: Projects-at-risk have somewhat higher supervision rates, both problem projects (PP) and potential problem projects	Problem projects (PP) Non-PP Potential problem projects (PPP) Non-PPP	57% 50% 51% 40%

4.3 To what quality standards is supervision done?

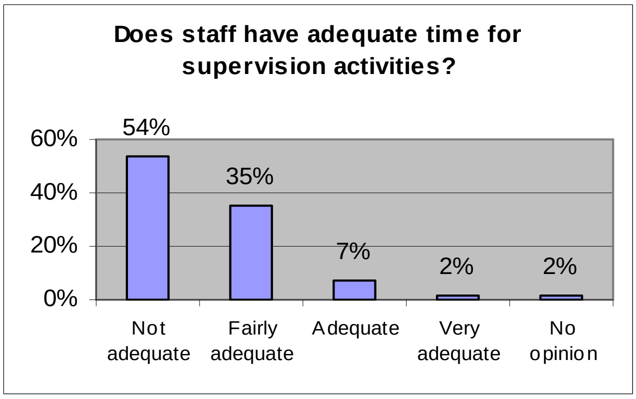
53. Supervision goals in the past were often formulated in terms of frequency of supervisions. And indeed, quantity targets in supervision are useful. But getting the numbers of supervisions up alone is not enough. What matters is to enhance the quality of missions, in terms of their duration and staffing, the quality of reports and ratings, and the timely follow-up on supervision recommendation. This entails appropriate training of staff, and quality support in all supervision related matters, particularly to new-comers to the Bank or to Operations. Quality standards in supervision are currently not well defined and enforced. It is difficult to assess the quality of supervision based on the information available in the central data base. Only well defined and monitored quality standards can ensure quality supervision.

Frequency of supervision missions matters, but quality is equally important. Quality standards are currently not well defined, monitored, and enforced.

4.3.1 Duration and team skills-mix

54. Insufficient mission time and team skills-mix are the primary problems for supervision at the Bank. 90% of respondents regard the time for supervision as either not adequate at all or just 'fairly adequate' (Figure 8). Only 9% feel they have adequate time. In the ranking of the most important problems in supervision resources and mission duration were number one, closely followed by poor skills-mix (Figure 9, page 23).

Figure 8



Source: Electronic staff survey

55. It takes a minimum of 15 days, or about two weeks, on average to do a proper project field supervision. Yet the average duration of supervisions from 2005-2007 was 8.5 days per project (Box 4). Almost half of all supervisions (47 percent) were clustered, which means that a single mission covered at least two projects at the same time or more, leaving less than 6 days per project. Operational budget cuts in recent years posed particular problems for organizing supervision missions. Possibly even more important than the duration this also affected team size, composition, and skills mix of supervision missions. As one interviewee said *'Some rather typical experience from a recent CPR mission to a tourism project in Lesotho was that there was no engineer available – we were just 'looking' at the buildings'*. Many missions at the Bank don't consist of more than 1 or 2 persons at most, usually too few to make informed judgments across all administrative, technical, or target group related matters.

Box 4 - Staff: Too little time, too little money

'We as task managers are placed under too much stress to supervise projects. During December 2006 a colleague and I supervised between us 8 projects over a three week period. It was tough going and we had to prepare the aide-memoire. We worked late at night and whole weekends. Due to budget constraints management is placing more pressure on Task Managers to increase output and it has a very disheartening effect on us. Provide more funding for supervision.'

'Above all there should be more time for supervisions. Sometimes we are asked to supervise six operations in two weeks. This is neither serious nor effective. The SAP does not make a difference between a supervision of 2 days and one of 10 days. But the quality cannot be the same. Yet, the only thing that Management is interested in is to obtain the required rate of 1.5 supervisions per project and year. It is always quantity over quality.'

