

AFRICAN DEVELOPMENT BANK GROUP



**REVIEW OF BANK GROUP SUPERVISION AND
MONITORING SYSTEM**

APPROACH PAPER

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

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APPROACH PAPER

1. Context

1.1 The Bank's primary vehicle of development assistance to its clients is its portfolio. It is therefore important that its effective implementation and progress in meeting intended development outcome be properly monitored and supervised.

1.2 Effective supervision and monitoring process enables, among other things, to: a) identify problems and changes in circumstances affecting project or programme implementation; b) provide essential data along with insights for decision-making; c) provide relative assurances that funds are used for agreed purposes; d) generate information on the validity of current development policies, strategies, as well as programs and projects, under implementation towards the achievement of stated development outcomes.

1.3 The Bank's supervision and monitoring system has evolved over the years and has been given more focus since the Knox report of early 1990s. Over time, the Bank has reinforced and introduced new supervision and monitoring instruments and processes. However, several reviews and studies, carried out by the Operations Evaluation Department of the Bank, (including the 1998 comprehensive supervision process study), indicate there are still serious gaps in the system. Some of the factors identified are:

- Too much emphasis on the mechanics (physical and financial) of project implementation;
- Risks and factors that most influence project outcomes inadequately identified; and if and when identified not effectively monitored for timely mitigation of risks;
- Performance indicators not consistently used in supervision and monitoring reports;
- Supervision ratings overly optimistic;
- Supervision missions not undertaken on a timely and regular basis and reports not disseminated in time;
- Noticeable capacity limitation, in both the Bank Group and the Borrowing countries, in terms of number and skill mix of professional staff ; and
- Inadequate incentive mechanism in the Bank performance evaluation system for supervision and monitoring activities.

1.4 These shortcomings have led to a lack of timely and appropriate feedback for informed decisions to adjust project design or implementation arrangements.

1.5 The recent independent evaluation of ADF VII, VIII and IX (Stepping up to the Future) underscored, based on earlier evaluation work done, that the Bank's 'monitoring (supervision) system is not used as a tool for decision-making and does not allow for effective monitoring of development progress and impacts. --- Monitoring in the Bank remains area of considerable weakness and in need of attention and improvement'.

1.6 It is against this background and following the guidance given by the Board of Directors/CODE, which requested OPEV to carry out an assessment of the current Supervision/Monitoring System and process in the Bank, that this review was initiated.

2. Objectives and Scope

A. Objectives

2.1 The primary objective of the review is to carry out an in depth analysis of the supervision/monitoring system and process in place and assess the extent the system and the instruments within the system fulfil their functions. The review will examine the degree to which the instruments used for monitoring and supervision activities and outcomes compare to what was expected in Bank policies, manuals and guidelines. In addition, it will further assess the existing instruments in terms of the information they provide, the accessibility, reliability, and data quality as well as the extent to which the information and data furnished by the different instruments of the system are updated and consolidated to serve user demands. Finally, the review will verify the extent to which the system in place responds to the following three basic principles identified as good practices:

- Is the system ‘borrower linked’, i.e. is it useful to borrowers in managing their projects and in resolving execution problems, as well as being an integral part of the dialogue between the Bank and the national authorities?
- Is it ‘Bank useful’, i.e. is it a useful tool for decision-making? Does it allow the tracking and monitoring of inputs, outputs and intermediate indicators? Does it provide relevant advance information on the level of risks- **operational/compliance risks, fiduciary risks and development effectiveness and safeguards risks**? Does it provide relevant information of the types of instruments to be employed sequentially over the life of the project or program cycle?
- Are the products of the various instruments ‘cost-effective’ and can be incorporated into a centralized database within the Bank’s management information system, in such a way as to facilitate consolidation, updating, access and the production of reports?

B. Scope of the Review

2.2 The scope of the review excludes private sector operations of the Bank for which an evaluation study had already been conducted.

