In 2010 the Governors of the Inter-American Development Bank (IDB, or Bank) approved two formal agreements—the “Cancun Declaration” and the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank”—leading to the Bank’s Ninth General Capital Increase (IDB-9). These agreements tied IDB-9 to a series of reforms broadly intended to strengthen the strategic focus, development effectiveness, and efficiency of the Bank to help it remain relevant and competitive in the years ahead. IDB’s Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation to assess whether these reforms were being implemented fully and effectively. This overview report summarizes the findings of OVE’s evaluation and provides 10 priority recommendations to help the Bank move forward effectively on this broad range of fronts. More in-depth findings and suggestions in individual areas are available in the 22 background papers accompanying this report.

The evaluation finds that IDB Management has made intensive efforts to implement the IDB-9 mandates, and the requirement of “full implementation” has been met or is in the process of being met in most areas. Progress toward “effective implementation” has been more mixed. Though it is too early to assess results definitively, the evaluation can help identify areas where changes may be needed to ensure effectiveness down the road.

Progress is evident in many areas. The Bank’s focus on results has increased, particularly at the project level, and continued efforts will help to complete the implementation of the Development Effectiveness Framework and deepen results-based budgeting. Steps have been taken to strengthen safeguards, anticorruption initiatives, and the use of country systems, though some implementation challenges remain. A new policy on information disclosure has been adopted but needs further clarification to close potential loopholes and ensure its objectives are met. With regard to operational instruments, the Bank’s lending has been relatively effectively structured, though its nonlending instruments (notably technical cooperation) remain work in progress. Reforms on the financial side, including new rules on income management and capital adequacy, have been implemented as intended, and continued attention and adjustment will help ensure optimal use of Bank capital and maintenance of the Bank’s AAA credit rating. Reforms to strengthen the Bank’s business processes and human resource management are also moving forward, albeit with significant delays on the business process and IT side.

In contrast, effectiveness has been limited in some areas. These include the set of reforms designed to promote the Bank’s strategic selectivity, including the corporate results framework, lending targets (including mandated transfers to Haiti), sector strategies, and country strategies and programming. These reforms face inherent tensions with the demand-driven orientation of the Bank, and approaches are needed that can help meaningfully identify where Bank capabilities and borrower demand intersect. The most challenging areas to date, where OVE recommends major redesign, include the strategy and coordination of operations in support of private sector development, the Macroeconomic Sustainability Assessments, and the Independent Consultation and Investigation Mechanism.
ACRONYMS

ACKNOWLEDGEMENTS

EXECUTIVE SUMMARY

1. **INTRODUCTION AND OVERVIEW** .................................................................................. 1
   A. Evaluation scope ........................................................................................................... 2
   B. Overall findings: Full and effective implementation ...................................................... 4

2. **INSTITUTIONAL STRATEGY** .......................................................................................... 7
   A. Lending targets .............................................................................................................. 7
   B. Sector Strategies .......................................................................................................... 10
   C. Small and Vulnerable Countries (including FSO and Haiti) ............................................ 13
   D. Private Sector Development ......................................................................................... 15
   E. Summary: Institutional Strategy .................................................................................... 16

3. **OPERATIONAL INSTRUMENTS AND PROCESSES** ...................................................... 19
   A. Lending Instruments .................................................................................................... 19
   B. Knowledge and Capacity-Building Products .................................................................. 22
   C. Country Programming ................................................................................................. 23
   D. Country Systems .......................................................................................................... 25
   E. Summary: Operational Instruments and Processes ......................................................... 27

4. **RESULTS MEASUREMENT AND MONITORING** .......................................................... 29
   A. Corporate Results Framework ...................................................................................... 29
   B. Development Effectiveness Framework ......................................................................... 31
   C. Summary: Results measurement and monitoring ............................................................ 33

5. **SAFEGUARDS AND ACCOUNTABILITY MECHANISMS** .............................................. 35
   A. Macroeconomic sustainability ....................................................................................... 35
   B. Environmental, Social, and Gender Safeguards ............................................................. 38
   C. Independent Consultation and Investigation Mechanism .............................................. 39
   D. Combatting Fraud and Corruption .............................................................................. 41
   E. Information Disclosure .................................................................................................. 42
   F. Summary: Safeguards and Accountability Mechanisms ................................................. 43

6. **RESOURCE MANAGEMENT** .......................................................................................... 45
   A. Organization Performance and Budgeting ...................................................................... 45
   B. Human Resource Development .................................................................................... 47
   C. Integrated Business Solutions (Program Optima) ............................................................ 48
   D. Financial and Risk Management ................................................................................... 48
   E. Summary: Resource Management ............................................................................... 51