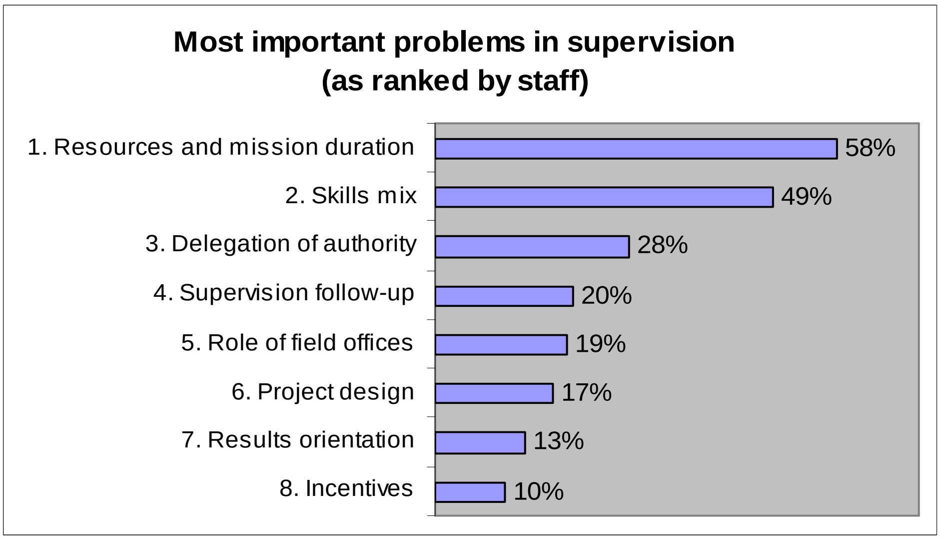
Source: Electronic staff survey

4.3.2 Operations staffing and resources.

56. There are currently 5.2 projects per task manager in the OSVP complex and 2.9 at OIVP complex [22]. OSAN and OSGE have a particularly high workload in excess of five (5) projects per task manager, with water infrastructure (OWAS) having the most favorable staffing per project. Operations staff at the Bank have a heavier workload compared with their colleagues in the IADB and the World Bank, while at the same time, they receive less funding and administrative support in undertaking project cycle activities[23]:

- The average administrative cost per approved project in the Bank is US$ 1.5 million, compared with US$ 4.6 million in the IADB and US$3.9 million in the World Bank
- There are on the average 4.3 projects per Operations professional staff in the Bank, compared with 1.6 in the IADB and 0.9 in the World Bank;
- There are 5 Operations professional staff to 1 support staff in the Bank, compared with 1.9 professional staff in the IADB and 1.5 in the World Bank.

Figure 9



Note: The percentages in above graph refer to the share of respondents who elaborate on the respective problem in open-ended comments in the electronic staff survey (n = 95)

4.3.3 Supervision budgets and their transparency

57. Project supervision in the AfDB is clearly under-funded. The 1999 OPEV supervision evaluation already prominently pointed out that human and financial resources had been the main problem of supervision in the 1990s. Resources proved to be a continued binding constraint for supervision at the Bank. All managers and task managers interviewed were concerned with the level of resources available for supervision. The project to staff ratio of up to 5 projects per task manager in some departments, and the inadequate frequency, duration, skills mix, and overall quality of supervisions are testimony to under-resourcing.

[22] If all authorized vacancies were filled, this would bring the average ratio to 4.2 projects and 2.5 projects per Task Manager. These numbers may not include all Field Office staff performing supervision functions.
[23] Report of the Task Force on Institutional Reform (TFIR), 2006.

Supervision is clearly under-resourced. Resources going into supervision are not transparent. Potential savings through decentralization and smarter project design are not exploited well.

58. Operational budgets at the Bank are prepared and approved on the basis of estimates for various activities, including supervision. They vary annually. Bank projects do not have a special dedicated administrative budget for their implementation and supervision activities. Moreover, resource allocation to supervision at the Bank is not transparent. Actual budget utilization is not systematically monitored, aggregated, and reported ex-post by various activities. Full cost-accounting by activities, including staff, is currently not practiced at the Bank. The absence of a system of staff time recording makes it impossible to develop proper activity cost accounting and to take informed management decisions on budget allocations to supervision and other activities, across sectors and countries.

59. Enhanced decentralization of supervision functions may lead to some cost savings in supervision or better results within the current resource envelope. Much could also be gained from better project design and planning from the beginning. Supervision and portfolio management could be facilitated through the design of larger and fewer projects; streamlining new projects by reducing complexity and including fewer components; and going for projects that are more simple to supervise, focusing more on hardware (infrastructure and other material support) than software (services) projects. Better project quality at entry and proper storage, maintenance, and sharing of all planning documents could also reduce costs. Stronger capacity support to Borrowers could reduce the need for supervision and implementation assistance. In certain cases the Bank could share some of the supervision work increasingly with financing partners, provided that progress is made in harmonization of rules and procedures of project administration.

60. Yet, all of this could only partly compensate for the resource crunch supervision at the Bank is suffering from. Thus an increase in resources for supervision appears to be desirable for substantive and quality reasons. In the end, better resourced and more effective supervision is likely to lead to savings far in excess of the cost of additional short-term inputs. For additional short-term resources to be effective in improving supervision and portfolio performance, however, a number of other changes recommended in this report would also be required.

4.3.4 Delegation of authority.

61. ***Delegation of authority.*** Delegation of authority and increasing the role of the field offices ranked third and fifth among primary staff concerns (Figure 9), in particular delegation to task managers by their supervisors and delegation from headquarters to the field level (Box 5). Staff claim that only more delegation of authority would ensure the necessary flexibility at project and field level to swiftly act in response to identified problems.

Box 5 - Staff: Task managers need more delegated authority

'Task Managers should be given more power and authority to ensure Project success. As of to-day, Division Managers and Directors are more of a bottleneck to project implementation than anything because of their unwarranted, delaying and impeding checks and balances which are done through or by refusing to sign and clear letters and communications.'