2.3 The review, as a first step, determines the supervision cycle starting from date of loan approval through date of project or program completion as per the requirement of the regulations (compliance dates) to be later recast and compared in the light of actual results on the ground as compiled from Supervision Mission Reports for the selected projects and programs. The review also requires identifying the various instruments available within the supervision and monitoring system of the Bank. This calls for a detailed analysis of the supervision process and the instruments applied to allow comparisons with best practices. The analysis shall aim at answering the **what** and the **why** questions for each supervision activity, the sequencing of the instruments and **how** the activities relate to each other.

2.4 The instruments that will be subjected for review and assessment can be grouped in three broad categories:

Group A: Implementation Related Instruments

1. Start-up Missions (Launching);
2. Desk Supervision based on Quarterly Progress Reports, Financial Statements, Correspondences, etc.;
3. Mandatory missions (technical, institutional, financial supervision missions) required as per Bank regulations (including mission from Disbursement, procurement and internal Audit of the Bank);
4. Specific Missions required to address unresolved issues and problems that require special attention;
5. Mid-term Review Missions required as per the modality of the operation or when circumstances so require;

Group B: Portfolio Review Related Instruments

6. Country Portfolio Review (CPR)
7. Sector Portfolio Review (SPR)
8. Annual Portfolio Review (APPR)
9. Country Portfolio Improvement Program (CPIP)

Group C: Overseers

10. Panel of Experts/Steering Committees
11. Post-Procurement Review
12. Project/Program Audit
13. External Audit

2.5 The review/evaluation¹ shall carry out an in depth analysis of the findings from supervision reports and portfolio review reports in order to assess the relevance, efficiency and effectiveness of the supervision and monitoring system in dealing with the various issues in implementation of projects and programs. (Questionnaires shall be prepared and applied to capture the views of the operations complexes, stakeholders and development partners in the selected countries to complement the desk review findings). The review shall focus on the following.

2.6. **Operational/Compliance Issues:** A review of the Bank's supervision system and the instruments applied for purposes of assessing the degree of compliance of supervision activities with Bank's policies, regulations, operations manual, guidelines, practices, etc. The following constitute the major areas of operational issues:

- The degree of compliance with the Bank's policies, regulations, operations manual and guidelines;
- Assessment of the sequencing and value addition of each supervision activity, real time feed back to staff and management to tackle problems proactively. It can also assess the nature of missions carried out at Vice President, President and Executive Directors Levels on portfolio management issues.

¹ Review and Evaluation are used interchangeably in this report.

- The efficacy and efficiency in applying the instruments for monitoring the compliance of borrowers in applying Bank rules and procedures as well as conditionalities, including the rigidity or otherwise of the Bank rules and procedures as well as delegation of authority as compared to other donors; and
- The use of the instruments for tracking and assessing performance indicators of projects and programs and as a tool for dialogue with borrowers.

2.7 The evaluation shall assess the adequacy of types and frequency of supervision activities; (i) desk supervision, (ii) launching missions (iii) field supervision (iv) mid-term reviews, (v) country portfolio review, (vi) Sector Portfolio Review (vii) annual portfolio performance review, (viii) Country Portfolio Improvement Program. Skill mix and duration of field missions, types of reports produced and their utility; types of decision taken and the time lapse between recommendations of Task Managers and response time for conveying the decision made by management on revision of list of goods and services; on procurement matters; on delays in loan effectiveness, on implementation delays, etc.

2.8 The review shall assess the comprehensiveness and utility value of the operational review process before and after field missions (issues paper and reports prepared).