7. **SUMMARY AND RECOMMENDATIONS** ...................................................................... 53
   A. Full and Effective Implementation ............................................................................... 53
   B. Recommendations ........................................................................................................ 56

ENDNOTES
BACKGROUND PAPERS

ACCESS TO INFORMATION
ASSESSMENT OF SOCIAL SECTOR STRATEGY FOR EQUITY AND PRODUCTIVITY
COMBATING FRAUD AND CORRUPTION
COMPETITIVE REGIONAL AND GLOBAL INTERNATIONAL INTEGRATION
CORPORATE RESULTS FRAMEWORK
COUNTRY PROGRAMMING
COUNTRY SYSTEMS
DEVELOPMENT EFFECTIVENESS FRAMEWORK AND THE DEVELOPMENT EFFECTIVENESS OVERVIEW
ENVIRONMENTAL AND SOCIAL SAFEGUARDS, INCLUDING GENDER POLICY
EVALUATION OF THE INDEPENDENT CONSULTATION AND INVESTIGATION MECHANISM
FINANCIAL AND RISK MANAGEMENT
HAITI
HUMAN RESOURCES PROCESSES
IDB INTEGRATED STRATEGY FOR CLIMATE CHANGE ADAPTATION AND MITIGATION, AND SUSTAINABLE AND RENEWABLE ENERGY
INTEGRATED BUSINESS SOLUTION: "PROGRAM OPTIMA"
KNOWLEDGE PRODUCTS
LENDING INSTRUMENTS
MACROECONOMIC SUSTAINABILITY ASSESSMENTS
OPERATIONAL PERFORMANCE AND BUDGET
PRIVATE SECTOR DEVELOPMENT FRAMEWORK
REVIEW OF IDB’S INSTITUTIONS FOR GROWTH & SOCIAL WELFARE STRATEGY

IDB-9 SURVEY: OVERVIEW OF THE RESULTS
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
</tr>
<tr>
<td>CAP</td>
<td>Capital Adequacy Policy</td>
</tr>
<tr>
<td>CPD</td>
<td>Country Program Document</td>
</tr>
<tr>
<td>CRF</td>
<td>Corporate Results Framework</td>
</tr>
<tr>
<td>DEF</td>
<td>Development Effectiveness Framework</td>
</tr>
<tr>
<td>DEM</td>
<td>Development Effectiveness Matrix</td>
</tr>
<tr>
<td>DEO</td>
<td>Development Effectiveness Overview</td>
</tr>
<tr>
<td>IAG</td>
<td>Independent Advisory Group</td>
</tr>
<tr>
<td>IAM</td>
<td>Independent accountability mechanism</td>
</tr>
<tr>
<td>ICIM</td>
<td>Independent Consultation and Investigation Mechanism</td>
</tr>
<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>IDB-9</td>
<td>Ninth General Capital Increase</td>
</tr>
<tr>
<td>IMA</td>
<td>Independent Macroeconomic Assessment</td>
</tr>
<tr>
<td>IMM</td>
<td>Income Management Model</td>
</tr>
<tr>
<td>IT</td>
<td>Information technology</td>
</tr>
<tr>
<td>LAC</td>
<td>Latin America and the Caribbean</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and evaluation</td>
</tr>
<tr>
<td>MDB</td>
<td>Multilateral development bank</td>
</tr>
<tr>
<td>MICI</td>
<td>Independent Consultation and Investigation Mechanism (Spanish acronym)</td>
</tr>
<tr>
<td>MSA</td>
<td>Macroeconomic Sustainability Analysis</td>
</tr>
<tr>
<td>NSG</td>
<td>Non-sovereign guaranteed</td>
</tr>
<tr>
<td>OPC</td>
<td>Operations Policy Committee</td>
</tr>
<tr>
<td>OVE</td>
<td>Office of Evaluation and Oversight</td>
</tr>
<tr>
<td>PBL</td>
<td>Policy-based loan</td>
</tr>
<tr>
<td>PMR</td>
<td>Project Monitoring Report</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-private partnership</td>
</tr>
<tr>
<td>PSD</td>
<td>Private sector development</td>
</tr>
<tr>
<td>RBB</td>
<td>Results-based budgeting</td>
</tr>
<tr>
<td>SG</td>
<td>Sovereign guaranteed</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>TC</td>
<td>Technical cooperation</td>
</tr>
<tr>
<td>VPC</td>
<td>Vice-Presidency for Countries</td>
</tr>
<tr>
<td>VPS</td>
<td>Vice-Presidency for Sectors and Knowledge</td>
</tr>
<tr>
<td>XPSR</td>
<td>Extended Project Supervision Report</td>
</tr>
</tbody>
</table>
This evaluation was conducted by IDB’s Office of Evaluation and Oversight (OVE) under the direction of Cheryl Gray. Alejandro Soriano and Monika Huppi assisted with the overall organization and coordination of the evaluation, with assistance from Marco Velarde and Tatiana Soares. Many OVE staff and consultants made important substantive contributions in specific areas: Silvia Raw (social strategy and general review); Yuri Soares, Ron Myers, Chloe Fevre, and Agustina Schijman (institutions strategy); Veronica Gonzalez-Diez, John Redwood, and Lourdes Alvarez (environment, climate change, renewable energy strategy); Juan Manuel Puerta and Laura Atuesta (integration strategy); Maria Elena Corrales, Veronica Gonzalez-Diez, Yuri Soares, and Lourdes Alvarez (Haiti); Jose Claudio Pires, Claudio Frischtak, Simón Lodato, Tulio Cravo, and Caio Piza (private sector development); Basil Kavalsky, Diether Beuermann, Monika Huppi, and Jose Ignacio Sembler (lending and knowledge instruments); Carlos Elias and Jose Ignacio Sembler (country programming); Salvatore Schiavo-Campo and Monika Huppi (country systems); John Eriksson and Marco Velarde (corporate results framework); Anna Crespo, Nelson Ruiz, Kris Hallberg, Lucia Martin, Daniel Alonso, Daniel Broid, Patricio Zambrano, and Thiago Dal-Toe (development effectiveness framework); Juan Manuel Puerta, Juan Carlos de Tata, Thomas Reichmann, and David Suárez (macroeconomic sustainability assessments); Monika Huppi, Andres Liebenthal, and Lynn Scholl (safeguards); Victoria Elliott, Elena Costas-Perez, and Karl Truong (MICI); Salvatore Schiavo-Campo, Laura Atuesta, and Agustina Schijman (fraud and corruption); Alejandro Guerrero, Catherine Gwin, and Saleema Vellani (information disclosure); George West and Marco Velarde (budget management); Pablo Alonso and Agustina Schijman (human resources); Miguel Soldano (information technology); Alejandro Soriano, Alexis Smith-Juvelis, and Tatiana Soares (financial and risk management); and Oliver Azuara (staff survey).