'Planning and executing supervisions should be fully entrusted to the task managers, and not left to the division managers or others. Task managers should have the freedom to decide by themselves if a supervision is needed or not, depending on the project and its problems, rather than try to fulfill a quota of 1.5 supervisions per year. Ideally, supervision budgets should be handled by task managers so that they could programme and undertake supervisions based on their knowledge of the projects, the portfolio, and existing problems. Supervision quality should be taken into account in task managers' performance evaluation, which is not yet sufficiently the case right now.'

Source: Electronic staff survey

4.3.5 Staff incentives and training

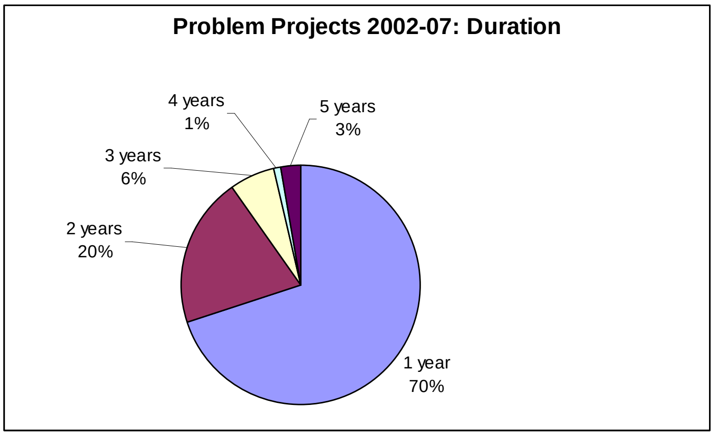
62. The evaluation staff survey also showed that the incentive and reward systems of the Bank for a long time attached more premium in staff evaluations to functions relating to expanding the portfolio than to those relating to supervision and portfolio management. For a long time supervision simply did not count for much. But the attitude towards supervision is clearly changing as informal staff surveys and attendance at Bank meetings on supervision show. The Bank's Medium-term Strategy objectives, the relevant KPIs and ADF XI commitments on supervision, the emerging efforts by ORQR, and the Bank's expanding Field Offices clearly make managers and task managers pay more attention to project supervision. On the other hand, the typical task manager continues to handle her or his supervision responsibility without much formal introduction and systematic training. Very commonly the job is continued in the way as it was established by the predecessor, in the on-the-job-learning-by-doing manner. This seems to be true for new staff as well as internally transferred staff.

4.4 How effective was supervision in managing risks and projects-at-risk?

63. ***Identification and classification of projects-at-risk.*** Two out of three Bank staff believe that the identification of problem projects (PP) and potential problem projects (PPP) is ineffective. These two categories make up projects at risk (PAR). Problem projects are those currently rated unsatisfactory, potential problem projects are projects with satisfactory ratings but two or more potential risks factors that require monitoring and could lead to problems down the road. Among others, these risk factors include known unsatisfactory borrower implementation performance, a high country failure rate of projects in the past, low disbursements, and long project duration. Up-to-date indicators of country, sector, or other enabling environment conditions in which the project is operating are not included.

64. Between 2002 and 2007 44% of all projects were identified for at least 1 year as projects at risk, 14 percent were problem projects (PP), and 38 percent as a potential problem projects (PPP), with a higher percentage in ADF than in ADB countries. 30% of projects were problem projects for more than one year, less than 10% for more than two years (Figure 10).

Figure 10



65. ***Underestimation of problem projects.*** The number of projects-at-risk in the Bank may be underestimated as there are many non-supervised projects in a given year (about 20%) and there are persistent problems with supervision ratings. If one compares ratings of satisfactory ratings for achievement of development objectives in supervisions and PCRs one observes a more than 20 percent gap, with 90% satisfactory rating in supervisions and less than 70% in completion reports. Many staff point out grave deficiencies in the supervision ratings of projects which has major implications for the identification of problem projects. There are currently no incentives for task managers to candidly identify problems and real risks in projects, and to report them to management, on the contrary. Their distance to the project and its management is also seen as problematic.

Risk is not adequately addressed at the Bank. Two out of three Bank staff believe that the identification of projects at risk is ineffective. Many staff point out grave deficiencies in supervision ratings and follow-up.

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66. ***Supervision and follow-up of projects-at-risk (PP and PPP)*** Problem projects require more supervision than those without problems, and it is policy at the Bank to field at least two missions per year to projects with special problems. The evaluation found that supervision compliance rates are indeed slightly higher for problem projects and for projects with potential problems, but differences are not large, and the goal of two missions per year is not achieved. The follow-up on problem projects within the Departments and with borrowers is also not yet optimal, although improvements have been seen since 2007/08 when management became increasingly concerned with problem projects and action plans were developed in a number of departments, sometimes project by project.