2.9 **Fiduciary Issues:** The review shall assess the process and effectiveness of the system for monitoring project and program fiduciary issues (review of financial statements, financial inspection visits, annual independent external audits of project's funds, etc.): The review will include:

- The use of the instruments for monitoring of funds administration, and the capabilities of borrowers/executing agencies to administer resources in line with Bank regulations,
- The existence and functioning of mechanism for administration and control of Bank funds,
- The efficacy and efficiency in applying the instruments for monitoring projects and programs fiduciary risks- such as review of the management and financial capability of the executing and beneficiary agency.
- The extent to which financial inspection visits were used for monitoring of projects identified as posing risks in the handling or use of funds.

2.10 The review shall assess the adequacy of the frequency of financial supervision visits, types of reports produced and their utility; types of decision taken at various levels and dialogue undertaken;

2.11 The review shall determine the value addition of the fiduciary review process before and after field missions (issues paper and reports prepared).

2.12 **Development Effectiveness and Safeguard Risks:** The review shall assess the instruments and processes applied and the effectiveness of the system for closely tracking development effectiveness indicators and risks that generally affect desired outcomes and results. In this regard, the following aspects shall be reviewed in depth.

- Tracking and monitoring of input, output and intermediate outcome indicators;
- The use of supervision in projects at risk: This relates to the degree of which supervision instruments are used to address issues pertaining to projects at risk and risks in general.

- The supervision response to identified risks: This addresses the extent to which the supervision process or its instruments have contributed to improving the risk classification of projects so identified. What is to be examined is first, whether management responded effectively to the risk identified in one year by stepping up supervision activities in the next year; and second whether the results of those supervision activities lead to improvements in the classification of projects at risk in subsequent years.

2.13 In all the above areas, the review shall assess the types and frequency of field missions; reports produced and their utility; skill mix and duration of field missions; types of decision taken, the level of the decision makers, dialogue with borrowers and types of restructuring of projects or programs arising from the review.

2.14 The evaluation shall also assess the development effectiveness review process before and after field missions (issues paper and report prepared) for its value addition.

2.15 The evaluation should also examine the relationship of Compliance, Fiduciary, Development Effectiveness and Safeguard issues in supervision instruments by asking the following questions: Are the reports on compliance and fiduciary risks used for monitoring development risks? Are there linkages between these instruments? Do they relate to each other? Are there interface between the planning and execution of these instruments? Are they efficient and cost effective individually and collectively? Institutionally, is the supervision system effective for project and program management? Is the system used more in mitigating problems as they arise on ad hoc basis or routinely applied as a planning and decision-making tool? Are the different instruments' utility understood by staff engaged in supervision and monitoring function?

2.16 **Incentive Mechanism:** There is some concern that the incentive and reward systems of the Bank is considered to attach more premium (through staff performance evaluation) to functions relating to lending programs than to those relating to supervision and monitoring. The evaluation shall assess the existence of appropriate performance contingent incentives (including non-monetary incentives) to staff directly involved with supervision and monitoring functions. It should address questions such as: Are there triggers for effective response time for procurement and disbursement matters, queries, correspondences, progress reports, financial reports, audit reports forwarded by client countries? Can specific triggers apply for operational/ compliance risks, fiduciary risks and development effectiveness and safeguard risks?

2.17 **Information Systems:** The review shall also assess the adequacy, completeness and accessibility of the supervision information system for decision-making. Assess the reliability of the system as management tool to facilitate decision-making and result based management of the portfolio of the Bank. The following questions are expected to be addressed:

- Does the database contain information on all instruments?
- Is the information up to date?
- Is there a consolidated single centre with interconnected local networks to allow for automatic updating, easy access and the production of key supervision indicators to facilitate monitoring and evaluation?
- Can the information system allow for meeting user demand effectively?
- Does the information system help in verifying compliance of supervision activities i.e. for internal control?

- Does the information system provides time-sensitive triggers; i.e. indicate when a particular activity needs to be performed in accordance with policy or because they were anticipated in the planning process?
- Are there systems to monitor the performance of supervision activities at each level of the complexes' hierarchy? Is there independent system of internal control for supervision activities or standards of internal control that certify the effectiveness of supervision?

