



IDEV

Independent Development Evaluation
Évaluation indépendante du développement



Synthesis Report on the Validation of the 2014-2019 Expanded Supervision Reports: Management Response

January 2021



AFRICAN DEVELOPMENT BANK GROUP

Management welcomes BDEV's Synthesis Report on the Validation of the 2014-2019 Expanded Supervision Reports (XSRs). The report's analysis and conclusions are timely, given BDEV's recent revision of the Guidelines for the Preparation of XSRs for Private Sector Operations, which will serve as a basis for the Bank to evaluate its non-sovereign operations (NSOs) going forward¹. The Bank has streamlined the process for conducting good XSRs and it is continuing to strengthen results measurement and reporting; going forward, it will place more emphasis on reporting the outcomes of its technical assistance (TA). In this note, Management responds to the principal issues raised in BDEV's report and presents actions—planned and ongoing—that relate to BDEV's recommendations.

INTRODUCTION

The expanded supervision report (XSR) is a tool the Bank uses to evaluate its non-sovereign operations (NSOs). The XSR rates projects' performance, measuring their development results at early operating maturity² and conveying findings, lessons learnt, and recommendations. XSRs are instrumental in improving subsequent Bank interventions and designing better projects.

Management welcomes BDEV's validation Synthesis Report. The report finds that NSOs generated positive development outcomes overall. Most positive results were observed in the areas of business success, economic sustainability, environmental and social effects, and private sector development.

The report identified key lessons and success factors that contributed to positive results including working with good sponsors, establishing good front-end work and integrating non-lending assistance.

The findings, lessons learnt, and recommendations also come at the right time, as Management has begun to revise the XSR template as part of the Bank's Integrated Quality Assurance Plan (IQAP). Several insights from the report will improve XSRs going forward:

- *The profitability of the Bank's investments is on the right track and the quality of the Bank's work at both origination and supervision has improved since BDEV's last XSR validation synthesis report.*

- *NSOs' early operating maturity is being monitored, but stricter tracking is advised to systematically identify NSOs as they become eligible for self-evaluation.*

- *Stronger results reporting, especially for financial intermediary operations, should be pursued by increasing clients' commitment to measuring core indicators.*

- *Reporting on the outcomes from NSOs' TA components should be emphasised by developing frameworks and templates for this purpose.*

- *The Bank should build staff's capacity to prepare XSRs, among other things by identifying lessons learnt. This will help staff design better NSOs.*

Overall, BDEV's recommendations will enhance the design and comprehensiveness of the NSO self-evaluation process presently under revision.

ADHERENCE TO THE XSR PROCESS

BDEV recognises that over the past decade, the Bank has successfully internalised the XSR process, improving XSRs. The Bank has continued to perfect the process by assessing the maturity of operations in the portfolio and selecting operations eligible for the XSR exercise at the time that best informs lessons learnt and allows the extent of the development outcomes to be assessed accurately. Early operating maturity has been defined in the NSO Business Manual as per Bank guidelines.

¹ The 2014-2019 XSRs and validation covered in BDEV's Synthesis Report were governed by the Bank's 2012 Guidelines for the Preparation of XSRs and XSRENS. BDEV, in collaboration with PINS, recently reviewed these guidelines. The forthcoming Revised Guidelines will become effective in 2021 after approval.

² As per the Bank's 2012 Guidelines for the Preparation of XSRs, all NSOs that achieve early operating maturity (EOM) are eligible for self-evaluation and hence prepare an XSR. EOM is determined by project type and other criteria such as the level of disbursement and co-financing, generation of operating revenues, duration since approval, audited financial statements etc.

Management agrees that the process of selecting projects for the XSR exercise needs to be more systematic. Management also acknowledges challenges to implementation. The present process captures the spirit of Bank guidelines for early operating maturity. Nonetheless, Management draws attention to challenges, usually pertaining to resources constraints (staff and budget), that jeopardise full compliance with the requirement that all NSOs that reach early operating maturity conduct an XSR.