67. ***Risk awareness.*** Although staff believe that PARs receive particular attention in supervision, they remain concerned that risk is not adequately addressed at the Bank. In the evaluation survey many are calling for better identification and classification for PPs and PPPs (30%) and for improving the follow-up on supervision missions and recommendations to borrowers (25%). Others demand better risk assessments at project preparation and appraisal (10%) and wishing to see clearer responsibilities for project ratings (7%). One-third of respondents see generic supervision problems at the Bank as the main factor for problems

in projects at risk. While the issues affecting those projects in the short term need to be addressed, achieving bigger gains in the long term will require changes to overall system.

4.5 Differentiation and proportionality of supervision in Bank Projects.

68. The need for project supervisions can differ widely by country and project, depending on governance and the way project functions are organized; the complexity of projects and their specific technical or administrative challenges; and their position in the project cycle. Supervision in countries served from the Bank's ADB window is often less complicated. Policy already suggests that, to some extent, project supervision is supposed to be handled flexibly. Project supervision plans designed at appraisal are supposed to provide guidance on actual supervision timing, team composition etc.

69. ***Supervision by project type.*** The Bank does not account well in supervision for the diversity of its projects, including the special requirements of multi-donor operations. With very few exceptions policies are the same for different categories of projects. The evaluation found little evidence that supervision plans are systematically designed and widely used to determine actual supervision schedules, staff composition of missions, or to set intra-departmental priorities. Policy compliance with supervision was found to be rather similar by project type, sector, or ADB/ADF category. There are some variations by sector, but only moderate ones. On the other hand, many projects are supervised more often than others, reflecting objective needs. Supervision requirements are clearly different for different kinds of projects and in different stages of the project cycle, which should be accounted for, both in policy requirements, and in individual project supervision plans.

The Bank does not explicitly and sufficiently differentiate supervision by project type and risk category.

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70. ***Supervision plans.*** Until 2008 there was not much systematic annual planning of supervisions, in line with supervision plans set out in the appraisal reports (ie. project implementation plans). Supervision was primarily addressing problems as they arise. Supervision plans rarely served as actual triggers for supervisions. Task managers, their supervisors, and country teams seldom agreed in advance on annual supervision schedules, or defined clear supervision priorities, expected results and the needed skills-mix. However, a more systematic approach is now being taken.

71. ***At-risk projects.*** The absence of a strong risk-based supervision approach at the Bank means that mandatory supervisions are the same for all operations, unless projects have turned into problem projects. *Potential* problem projects receive little special attention. This not only prevents early risk mitigation, but also makes the system less cost-effective in the use of scarce supervision resources. The current criteria for identification of potential problem projects (PPP) are useful, but they lack factors that reflect the enabling environment and specific country and sector conditions in which the project is operating are noticeably absent.

4.6 Supervision reports, performance ratings, and supervision follow-up

72. ***Supervision reports.*** The output of the supervision work is in the form of several documents, for use by the borrowers and the Bank, including the aide-mémoires of the

supervision field missions, Bank management letters sent as follow-up to these missions, and supervision reports with the more detailed implementation status, outstanding issues and recommendations. Supervision reports are Bank internal only. Both format and content of supervision reports leave much to desire.

73. The quality of the supervision reports as found in the SAP is uneven, particularly regarding attention to development objectives. A revised supervision report format was introduced in 2006 to avoid repetitive reporting upon completion of a mission, to build a stronger link with SAP, and to support more results orientation. But the new format was not adopted well by operations, mainly as it was not adequately linked with the SAP system. In early 2010 ORQR launched a renewed effort to revise the supervision report format.

4.6.1 Project performance ratings

74. To rate the performance of projects and borrowers is a major purpose of supervisions. Yet, the evaluation concludes that the current supervision indicators and ratings cannot be credibly used to measure results or monitor the major project risks. The evaluation identified the following main problems in the current ratings system:

(1) the gap between ongoing (supervision) and ex-post (PCR) performance ratings: over the past two decades, this has averaged more than 20 percentage points) [24];

(2) the inefficiency of the current supervision ratings to identify, monitor, and mitigate problem projects and potential problem projects;

(3) the poor definition of results indicators, and the way how individual and sub-component indicators are aggregated to come to overall ratings; and

(4) the uniformity of the current ratings system for the various types of projects; and

(5) potential conflicts of interest for those who undertake the ratings (currently the task managers).

There are currently few incentives for candidness in ratings and risk assessments. The project ratings system at the Bank has been under scrutiny for a while and is currently again being reviewed by ORQR.

The project performance ratings system is highly deficient. Supervision recommendations are not followed up well.

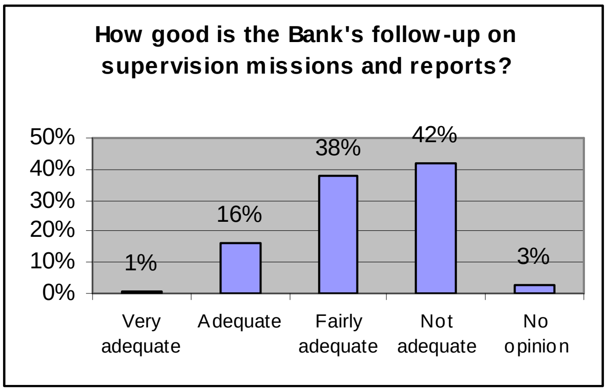
4.6.2 **Supervision follow-up**

75. About 80 percent of Bank staff regards the follow-up on recommendations from supervision missions as not adequate (see Figure 11), although interviews suggest some improvements in recent years. Too often, back-to-office reports are not reviewed in a timely and efficient manner at the various management levels, and follow-up recommendations to borrowers not timely conveyed and tracked *(see Box 6) below for detailed comments).* Local

[24] Based on data from 1985 – 2006.

staff is still too rarely involved in follow-up, and not endowed with sufficient delegated authority.