OVE would like to thank the many IDB managers and staff who were interviewed for this evaluation and who provided helpful input and feedback during the evaluation process. Interactions with Bank Management have been professional and constructive, and the Office of Strategic Planning and Development Effectiveness has provided excellent overall coordination of the management review process for the background papers and the overview report. OVE would also like to thank the members of IDB’s Board of Executive Directors, who provided OVE with valuable perspectives on many issues, as well as counterparts from government, the private sector, civil society, and academia who were interviewed during OVE’s visits to over a dozen LAC countries during the evaluation. Finally, we would like to thank the 505 Bank staff members who completed the survey of operational staff conducted as part of the evaluation.
At the 2010 Annual Meeting, Governors tied the Ninth General Capital Increase to a series of Bank reforms. The reforms were intended to strengthen the strategic focus, development effectiveness, and efficiency of the Bank to help it remain competitive and relevant in the years ahead.

© IDB, 2010
At the 2010 Annual Meeting of the Inter-American Development Bank (IDB, or Bank) the IDB’s Board of Governors issued the “Cancun Declaration,” agreeing on a process leading to the Ninth General Capital Increase for the Bank (IDB-9). Governors tied this process to a series of Bank reforms, further detailed in the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (IDB-9 Report or IDB-9 Agreement), which Bank Management largely prepared and the Governors adopted as part of the resolution inviting member countries to vote on IDB-9. The reforms were broadly intended to strengthen the strategic focus, development effectiveness, and efficiency of the Bank to help it remain competitive and relevant in the years ahead.

As part of the IDB-9 Report, IDB’s Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation to assess whether the reforms mandated in IDB-9 were being implemented fully and effectively. This overview report summarizes the findings of OVE’s evaluation; more in-depth findings are available in 22 background papers accompanying the report. The overarching goal of the evaluation is to provide insights to the Governors, the Board, and Bank Management to support IDB’s efforts to promote economic growth and poverty reduction in Latin America and the Caribbean (LAC).
A. Full and Effective Implementation

The broad conclusion of this evaluation is that Management has invested heavily in efforts to implement the IDB-9 requirements. The requirement of “full implementation” has been met or is in the process of being met on most fronts. Bank work at all levels has been affected by these efforts, and much has changed in the organization.

The progress toward “effective implementation” has been more mixed. Likely effectiveness varies widely across areas, with some moving forward well and others more slowly, and with a few having little impact or even imposing costs on the organization. Some IDB-9 mandates may interact uneasily with the demand-driven nature of the Bank’s activities; overly prescriptive Bank strategies at the country or sector level, for example, are unlikely to mesh well with country demand, though the opposite—strategies that include no priorities or merely state what the Bank is already doing—will also not be meaningful or effective.