Management has undertaken concrete actions to adhere more closely to XSR guidelines. As part of the IQAP, the Bank committed to revising the XSR tool to strengthen guidance on capturing lessons. It also committed to setting up a Results Reporting System for NSOs³. These two actions will integrate recommendations from the validation Synthesis Report—such as automating the triggers for conducting an XSR and in line with the forthcoming Revised Guidelines.

The XSR tools are being revised and the forthcoming Results Reporting System for NSOs is being implemented in consultation with BDEV and in collaboration with the NSO and Private Sector Support Department (PINS), the Quality Assurance Department (SNOQ), and the Financial Sector Development Department (PIFD).

COLLECTING CREDIBLE INFORMATION

Management agrees on the need to collect credible core information on development results, without which assessments are inaccurate. This said, Management notes challenges with the reliability, availability, and timeliness of certain data—for instance, some results metrics at the country level. Furthermore, some operations in the sample reviewed by BDEV began prior to the institutionalisation of the Additionality and Development Outcomes Assessment (ADOA) Framework and were therefore not required to assess core indicators ex ante and track them ex post. ADOA's modus operandi includes designing a development outcome's reporting template to be included in legal agreements with NSO clients. This process is now automatically triggered by Board approval, and the Bank's Office of the General Counsel and Legal Services

(PGCL) ensures that results tracking is part of yearly reporting covenants.

Management confirms that for recent NSOs, several new steps will increase the collection of reliable indicators of core development outcomes. More precisely, project concept and appraisal report templates were recently revamped to focus more strongly on assessing and tracking standardised indicators. The templates provide revised results-based logical frameworks (RBLFs) for five types of NSO instruments, and Investment Officers are required to populate the RBLFs with clear baselines, targets, and outcome and output indicators. Guiding notes referring to the standardised development outcome reporting templates are included to ensure that the same RBLF indicators are tracked across NSOs and throughout the project lifecycle. The templates' lists of indicators per NSO instrument and sector are designed to be attached to legal agreements with NSO clients as a reporting covenant. The indicators in the templates are also consistent with the indicators in the ADOA framework and the Harmonized Indicators for Private Sector Operations (HIPSOs), agreed upon by 27 development finance institutions.

Equally important, the new operational guidelines for the RBLF that are currently being finalised by the Quality Assurance Division are expected to strengthen the Bank's results planning and measurement practices, including for NSOs. The guidelines clarify the importance of a theory of change on which to base a RBLF; they provide teams with a clearer template and unequivocal guidance and definitions, and they strengthen the use of standard corporate indicators such as ADOA indicators and indicators from the Results Measurement Framework.

The Bank will also strengthen its capacity to measure results by hiring five Quality, Results and Monitoring Officers who will be posted to the regions to advise NSO and sovereign operations task teams on results planning, amongst other things. The officers will make RBLFs more robust and relevant so that they

³The Results Reporting System (RRS) for NSO is an adjustment of the existing RRS system developed under SAP for SOs taking into account the specificities of the NSO instruments and clients.

This adjustment will facilitate the consolidation and reporting of results from both SO and NSO operations.

give clients a solid basis from which to track development results ex post.

REPORTING THE OUTCOMES OF TECHNICAL ASSISTANCE AND ADVISORY OPERATIONS

Management notes the finding about the role of TA in enhancing NSOs' overall development results and fully concurs with the recommendation to strengthen TA reporting and assessment frameworks when combining TAs with other lending and investment instruments.

In line with this recommendation, Management has initiated the design of a Technical Assistance and Business Advisory Services framework. Its objective is to identify evaluation tools and metrics that measure the impact of TA projects and linked interventions. Standard and specific TA output, outcome and impact indicators, linked to the type of TA (business linkages, access to finance, etc.) will be highlighted and differentiated from the development impact indicators of the supported NSOs. These indicators will be integrated into the supervision/XSR tools.

IMPROVING THE BANK'S CAPACITY TO PREPARE XSRS

Management agrees with the need to improve the Bank's capacity to prepare XSRS and has already defined actions to address some of the weaknesses observed in the formulation of lessons and staff's capacity to rate project performance.