Figure 11



Box 6 - Staff call for better follow-up on supervision recommendations …

'At the end of each mission, aide-memoires containing action points are signed; however, either recommendations are not implemented or they lag behind.'

'After returning to headquarters the conclusions and recommendations of the supervision mission should be transmitted to the borrowers without delay. The supervision programme and the supervision reports should be discussed in the country teams. Country team meetings would have to be more regular and should lead to more practical and concrete conclusions.'

'Supervision outputs are not compiled or published in a manner likely to support Bank-wide project improvement. The current Back to Office Report is simply a file document. These materials need to be compiled and published into thematic and periodic monitoring reports of the Bank.'

'I think of an issues-tracking-system that triggers alarms increasing in noise and management level over time.'

'Organise periodic meetings to monitor the implementation of recommendations from supervision missions. We have the tendancy of not caring very much of what happens between two supervision missions.'

…particularly for projects-at-risk

'Shorten and streamline the approval process for recommendations made by the project team to Bank's Management for solving problems. Sometimes time is wasted while memoranda are exchanged to a number of Bank's departments before communication can be authorized to the respective Government to take the corrective measure for managing a PP project.'

'Management should have an institutionalized 'focus window' for PP and PPPs. Now, there is no priority, worse, there is even avoidance behavior.'

'Improvement plans should not be left to the Task Manager alone. Management and colleagues from FFCO, PPRU, GECL and ORPC should be involved to review them'

Source: Electronic staff survey

5. Information from supervision:

Do we know how we are doing? How do we know?
How do we communicate internally?

5.1 Introduction

76. The evaluation assessed the relevance, effectiveness, and accessibility of the Bank's project information system for results-based management at the Bank, with special reference to information from supervision. It reviewed the use of the SAP project database and management system (SAP-PS) used by the Bank. The evaluation also reviewed the process of reporting and communicating supervision results.

77. Management has already recognized shortcomings with the use of the SAP-based portfolio management system, with the following commitment under ADF-11: *'priority will be given to making the SAP-based portfolio management system easier to use, and to eliminating barriers to access by Tunis and field staff responsible for routine supervision functions'.*[25]

76. The consolidated findings and conclusions presented in this chapter were tri-angulated from four different information sources (1) in-depth discussions with ORPC and CIMM during the course of this evaluation; (2) results from the electronic staff survey; (3) in-depth one-on-one interviews with selected staff; and (4) OPEV's own experiences with the SAP project information system during this evaluation and other evaluations.

5.2 The SAP Project System: its usefulness for supervision (staff views)

77. In 2001 the Bank adopted SAP (a generic 'System of Applications and Products') as its electronic information system. At that time, the system was customized by CIMM with broad internal Bank consultation and remains relatively unchanged from its initial development. The project sub-system, the SAP projects system, is supposed to capture all relevant information on lending operations. In 2005, CIMM introduced the *Corporate Data Warehouse (CDW)*, a tool allowing staff to interface more easily with system data and query for specific information.

The electronic data and management information system (SAP) within the Bank on supervision is highly unsatisfactory.

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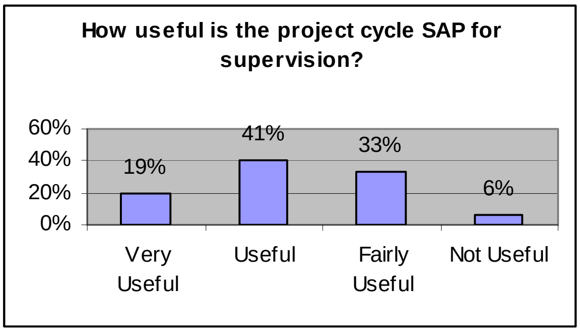
78. Most staff regard SAP as a potentially very powerful tool that is, however, not optimally used. Managers like its *'data warehouse'* capacity to produce aggregate reports, but they do not always find reliable and up-to-date data. About 60% of staff regard SAP as a useful or very useful information tool (Figure 12) but at the same time almost half use the SAP project system less than once a month. The SAP project system is significantly underutilized. There is low routine SAP use for day-to-day project and portfolio management,

[25] Results Measurement Framework for ADF-11 (2007)

and it serves poorly as an information system on aggregate portfolio performance to meet the needs of senior management.