In other cases implementation problems may have resulted from inadequate management attention or quality control. It is unclear to what extent this may have been affected by the large number of IDB-9 requirements and the short time frame envisioned for implementation. Rarely has an international organization undertaken so many complex initiatives simultaneously and in such a relatively short period of time.

1. Areas moving toward effectiveness

Initiatives in quite a few areas appear to be moving in the right direction. In the broad area of operational instruments and processes, the mix of IDB’s lending instruments offers substantial flexibility to clients and is generally adequate to address borrowers’ demands. The recent addition of contingent lending instruments for crisis response and natural disasters is a further positive step. Additional instruments to consider include a stronger performance-based lending instrument and equity and domestic-currency investment instruments for private sector engagement. In addition, the Bank is advancing in the use of country systems for financial management and procurement, with slower progress in the use of country systems for monitoring and evaluation and environmental and social safeguards.

With regard to results measurement and monitoring, substantial progress has been made in developing and implementing substantial portions of the Development Effectiveness Framework (DEF). Most notably, the Bank has implemented an impressive system to assess project evaluability at approval and to monitor progress during project implementation. While these frameworks are still in early stages of implementation, they hold the promise of a much stronger results orientation throughout IDB’s lending portfolio. Parts of the DEF that still need a major push
are downstream project results reporting for sovereign-guaranteed (SG) lending, evaluability measurement at approval for non-sovereign-guaranteed (NSG) lending, and greater use of the Development Effectiveness Overview (DEO) for results reporting.

In the area of safeguards and accountability mechanisms, the Bank’s work on environmental, social, and gender safeguards has been strengthened in recent years, though time pressure and an increase in the number of high risk projects seems to have resulted in the Bank’s shifting some important safeguards due diligence work from the preparation to the supervision phase – a change that the Bank’s supervision system is not well-equipped to handle. A new policy on information disclosure has modernized the transparency framework for the organization, though it is necessary to address some important exceptions and loopholes that could undermine the framework, to finalize compliance mechanisms, and to strengthen the website to improve information accessibility. And serious efforts have been undertaken to strengthen internal ethics and protect Bank projects from fraud and corruption. Support to countries in addressing problems of corruption has not been a focused priority in recent years, though continued support on public sector management and some targeted transparency efforts—including the Extractive Industries Transparency Initiative promoted in IDB-9—are noteworthy.

With regard to resource management, the Bank has made a serious effort to move toward a system of results-based budgeting. High-level ownership and culture change will be essential for this results orientation to take hold. Numerous initiatives have recently been undertaken to improve human resource management, and substantial progress has been made in meeting IDB-9 targets on gender diversity in the Bank and the professionalization of country offices through decentralization. After several false starts over almost three years, Project Optima is now moving forward to create much-needed integrated business solutions and management information systems for the Bank (as peer MDBs have had for some time). The new Income Management Model, Capital Adequacy Policy, and Risk Management Framework have been fully implemented and are working generally as intended, and further refinements may help to increase flexibility, ensure maintenance of the Bank’s AAA credit rating, and enhance the leverage obtained from of the Bank’s capital.

2. Areas with less effective implementation

A smaller number of areas appear to have been less effective to date and in OVE’s view need rethinking to achieve IDB-9 objectives going forward. First, the four sector strategies required under IDB-9—on Social Policy for Equity and Productivity; Institutions for Growth and Social Welfare; Competitive Regional and Global International Integration; and Environment, Climate Change, Renewable Energy and Food Security—are in place but do not fulfill the expectations of a strategy document and in practice appear to have little impact.
Second, the strategic focus on small and vulnerable countries faces challenges. The Fund for Special Operations (FSO) is unlikely to be financially sustainable until 2020 (as projected in IDB-9) without additional liquidity-enhancing actions. The required US$200 million per year in grant financing is being transferred to the IDB Grant Facility for Haiti, but the Haiti country program appears to have relatively weak results from a development perspective. Given the intensity of the challenges and the importance of IDB’s program for Haiti, it is important to ensure that incentives of Bank staff are fully oriented toward the achievement of development results rather than an imperative to approve and disburse funds.

Third, the Bank has a complex network of funding sources and allocation mechanisms for technical cooperation and capacity-building work that lead to significant inefficiencies, transaction costs, and delays in implementation. Earmarking of TC resources has resulted in underutilization, despite unmet demand for potentially useful activities and studies. Management is now making efforts to develop a central repository of the Bank’s nonlending outputs, though accessibility of Bank reports is still an issue. There is also little monitoring of the effectiveness of these products.