2.18 **The Role of Country Offices:** The Bank has opened up a number of field offices and is now in the process of increasing the number systematically. An important justification for the field offices is to enhance the supervision and monitoring function. This evaluation shall assess the role of these offices in the supervision and monitoring system in place with respect to the instruments at their disposal, the reporting mechanism, the products delivered, etc.

2.19 **Experience of Other Donors:** The evaluation shall review the experience of other donors (notably the World Bank, Asian Development Bank, Inter American Development Bank, European Development Bank, Bilateral donors such as DFID and UN agencies such as UNDP) from available documents and web sources with the view of drawing best practices.

2.20 **Lessons Leant and Recommendations:** The review shall draw important lessons and make recommendations to enhance the Bank's supervision and monitoring system. Reference should also be made to the recommendations of the 1998 study. In this regard, the expected outcomes are, but not limited to the following:

- The strength and shortcomings of the existing supervision system and the various instruments as stipulated in Bank policies, manuals and guidelines identified;
- Good/Best practices identified from the existing system and from comparator institutions;
- Staff incentives, to be devised and mainstreamed in staff performance evaluations to underline the importance of monitoring and supervision;
- The need to develop internal control framework model in the form of triggers to improve the effectiveness of the system recommended;
- Improvement in use of IT that allows and ensures the information and data from the various instruments of the system to be more integrated, accessible and user friendly;
- Deepening assistance to RMCs to build monitoring capacities and ensure ownership.

3 Methodology

3.1 The review shall use a sampling method to review the group of on going projects and programs of the public sector. The total sample shall not be less than 25 percent of the total on-going projects and programs. Case studies will be carried out in selected representative countries. The sample size and the countries to be selected will be based on the following criteria.

- Geographical distribution (North, South, East, West and Central Regions);
- Sectoral Distribution (Agriculture and Rural Development Sector, Social Sector, Public Utility Sector, Transport Sector, Financial and Industrial Sector and multisector);
- The on going projects will be classified at least into two major groupings in order to assess the efficiency and effectiveness of the supervision system and the process put in place and evolved over the years. The grouping will be as follows:
 - Projects approved from 1993 to 1998 (to assess the improvement since the Knox report relating to the frequency of missions, skill mix, scope of supervision and monitoring activities);
 - Projects approved from 1999 to 2004 (to assess further improvements since the Logical Framework has been introduced and the first review process was put in place). This will be extended to include recently approved projects to assess any improvement in the supervision and monitoring function and process since the adoption of the revised Delegation Authority Matrix, the new review process of 2004 and the recently introduced result-based management approach.

3.2 As part of the desk review, the evaluation will first consult information and data on all on going projects up to the end of 2004 and determine sample size as described above.

3.3 The desk review for the sample projects and programs will be based on PCRs, PPERs, Launching Mission Reports, Supervision Mission Reports, Mid-term Mission Reports, Country Portfolio Review Reports, Annual Portfolio Performance Review Reports, and Country Portfolio Improvement Program Reports in order to review the extent to which the instruments and the process within the supervision/monitoring system were in line with the Bank's policies, operational manuals, guidelines and practices relating to the supervision system in place, the operations review process adopted, and the delegation of authority matrix applied.

3.4 The findings of the desk review shall be further analysed in the light of the different issues categories in order to assess the extent the supervision and monitoring system address those issues. Interviews and evaluation questionnaires will be developed and applied within the Bank in order to capture the views of both the Bank staff and managers regarding the supervision system and process in place and the extent to which they address these risks.

3.5 Selected country visits will be conducted and similar evaluative questionnaires will be prepared and used during field visits to get the views of the various stakeholders particularly regarding the utility of the various instruments and the effectiveness of the feedback mechanism (timely decisions, response time, dialogue with partner country, etc.).

3.6 The experience of other donors notably the multilateral development banks shall be reviewed from available documents and sources to identify and emulate good practices.