79. Poor SAP project systems quality and data reliability creates difficulties and wastes time in the production of Annual Performance Progress Reports (APPR) or the Bank's Annual Report. The aggregation of up-to-date data at the level of complexes or their utilization for independent evaluations is problematic. Output from the system requires careful cross-checking for errors and gaps. Considering today's global IT environment, one staff member called the SAP project system and its utilization at the Bank simply '*archaic*'. This summarizes the sentiments of many.

Figure 12



Source: electronic staff survey

5.3 Why is SAP usefulness and usage for supervision and portfolio management low?

80. The staff surveys identified four main reasons for the low usefulness and routine use of the SAP project data:

(1) *Poor quality, reliability and scope of data in the SAP project system.* Data are often not up-to-date and do not always reflect current business processes and management information needs. Critical data are missing or very hard to retrieve for the portfolio as a whole, such as data on co-financing, actual project completion, or latest risk status of projects. There are too few internal consistency checks, time sensitive triggers and flags for critical information, and few automatic linkages and information updates between various SAP sub-systems.

(2) *Inadequate interface, technical sophistication, and user-friendliness of the system, as well as quantity and quality of training and technical support.* The SAP project system is currently not designed for easy data entry. It is not intuitive, sometimes confusing, and often time-consuming. More than two-thirds of staff lack more formal training on specific SAP features.

(3) *There are few incentives to update, link, maintain, and ultimately use the system as an integrated project management tool at all levels.* Although SAP is mandatory proper project data maintenance is not well enforced system-wide and there is no Bank wide data entry policy. The system is slow and rather unreliable. Consequently system and the data and reports produced are not sufficiently relevant for everyday work.

(4) *There is too little transparency in project management at the Bank, which leads to problems of entry, storage, and accessibility of important project data and documents.*

The usefulness of the system is further limited by many restrictions on access to information on the system.

Availability of up-to-date and reliable information on projects at all levels of management is low. Transparency in project management and supervision is limited. There is no central project information hub.

5.4 SAP as an integrated management tool

81. The SAP project system database is in principle a powerful data management tool designed in a business-intelligent way. If properly set up and utilized it could provide an efficient means of organizing, monitoring and improving the Bank's investment projects and enhancing portfolio performance.

82. The Bank invested heavily in terms of initial outlays, maintenance, and improvement costs in the SAP and should expect a high level of return for such investments. Yet the SAP project system is currently mainly used as a system for recording transactions, and not as an integrated management information system. Consequently, current benefits seem marginal compared to what is possible.

83. The Bank requires an integrated, transparent, and readily accessible information system that can be used to measure and report on results and to anticipate and manage risk. The current SAP project system does not provide this. Databases are inadequate and are spread around in different places and file formats, and access rights are often restricted. The SAP projects information system is also insufficiently equipped to verify compliance, effectiveness, and quality of supervision activities for internal control.

84. The SAP project system is currently not a sufficiently reliable system to monitor the performance of the Bank's projects in real time at each level of the Bank's institutional hierarchy. Management at the Bank currently cannot readily use the system to obtain portfolio status reports, particularly at the aggregate level. Accordingly, the use of the system as management tool is low. For example, it currently takes ORQR (formerly ORPC) a great deal of work to generate results from the system for the APPR. Yet in principle this data should be readily available from the SAP project system. In a well organized and regularly updated system, such output could be available to all managers at any time.

85. The SAP project system database presently does not contain all necessary information on project implementation and supervision. Moreover, critical parts of the information, for instance on project status or risk status are often not up to date. The system therefore cannot be effectively used in verifying compliance, effectiveness, and quality of supervision activities for internal control.

86. All these factors limit the role of the SAP project system to serve as a central project information hub and to become a strong part of the Bank's corporate culture of working and thinking around projects (Box 7).[26]

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[26] For more analysis, findings, views, and specific recommendations on the SAP project system and IT in the Bank see the OPEV Supervision Evaluation 'Working Paper' and 'Technical Annex II'

Box 7 - Expand SAP as a corporate way of thinking (staff view)

'The project SAP should become a corporate way of thinking, rather than a burden and a nuisance, as it is now. … The Bank should try to generate a culture of regular information exchange on the basis of the SAP system among the various users (country economists, sector staff, CIMM, and Borrowers). … In the end project SAP should become a regular day-to-day management tool, pretty much like email.'

Source: Electronic staff survey

5.5 System design and maintenance: the need for coordination

83. The responsibility for designing and maintaining the overall supervision system now lies with ORQR, but CIMM has a key role in the design and management of the Bank's information systems. SAP can only be relevant if supervision policy and procedures are well defined and reflected in the system.

84. This has not been the case in the past. The evaluation found coordination between CIMM and ORPC to be weak (ORPC preceded ORQR as the responsible Department for supervision oversight). This was evident, for example, in the attempted adoption of a revised supervision mission reporting format in 2006. This ultimately failed as the electronic systems were never adjusted to the new format, and the new format had not been designed taking electronic system requirements into account.