Fourth, the Bank’s programming process operates in a less systematic and transparent way than envisioned in the IDB-9 Agreement. Many Country Strategies have little strategic content and avoid setting priorities, generally leaving options open to accommodate future demand. They also have limited analytic content, though recent efforts to improve the quality of background sector notes is a step in the right direction. Annual Country Program Documents are not fully aligned with Country Strategies and often include projects in sectors not envisioned in the Country Strategy. And in some cases even projects that were not included in the Country Program Documents are presented for Board approval. Nonlending work, particularly technical cooperation, is typically not addressed in Country Strategies and is only mentioned in Country Program Documents, without a clear view of the strategic links and contributions of lending and nonlending products. NSG lending is rarely included in a meaningful way in either Country Strategies or Country Program Documents. These characteristics of the programming process in part reflect the demand-driven nature of Bank activities and borrowers understandable desire for flexibility—which, however, may not fit comfortably with the strategic mandates of IDB-9.

Finally, the Corporate Results Framework is in place but is not guiding the institution as intended, and, as noted above, the DEO is not yet fully meeting its intended objective of reporting on IDB’s results.
3. Areas in need of reformulation

In a few cases, meeting IDB-9 objectives effectively calls for a fundamental reformulation of the design of the requirements. First, the strategic rationale of the Bank Group’s private sector activities is uncertain, and they are poorly coordinated across four separate windows (despite considerable Management effort at coordination). They rarely take advantage of potential synergies with the Bank’s public sector work, and this is costly in terms of missed opportunities—whether in stimulating public-private partnerships (which will be critical in attracting needed private infrastructure investment in LAC) or in strengthening financial systems or undertaking other reforms where both public and private actions are needed.

Second, the Macroeconomic Sustainability Assessments (MSAs) have suffered from confused objectives and a nontransparent process, in addition to inherent problems of methodology. OVE suggests a significant reformulation of the approach to help achieve the dual objectives of credit risk management and development effectiveness.

Finally, the Independent Consultation and Investigation Mechanism (MICI) has been ineffective due to an inherently unworkable policy and structure from the beginning, and its 2-year pilot phase has not achieved the results intended. The underlying objectives are laudable, but a serious redesign of the mechanism is needed.

B. Broader objectives

Looking more broadly, OVE’s interviews for this evaluation underlined several fundamental goals of IDB-9 and of Bank governance generally: to promote the Bank’s responsiveness to member countries, strategic selectivity, and development effectiveness, and to strengthen its financial sustainability, oversight functions, and organizational performance. The implementation of IDB-9 appears to be contributing to the achievement of some of these goals, though it is still too early to judge definitively. Implementation of the DEF appears to be promoting development effectiveness at the project level, and movement toward results-based budgeting (though less advanced than the DEF) should reinforce that trend over time. The reforms in safeguards and internal fraud and corruption controls, as well as the Income Management Model (IMM) and Capital Adequacy Policy (CAP), appear to have strengthened IDB’s financial sustainability and oversight functions. Continued efforts to reform human resource policies and implement Bank-wide business process solutions can contribute to organizational performance, though much remains to be done in both areas. The MSAs and MICI have had less success, though these types of mechanisms have strong potential for positive contributions to accountability and development effectiveness if appropriately structured.
OVÉ’s consultations with borrowing countries indicate that they view the Bank as client-responsive. The broad mix of lending instruments and efforts to strengthen and promote the use of country systems helps in this regard. Further client responsiveness could be gained with a reformulation of the Country Strategy and programming process and rationalization of the use of resources for knowledge and capacity-building work.

IDB-9 appears least successful to date in promoting **strategic selectivity**. It is important for the Bank to be responsive to member countries’ needs, but also to focus on activities where it clearly adds value. That requires a clear-eyed analysis of the Bank’s strengths and weaknesses and a willingness to prioritize—which is not common in the Bank’s corporate, sector, and country strategies. Lending targets and associated approval and disbursement pressures are unlikely to contribute meaningfully to selectivity and could even hinder Bank progress in achieving development effectiveness.

### C. Recommendations

The background papers accompanying this evaluation provide detailed analysis and suggestions in each of the areas noted above. Drawing on this large set of findings, OVÉ considers the following 10 recommendations to be of highest priority for IDB’s Governors, Board, and Management. They are listed in order of specificity, from the broadest to the most specific:

1. **Begin a process to update IDB’s institutional and sector strategies and revisit the Corporate Results Framework with an eye to simplification, improved data accuracy, and full knowledge and ownership by Bank staff and other stakeholders.**

   A clear strategic vision and means to measure performance are critical to the success of any organization. An institutional strategy and related sector strategies (with accompanying sector frameworks or action plans) need to build on past experience, take into account institutional strengths and weaknesses, and be understood and owned by important stakeholder groups if they are to have the power and credibility to guide the organization. And a relatively simple results framework with a limited number of widely accepted indicators that are measured accurately is more likely to be effective in tracking institutional performance than a complex framework with limited understanding, ownership, or data quality. Without strong grounding in the Bank’s past experience or current capabilities, the sector strategies cannot credibly identify where the organization’s true competitive advantages lie. And without broad understanding and consensus across the Bank, the current sector strategies and results framework appear to provide little benefit to the organization. Furthermore, some indicators in the current
framework—including the specific lending targets—can distort Bank activities in unforeseen ways and should be reconsidered.