4. Conceptual Framework

4.1 In the absence of a consolidated documentation (aside from the operations manual) on the supervision and monitoring system of the Bank that discusses the various instruments in a sequential and integrated approach, it is considered necessary to present a conceptual framework of what the system entails in order to facilitate the construction of relevant evaluative questions for this exercise. Along the line of this conceptual framework and taking into account good practices followed in other donor institutions, it is expected that a focused assessment could be made on the supervision and monitoring system of the Bank and come up with recommendations to address any shortcomings and enhance good practices such that the system, when used, could facilitate result based management of the portfolio.

4.2 The concept of supervision and monitoring system relates to the way in which the Bank manages, on an on going basis, the effective implementation of its lending activities in RMCs. The system needs to be wired to help minimize risks that can be categorized into three kinds: (i) risks concerned with the Bank's Mission Statement (development risks); (ii) risks that arise during project or program implementation (operational risks/ compliance risks); and (iii) risks linked to the use of funds in accordance with the procedures and purposes for which they were intended (fiduciary risks). Thus, there is a distinction between implementation monitoring which concerns process and progress in undertaking activities, completing the work plan and utilising the budget in accordance to the set rules and procedures; and results monitoring, which concerns the measurement of results and the attainment of the project and program purposes and development objectives (development and safeguard risks).

4.3 The effectiveness of supervision and monitoring depends on whether:

- (i) The issues or constraints have been anticipated in the project or program design, which transforms them into operating assumptions, and those are in fact the ones that do arise during execution;
- (ii) There is an information system with indicators that can anticipate and measure implementation issues and constraints, and provide support for monitoring activities, by the deadlines established for the project;
- (iii) There is a timely decision and response when problems appear, as a result of periodic reviews; and
- (iv) Efforts to overcome those problems are monitored, and that the final self-evaluation will assess the achievement of the project's or program's objectives and the likely outcome and development impact of the project or program.

4.4 It is imperative that supervision and monitoring is carried out at each stage of the project life cycle:

- At the design stage (front-end activities), because of its importance in anticipating risks and planning the set of appropriate supervision instruments for monitoring and evaluation;

- At the initial stage of execution, because of the need for a proper assessment of project or program execution capabilities, administrative systems and financial control, as well as providing a results framework for measuring performance against objectives. This stage, which is essentially preventive, reflects the principle that taking early action will have a positive impact on the future of the project or program.
- In the execution process, periodic monitoring instruments are used to identify problems in the external setting, management risks, ethical issues or problems arising from the operational capacities of the executing agencies or the Bank. They also provide information on progress in achieving the planned activities and results. The supervision and monitoring products also serves as inputs for self-evaluation at completion of the project or program.
- Upon completion of the project, the self-evaluation conducted show how the implementation constraints or issues have impacted the project or program and how the identification and management of those risks contributed to the project or program outcome and likelihood of achieving development effectiveness. The self-evaluation also provides lessons learnt for future undertakings.

4.5 This supervision model, briefly characterized, requires the simultaneous participation of many stakeholders (governments, executing agencies, beneficiaries, the Bank's Country Offices, the operations departments, auditors, evaluators and even the performance of other donors and stakeholders) who have different roles and interests. The roles and interests of the different players must be synchronized and the instruments used need to be correctly sequenced with clear indication of the products expected of them, their timing, and the responsibility of the people who must participate in them.