85. However steps are being taken to address the issues. In July 2009, a new Presidential Directive[27] updated the membership of the Information Systems Steering Committee (originally established in 1996). In late 2009, the Bank formed an interdepartmental working group to upgrade SAP with particular emphasis on project management. Headed by the Vice President FNVP, this working group is expected to operate for a period of 1.5 years

86. In conclusion, a well functioning and maintained electronic management information system is more than a matter of technology, it requires above all clear and well communicated business process, well assessed data and information needs, and a culture that values up-to-date information, information sharing, and transparency. Establishment and management of such a system will require sustained cooperation and collaboration across the Bank.

[27] Presidential Directive 03/2009

6. Summary and recommendations

6.1 Summary of findings and conclusions

87. Much of what needs to be done in project supervision at the Bank is well-known and straightforward, but it needs to be done fully and effectively. Bank Management already recognized this and included a number of key performance indicators on supervision and implementation in the Bank's institutional targets.

88. The evaluation finds that supervision policies in the past were by and large relevant and were for the most part clearly defined. But results and risks were insufficiently addressed in supervision policies and practice. Also, institutional responsibilities in supervision were not sufficiently established within a multi-disciplinary team approach. Supervision guidance and oversight suffered from the relevant department's low capacity to implement and deliver on its mandate and poor Bank wide management information systems. The evaluation concludes that the current policies and institutional arrangements of supervision are not fully relevant and geared towards the Bank's future needs. The paradigm of project supervision at the Bank is not up-to-date with emerging opportunities and needs, particularly those of decentralization, results and risk orientation, and partnerships. The efforts by management to come up with a new policy, shared responsibilities, and new procedures for supervision are therefore timely and, given the importance of supervision in achieving the Bank's goals, should be given priority.

89. Performance of supervision has been marginally improving over the past years, yet remains overall unsatisfactory. Operations are field supervised on average about 1.5 times per year. Yet, only half of all projects are supervised 1.5 times per year as required by policy. One in five projects is not field supervised at all in any given year which is not acceptable. Further, the Bank does not systematically differentiate supervision by project type and risk category. While frequency of supervision missions matters, quality is equally important. Quality standards are currently not well defined, monitored, and enforced. Supervision instruments beyond periodic supervision missions are underperforming, in particular launching missions, mid-term reviews, and external audits. Their contribution to an integrated, results-oriented supervision system could be substantially improved. Although efforts have been made by management to enhance performance, supervision appears to be under-resourced in view of the importance of its role in ensuring that operations are efficient and effective. Transparency with regard to the resources going into supervision is lacking. Potential savings through decentralization and smarter project design have not yet been well exploited.

90. Project risks are not well managed at the Bank. This affects performance. Two out of three Bank staff believe that the identification of projects at risk is ineffective. They point to a number of deficiencies in the system for rating project performance and in follow-up on supervision recommendations. The Bank's electronic SAP data and management information system for projects is highly unsatisfactory and "archaic", despite some improvements such as the data warehouse system. The availability of up-to-date and reliable information on projects at all levels of management remains unacceptably low. Transparency in project management and supervision is limited. There is no central project information hub with relevant project documents for reference.

91. In conclusion, it is clear that the Bank's supervision system, despite recent improvements, needs to be overhauled to deliver the gains which an effective supervision

system could provide in terms of operational effectiveness, efficient and impact. The staff survey indicates that operations staff are impatient for such a system which would remove many constraints and allow them to achieve better results. The evaluation therefore concludes with a set of recommendations requiring changes to be made across the Bank.

6.2 Recommendations

92. Despite some recent improvements, the Bank is unlikely to achieve acceptable standards of project supervision, even with good intentions and policies in place, unless some major steps are taken. This includes the setting of clear targets for reforms and their regular monitoring and progress reporting to top management. As priorities, the evaluation recommends the following.

(1) The Bank has to pay more attention to results and risks in supervision policies and institutional arrangements, particularly in terms of integrating these aspects into operational guidelines and everyday supervision practice.

This should particularly include the development of a comprehensive concept of project risk management at the Bank. An efficient and effective results-based supervision system must be first and foremost risk-based. Secondly, consistent efforts are required, particularly at country level, so that project-level monitoring and evaluation systems function more effectively to ensure the performance of the broader results system.

(2) The Bank must develop an appropriately resourced project supervision system with better integration of supervision instruments and activities, while ensuring differentiation by project type and phase.

This entails an expansion of team work in supervision, more decentralization to the field, and a better integration of the various supervision instruments. The frequency and quality of supervision instruments beyond regular periodic missions must be enhanced, particularly of launching missions, mid-term reviews, and external audit reports. Supervision policy and practice should be better brought in line with the requirements of different project categories and project cycle phases; and in proportion to project size and risk exposure. Supervision guidance and oversight need more attention. The Bank must determine an appropriate resource envelope for supervision, in line with policy requirements, and needs to better monitor the resources expended on supervision on the basis of full-cost accounting.