2. **Revisit the formal role and content of Country Strategies and Country Programming Documents to balance the need for strategic selectivity with the essentially demand-driven character of the Bank.**

While strategic prioritization is appropriate for a development institution, it can sit uneasily aside borrowing countries' understandable desire for flexibility and autonomy in the choice of activities supported by IDB. The goal of Country Strategies and Programming Documents should be to find the intersection where country demand overlaps with development priorities and Bank capabilities, and for that purpose the latter has to be considered as carefully as the former. IDB's current country programming process is more flexible than that envisioned in IDB-9, but in achieving that flexibility strategic selectivity has largely been lost. Country Strategies can be useful vehicles to seriously explore key development challenges, lessons learned (including from Bank experience), Bank capacities and priority areas for future Bank engagement (lending and nonlending, SG and NSG), and broad indicators of success. A rolling 2-year country programming process (with the first year being binding and the second year indicative) could then build on the Strategy and provide as full coverage of Bank products—lending and nonlending, SG and NSG—as possible to encourage coherence and synergy. While it is useful to track development progress at the country level, measuring the precise results of Bank activities can only be done at the project and TC levels, given difficulties in attribution at higher levels of aggregation.

3. **Restructure the private sector windows of the Bank to integrate them much better with each other and with the public sector side of the Bank.**

Better coordination is essential and will only occur if the Bank's structure and incentives push strongly in this direction. Two options for integration are feasible: (i) to fully integrate the private sector windows into the Bank's sector departments, resulting in only one IDB division handling both SG and NGS lending in each sector, or (ii) to merge the private sector windows into a single entity while simultaneously ensuring coordination by assigning power, resources, and a full mandate to a Country Manager or Representative for each country. Each option for integration—through either sector or country units—has advantages and disadvantages, and either will require a major change in how the Bank works.
4. **Undertake further reforms to streamline resource allocation processes and results monitoring for technical cooperation and capacity-building work.**

Current processes to allocate Bank resources for nonlending work (particularly technical cooperation) are unduly complex and lead to delays and likely misallocation of resources. Earmarking of TC resources appears to have led to a situation where these resources are underutilized, despite unmet demand for potentially useful activities and studies.

5. **Complete the implementation of the Development Effectiveness Framework as envisioned in the Cancun Declaration and IDB-9.**

The areas that are lagging—most importantly, accurate project results reporting—need to be finalized, and the DEO should seek to provide a balanced and accurate picture of IDB’s development results.

6. **Focus the Haiti program intensively on sustainable poverty reduction and economic growth, moderating short-term pressures for loan approvals and disbursements to take into account the country’s absorptive capacity, and providing adequate space for critical yet smaller or slower-disbursing activities.**

IDB must continue to play a major role in Haiti given the magnitude of the country’s development challenges and the Bank’s privileged position as a long-term development partner. The central concern of the Bank’s work in Haiti should be sustainable poverty reduction and economic growth, and IDB’s analytic and operational energies should be entirely focused on that end. Financial transfers are important, but they are not in and of themselves sufficient to ensure development effectiveness. Careful analytic work and institution-building are also essential and may take time. Thus OVE recommends that the annual transfers to the IDB-9 Grant Facility mandated in IDB-9 be maintained while allowing annual approvals and disbursements to better match the absorptive capacity of the country.

7. **Redesign the MSA process.**

The process has twin objectives—credit risk management and support to development—that arguably can best be handled by different instruments, as in other MDBs. The Bank should strengthen the ability of its financial and risk management units to assess the credit risk of the sovereign portfolio while also strengthening the Bank’s analytic work—including Independent Macroeconomic Assessments and other economic and sector work—in support of development in borrowing countries. With appropriate incentives it would clearly be possible for the Bank to increase its role in providing useful policy analysis and advice to its borrowing countries.
8. Reform the MICI mechanism.

The current policy and institutional arrangements have failed to accomplish the results intended and need to be reformulated. As detailed in a separate companion OVE evaluation, the 2-year pilot phase should be brought to an end by suspending the office in its current form, and an interim arrangement of up to one year should be established to oversee MICI activities while this reformulation is undertaken.