Management plans to build staff's capacity to formulate lessons from findings from the XSR exercise. Capacity will be built through online "NSO Pathway" courses, which include a module entitled, "Project post-evaluation and results measurement phase" that discusses lessons learnt for NSOs.

The forthcoming Revised Guidelines for the Preparation of XSRS provide clear guidance on the methodology used to rate project performance for each type of NSO. Management welcomes these guidelines and will integrate them into the design of the XSR template in order to reduce the gap between self-evaluated and independent ratings.

MOVING FORWARD

XSR self-evaluation is instrumental to improving the quality at entry of the Bank's NSOs and preserving institutional memory. It is a reference for multiple stakeholders within the Bank and informs external communications about the Bank's development effectiveness.

It is therefore crucial that the XSR adequately capture development results, specifics about the instruments used, the context in which NSOs take place, findings, lessons learnt, and recommendations. To achieve this, the XSR's rating methodology must continue to adapt to different types of NSO instruments and leave less room for subjectivity. Considerable efforts to this end have been made over the past 12 months and Management is committed to continuing to improve the XSR process/tool.

CONCLUSION

The Synthesis Report on the Validation of the 2014-2019 Expanded Supervision Reports (XSRS) underlines several areas for improving XSR processes and tools. Management is pleased to convey that actions to address these areas have been initiated and that enhancements to the XSR process and XRS tools are already underway. Details are provided in the Management Action Record.

MANAGEMENT ACTION RECORD

BDEV'S RECOMMENDATION

MANAGEMENT RESPONSE

RECOMMENDATION 1 – *The Bank should ensure that Non-Sovereign Operations reaching early operating maturity are systematically self-evaluated.*

- The process covering the entire project results cycle should be better aligned with the Bank's guidelines between the relevant parties (PINS, PIFD and SNDR).
- This process should include the practice of maintaining the net approval population of projects and strict monitoring for early operating maturity for this population of projects.

AGREED—Management welcomes this recommendation and is undertaking further actions in this regard.

Further actions:

- PINS will consult with BDEV and work jointly with PIFD, SNOQ, and CHIS to finalise the revision of the XSR tool and set up the Results Reporting System for NSOs (as per the IQAP) that will integrate the recommendations from BDEV's synthesis report. The expected deliverables under this action are **i)** a revised XSR Template and rating methodology; and **ii)** enabling the initiation, generation and approval of the XSR report in the forthcoming Results Reporting System for NSOs. **(PINS, Q4 2021).**
- PINS will work with PIFD, SNOQ, and CHIS to automate the triggers for initiating the XSR exercise in the forthcoming Results Reporting System for NSOs as per the forthcoming revised XSR guidelines. The expected deliverables under this action are **i)** defining the EOM for each NSO instrument in line with Bank guidelines; and **ii)** accordingly defining a system specification in the forthcoming Results Reporting System for NSOs to inform on all NSOs that reach EOM and are eligible for the XSR exercise within a given year. **(PINS, Q4 2021)**

RECOMMENDATION 2 – *The Bank should do more to collect credible information on development results.*

- This is more important in financial intermediary operations, such information should include some of the basic variables (turnover, employment, exports, gender profile, etc.), which are key for measuring and tracking of project economic and financial indicators.
- Including such reporting requirements in the loan agreement is a good start. Relevant templates that are designed to facilitate the tracking of project results should be used during supervision.

AGREED — Management fully agrees with this recommendation.