Types of Instruments of the Supervision System

Type	Timing	Remark
Borrower progress reports	Quarterly after start of project implementation	Some borrowers do not-submit progress reports on time
Launching mission reports	Once after loan approval	Not carried out systematically before but in recent year it is carried out systematically
Desk Supervision	Continuous until project implementation is completed and PCR is prepared	Delayed response time
Project supervision mission and reports	One and half times per project per year	Not always respected
Disbursement Dept. Missions		
Procurement Unit Mission (procurement post-review)		
Country Procurement Assessment Reviews		
Audit Mission		
Mid-term review reports	At mid-implementation period as per the appraisal schedule	Not always respected
Project completion reports	At project completion or last disbursement of the loan	Not always respected Large backlogs of PCR
Technical Assistance Completion reports	At study completion or last disbursement of the Grant	Not yet carrying out
Sector Review Mission		
Country Portfolio Review		
Annual Portfolio Performance review (APPR) for on going projects	Every Year for all on-going projects	Carried out since 1995
Country Portfolio Improvement Program		

List of Reference Documents to be consulted

1. Bank Policies
2. Bank Operation Manuals and Guidelines
3. Bank Procedures and Rules
4. Bank Delegation Authority Document
5. Reports on Front-End Activities (to enhance quality at entry)
6. Appraisal Reports of the sample projects and programs
7. Launching Mission Back to Office Reports
8. Quarterly Progress Reports
9. Supervision Mission Reports
10. Disbursement Dep't Mission Reports
11. Procurement Unit Mission Reports
12. Audit Mission Reports
13. PCR reports for the sample projects and programs
14. PPER reports for the sample projects and programs (OPEV products)
15. Sector Review Reports
16. Country Portfolio Review Reports
17. Annual Portfolio Review Reports
18. Country Portfolio Improvement Program Report
19. Annual Review of Evaluation Results (OPEV products)
20. Other donors experience

Consultancy Services

OPEV will undertake the review of the Supervision and Monitoring System of the Bank assisted by consultants. A consulting firm will be selected in accordance with the Bank's procurement rules and the funding will be through bilateral sources. Terms of reference will be prepared following the adoption of the Approach Paper.

Consultant's Profile

The firm should have experience in evaluation assignment for multilateral development banks (MDBs) and/or bilateral donors in general and in assessing supervision and monitoring systems. The firm shall assign two consultants for the tasks to be carried out in Tunisia and in the selected case study countries. The consultants' profile should be as follows:

Consultant 1: **Economist:** The consultant should have graduate degree in economics and adequate training or acquired experience in development economics/finance including more than 10 years experience in supervision and monitoring assignment for donor agencies.

Consultant 2: **Organization and Methods Analyst:** The consultant should have graduate degree in Business Administration specialized in organization and methods and more than 10 years experience in organizational methods and systems development for large organizations in general and development institutions in particular.

Duration of Consultancy Services

The total duration of the consultancy services required for this assignment is 26man/weeks broken down as follows:

Major Tasks	Per Expert	Total Man/weeks
Desk review of documents And report on preliminary findings	2 weeks	4 weeks
Developing Questionnaires for Bank Staff and Selected Countries	1 week	2 weeks
Field Missions to min. 5 countries	5 weeks	10 weeks
Debriefing after field mission	1 week	2 weeks
Draft Report	2 weeks	4 weeks
Presentation of draft report	1 week	1 week
Final Report	1 week	2 weeks
Overall travel time	<u>1 week</u>	<u>2 weeks</u>
Total	14 weeks	27 weeks

Methodology and Work Plan

Weeks One and Two:

- The consultant will review the background documents (see annex 2)

Output: Report on preliminary findings and a detailed work plan indicating key milestones.

Week Three

- Prepare evaluation questionnaire for Bank Staff and distribute.
- Prepare evaluation questionnaire for selected countries and forward to relevant country and government offices in advance of the mission

Output: two sets of Questionnaires, distributed to staff and to country offices or government offices.

Week Four to Nine

- Conduct field missions to 5 countries

Output: Back to Office Reports/Debriefing

Week Ten and Eleven

- Compile desk review, questionnaire and field findings and prepare report

Output: Draft Report

Week Twelve and Thirteen

- Presentation of the draft report to ADB by the lead consultant
- Incorporate feedback of OPEV working group and finalize report

Output: Final Report

Note: One week is assumed to be used for all travels