9. Revise the policy on information disclosure.

Though the new policy is a major step forward, it contains an exception that allows countries to block disclosure of country-specific information and that threatens to undermine the purpose of the policy. OVE recommends that the Bank develop a process of consultation with countries that leaves final decisions on the handling of information to the Bank and includes a remedy of selective redaction rather than nondisclosure of an entire document. Attention is also needed to the disclosure of NSG project level results.


The goal should be to determine whether changing certain parameters—such as the IMM’s expenditure coverage rules and the CAP’s reserve ratios for SG and NSG lending—might increase the Bank’s flexibility and lending ability without jeopardizing its longer-term financial stability or AAA credit rating.

In addition to the ten recommendations listed above, OVE suggests that the Bank and its shareholders take steps to re-energize the FSO, as it is an important window through which IDB supports the development needs of the poorest countries in LAC. OVE did not include a formal recommendation on the FSO in this evaluation because IDB-9 did not focus on this area.

OVE recognizes that the recommendations laid out above, as well as other suggestions in this evaluation, constitute an ambitious body of work. It is important to underline, however, the significant distance that has already been traveled. These are refinements to increase the effectiveness and impact of the major efforts already undertaken. All of these reforms are worthwhile and, if appropriately designed and well implemented, can serve to strengthen the Bank as a development institution for years to come.
The overarching goal of the IDB-9 mid-term evaluation is to provide insights to the Governors, the Board, and Bank Management to support the Bank’s efforts to promote economic growth and poverty reduction in Latin America and the Caribbean.

© IDB, 2012
1 Introduction and Overview

The Inter-American Development Bank (IDB, or Bank) is in a period of rapid change as it responds to both the economic dynamism of the Region it serves and the increasing competition in the international financial marketplace. Over the past decade, countries in the Latin America and the Caribbean Region (LAC) have gained greater access to alternative sources of finance and an increasing ability to generate and share knowledge among themselves. Like other multilateral development banks (MDBs), the IDB is seeking to adapt to this changing international landscape by ensuring its responsiveness to borrowing countries’ needs and putting strong emphasis on effectiveness in its use of scarce resources.

At the 2010 Annual Meeting, the IDB’s Board of Governors issued the “Cancun Declaration” (AB-2728), agreeing on a process leading to the Ninth General Capital Increase for the Bank (GCI or IDB-9). Governors tied this process to a series of Bank reforms, further detailed in the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (AB-2764 or IDB-9 Report), which they adopted as part of the resolution inviting member countries to vote on IDB-9. The reforms were intended to strengthen the strategic focus, development effectiveness, and efficiency of the Bank to help it remain competitive and relevant in the years ahead.
As part of that Report, IDB’s Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation to assess IDB’s progress in implementing those reforms:

At the midterm point of the subscription of IDB-9, OVE will conduct an evaluation to assess that the reforms are being implemented fully and effectively as set forth in the Overview Framework of the Cancun Declaration (AB-2728) and as further elaborated in this report. This evaluation is to be considered by Governors on or before March 31, 2013. Governors will then formally determine that reforms have been implemented.

The overarching goal of the evaluation is to provide insights to the Governors, the Board, and Bank Management to support the Bank’s efforts to promote economic growth and poverty reduction in LAC. The Bank is well regarded and highly valued in the Region. However, it must continue to improve and innovate if it is to stay relevant and competitive as a source of financing and knowledge.

A. Evaluation scope

The reforms underlying IDB-9 were first specified in the Cancun Declaration and further elaborated and expanded in the IDB-9 Report. The Declaration included 13 specific mandates in its “Overview Framework” plus a general mandate contained in the text to “modify the existing Grant Facility to support Haiti’s reconstruction and development and ensure FSO [the Fund for Special Operations] is fully replenished for the next decade.” The IDB-9 report elaborated and expanded on these mandates, grouping them under two broad headings, “Institutional Strategy” and “Agenda for a Better Bank,” with the latter further divided between “What the Bank Does” and “How the Bank Works.”

Under the terms of the IDB-9 Report, this evaluation is expected to cover all of the topics and mandates listed in both the Cancun Declaration and the IDB-9 Report. Both are binding legal documents, and neither takes precedence over the other.1 The left column of Table 1 shows the IDB-9 Report topics, and the right column situates the 13 Cancun Mandates plus the 14th general mandate in this broader IDB-9 framework. As can be seen, in neither the Cancun Declaration nor the IDB-9 Report are the topics tightly organized around common themes.
To facilitate analysis and communication of findings, OVE has decided to group the many topics listed above into five broad categories: Institutional Strategy, Operational Instruments and Processes, Results Measurement and Monitoring, Safeguards and Accountability Mechanisms, and Resource Management. Each is covered by a separate chapter (Chapters 2-6 below). For each topic, the report describes the relevant IDB-9 requirements and seeks to answer two sets of questions:

1. **Full implementation**: To what extent have the IDB-9 requirements been implemented, and is the Bank likely to achieve full implementation within the expected timeframe?