Ongoing actions:

- **As communicated in Management's response⁴ to BDEV's 2013-2019 Private Sector Development Strategy Evaluation, SNOQ** will work with SNDR and the units engaged in NSOs to finalise new operational guidelines for RBLFs (including for sovereign operations and NSOs). An additional supporting toolkit will place increased focus on defining a theory of change for key sectors and instruments, with relevant outcome and output indicators. This exercise will also contribute to the planned review of the Bank's Results Measurement Framework **(SNOQ, Q1 2021).**
- **As communicated in Management's response⁵ to BDEV's 2013-2019 Private Sector Development Strategy Evaluation, and as part of the Integrated Quality Assurance Plan, PINS** is revamping the NSO results framework with harmonised development indicators per instrument/sector as per the ADOA framework and the HIPS0 list for designing, assessing, approving, and implementing NSOs, alongside enhanced monitoring and reporting on results. The expected deliverables under this action are **i)** revised PCN and PAR templates for each of the main NSO instrument type (Corporate Loan, Project Finance, Direct Equity, Private Equity, Line of Credit); **ii)** creating standardized lists of

⁴ Recommendation 2, Action 1

⁵ Recommendation 5, Action 3

	<p>indicators per instrument and sector that are in line with the ADOA framework and HPSO. These are to be referenced in guiding notes in the revised PCN and PAR template. The guiding notes instruct origination teams to use the standard lists of indicators when filling out the RBLF, thereby ensuring harmonization of results assessed ex ante and tracked ex post. The list is to be included in the legal documentation as reporting covenant and used for the yearly supervision. (PINS, Q1 2021).</p> <ul style="list-style-type: none"> ■ To strengthen the Bank’s capacity to measure results, SNOQ is recruiting five Quality, Results and Monitoring Officers to advise operations teams on results planning and make RBLFs more robust and relevant to prepare a solid basis for the ex post tracking of development results from clients (SNOQ, Q2 2021).
--	--

RECOMMENDATION 3 – The Bank should place more emphasis on reporting the outcomes of its Technical Assistance and advisory operations.

<ul style="list-style-type: none"> ▪ Specific framework and guidance and templates for reporting on Bank’s TA operations, which should take into consideration the specificities of these interventions should be developed. ▪ Accordingly, supervision and XSR missions should place the assessment of TA operations at par with lending and investment operations. 	<p>AGREED—Management fully agrees with the recommendation.</p> <p>Further actions:</p> <ul style="list-style-type: none"> ■ PINS will develop a Technical Assistance and Business Advisory Services framework, with guidance and templates for reporting on Bank’s TA operations. The objective is to identify evaluation tools and metrics that measure the impact of TA projects and linked interventions. Standard and specific TA output, outcome and impact indicators, linked to the type of TA (business linkages, access to finance, etc.) will be highlighted and differentiated from the development impact indicators of the supported NSOs. The expected deliverable under this action is the development of a Technical Assistance and Business Advisory Services framework. (PINS, Q2 2021).
--	--

RECOMMENDATION 4 – Improve the quality of XSRs preparation.

<ul style="list-style-type: none"> ▪ There is a strong need to improve the Bank’s capacity for identification and formulation of lessons learned in XSR, since refining them at the validation stage is sub-optimal and could result in the loss of valuable lessons of experience. There should be specific guidance on lessons that provides sufficient distinction between findings, lessons, and recommendations. ▪ Moreover, emphasis should be placed on improving staff capacity to rate project performance in order to reduce or close the gap between self and independent ratings. ▪ Knowledge events and trainings on how to rate projects performance and how to formulate lessons learned should also be provided to operations staff responsible for producing XSRs. 	<p>AGREED—Management fully agrees with the recommendation.</p> <p>Further actions:</p> <ul style="list-style-type: none"> ■ PINS will coordinate with SNOQ to build staff’s capacity to formulate lessons learnt from the findings of the XSR exercise. Capacity will be built through online “NSO Pathway” courses, which include a module titled, “Project post-evaluation and results measurement phase” that discusses lessons learnt for NSOs. (SNOQ and PINS, Q2 2021). ■ The forthcoming Revised Guidelines for the Preparation of XSRs provide clear guidance on the methodology used to rate overall project performance for each type of NSO. Management welcomes these guidelines and will integrate them into the design of the XSR template in order to reduce the gap between self-evaluated and independent ratings. The expected deliverable under this action is a revised XSR Template and rating methodology that is in compliance with the forthcoming Revised Guidelines for the Preparation of XSRs. (PINS, Q4 2021).
--	---