(3) The Bank needs to pay more attention to the quality of supervision and the quality of follow-up on supervision recommendations.

The quality of activities and inputs into the supervision process needs to be enhanced, such as the length of missions, appropriate skills mix during missions, project ratings, and staff incentives. Equal attention needs to be paid to the quality and communication of supervision outputs, in particular supervision reports and follow-up on supervision recommendations. The quality of supervision must be evaluable, with clear indicators and targets that can be regularly monitored.

(4) The Bank urgently needs to overhaul and upgrade the SAP electronic project data and management information system for projects.

The SAP projects system requires urgent redesign to ensure better quality, reliability, and scope of supervision and other data; to enhance the interface and user-friendliness of the system; and to generate transparency and accessibility of important project data and documents. The SAP projects system, in conjunction with the Data Warehouse System, should be developed into a central hub to serve the various project and portfolio data needs and management functions at the Bank, particularly to support follow-up of supervision recommendations.

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Appendix 1

Supervision purpose and activities at the Bank ***(from Operations Manual)***

1) The Operations Manual is clear on the purpose of project supervision: 'The Agreement Establishing the African Development Bank makes the Bank responsible to its members not only for providing loans but also for ensuring that the loans accomplish the purposes for which they are made. The Bank is responsible for monitoring the progress made toward the achievement of project objectives, for assessing the effectiveness and efficiency of project implementation and for evaluating the impact of its projects on development. It is also responsible for helping borrowers take appropriate action to correct deficiencies in project implementation.' (OM 800, para.1)

2. The Bank defines project supervision as a 'continuous set of activities that begins with loan signature and runs through the preparation of the project completion report'. The main purposes of project supervision are to:

(a) ensure that the borrower implements the project with due diligence to achieve the agreed development objectives;

(b) promptly identify problems and modify project concept as necessary;

(c) take timely action to cancel a project if it can no longer be expected to achieve the desired development objectives;

(d) prepare Project Completion Reports (PCRs) to account for the management of its resources; and

(e) use the experience gained through supervision to improve the design of ongoing and future projects, sector and country strategies, and policies. (OM, section 800, para. 2 and 4.)

3. Supervision activities include ***at headquarters*** (1) review of progress reports prepared by the borrower, (2) monitoring of borrower compliance with conditions and covenants, (3) supervision of procurement and disbursement, (4) maintenance of project records, and (5) the implementation of actions undertaken to resolve project difficulties.' ***Field missions*** are carried out to resolve specific implementation problems as well as to obtain information directly from project sites. It is noted that *loan administration* (in particular supervision of procurement and disbursement) is included in this supervision concept.

4. *Implementation assistance* and related capacity building, have been a mandate and a feature of Bank supervision in the past as stated in the Operations Manual: 'Whenever possible, the [sector and country departments of the Bank] should increase the cost effectiveness of supervision, by helping strengthen the implementation and monitoring capabilities of borrowers and local agencies to complement the Bank's supervision.' (OM, section 800, para. 10).

Appendix 2

Summary tables from the electronic evaluation survey

Table A.1

What are the main objectives of project supervision? (ranked in order of importance attributed by respondents*)	
Objectives	**Average ratings of importance**
1. Identifying and resolving administrative and financial implementation problems (disbursement, procurement, staffing etc.)	4.43
2. Ensuring compliance of Borrowers with what was appraised, approved and negotiated	4.30
3. Ensuring that projects achieve their overall longer term objectives	4.04
4. Managing project risks	3.37
5. Maintaining good relations with the Borrower	2.63
6. Maintaining good relations with the co-financiers	2.24

* on a scale from 1-10, 1 being least and 10 most important

Source: OPEV survey on ADB projects supervision, March 07, question 5

Table A.2

How useful is the Bank's project supervision system to address and mitigate major project risks? (ranked in order of importance attributed by respondents*)	
Category of risk	**Average ratings of importance***
1. Implementation risks (Loan agreement compliance, disbursement, procurement, personnel etc.)	7.1
2. Development risks (Compliance, disbursement, procurement, personnel etc.)	6.0
3. Fiduciary risks (financial statements, audits etc.)	5.9
4. Mitigation of risks (ie. advance identification and monitoring of risks)	5.6

* on a scale from 1-10, 1 being least and 10 most important

Source: OPEV survey on ADB projects supervision, March 07

Table A.3 - What purposes does the project supervision system have?

Theme	**Frequency of response** *(number)*	**Concerned respondents** *(% of all respondents who answered this question and mentioned this theme)**
1. Standard administrative implementation and fiduciary tasks	29	54%
2. Support to borrowers and borrower capacity building	11	20%
3. Ensuring that overall project objectives are achieved	10	19%
4. Generating development results and improving the project enabling environment	9	17%
5. Dialogue with beneficiaries	7	13%
6. Satisfy 1.5 missions per year requirement	6	11%
Other	15	28%

*Percentages do not add up to 100% as multiple answers were possible
Total No. of respondents who responded to this question: 54