### Table 1. IDB-9 Report Topics and Cancun Mandates

<table>
<thead>
<tr>
<th>IDB-9 Report topics</th>
<th>Main Cancun mandates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INSTITUTIONAL STRATEGY</strong></td>
<td></td>
</tr>
<tr>
<td>Framework</td>
<td>1. Institutional Priorities</td>
</tr>
<tr>
<td>Institutional Strategy and Corporate Results</td>
<td></td>
</tr>
<tr>
<td>Framework</td>
<td></td>
</tr>
<tr>
<td><strong>SECTOR PRIORITIES AND STRATEGIES</strong></td>
<td>2. Sector Strategies and Lending Targets</td>
</tr>
<tr>
<td>Social Policy for Equity and Productivity</td>
<td></td>
</tr>
<tr>
<td>Infrastructure for Competitiveness and Social</td>
<td></td>
</tr>
<tr>
<td>Welfare Institutions for Growth and Social</td>
<td></td>
</tr>
<tr>
<td>Welfare</td>
<td></td>
</tr>
<tr>
<td>Competitive Regional and Global International</td>
<td></td>
</tr>
<tr>
<td>Integration</td>
<td></td>
</tr>
<tr>
<td>Environment, Climate Change, Renewable</td>
<td></td>
</tr>
<tr>
<td>Energy and Food Security</td>
<td></td>
</tr>
<tr>
<td><strong>STRATEGIC GOALS</strong></td>
<td>10. Private Sector Development</td>
</tr>
<tr>
<td>Small and Vulnerable Countries, Haiti, and FSO</td>
<td></td>
</tr>
<tr>
<td>Private Sector Development</td>
<td></td>
</tr>
<tr>
<td><strong>AGENDA FOR A BETTER BANK</strong></td>
<td>14. FSO/Haiti Grant Facility</td>
</tr>
<tr>
<td>What the Bank Does</td>
<td></td>
</tr>
<tr>
<td>Development Effectiveness Framework and</td>
<td>4. Project-Level Reporting</td>
</tr>
<tr>
<td>Overview</td>
<td>5. Loan Quality</td>
</tr>
<tr>
<td>Macroeconomic Sustainability</td>
<td>6. Development Effectiveness</td>
</tr>
<tr>
<td>Lending Instruments</td>
<td>7. Indep. Inspection Mechanism</td>
</tr>
<tr>
<td>Knowledge and Capacity Building Products</td>
<td>9. Environ. and Social Safeguards</td>
</tr>
<tr>
<td>Environmental, Social, Gender, and other</td>
<td>13. Macroeconomic Safeguards</td>
</tr>
<tr>
<td>Safeguards Independent Consultation and</td>
<td></td>
</tr>
<tr>
<td>Investigation Mechanism</td>
<td></td>
</tr>
<tr>
<td><strong>HOW THE BANK WORKS</strong></td>
<td></td>
</tr>
<tr>
<td>Country Programming</td>
<td>3. Income Management Model</td>
</tr>
<tr>
<td>Income and Risk Management Results-based</td>
<td>8. Disclosure Policy and Procedure</td>
</tr>
<tr>
<td>Budgeting Country Systems</td>
<td>11. Results-based Budgeting</td>
</tr>
<tr>
<td>Business Solutions and Information Technology</td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td></td>
</tr>
<tr>
<td>Disclosure Combating Fraud and Corruption</td>
<td></td>
</tr>
</tbody>
</table>
2. **Effective implementation:** How effective has implementation been to date, and what additional steps might enhance the likelihood of effectiveness in achieving the objectives of the reforms?

Deeper discussions of each topic—including evaluation questions, sources of evidence, findings, and suggestions going forward—are contained in 22 background papers accompanying the evaluation.²

Chapter 7 then summarizes the findings of the evaluation and links them to four broad objectives that emerged from interviews and discussions with the Board of Executive Directors on the evaluation’s approach paper³:

- Is IDB-9 helping to strengthen IDB’s responsiveness to member countries?
- Is IDB-9 helping to strengthen IDB’s strategic selectivity?
- Is IDB-9 helping to strengthen IDB’s development effectiveness?
- Is IDB-9 helping to strengthen IDB’s financial sustainability, oversight functions, and organizational performance?

Chapter 7 also offers a selective set of recommendations, focusing on the most important issues emerging from the evaluation. Additional suggestions for each of the areas evaluated are contained in the individual background papers.

In all sections of the evaluation OVE has sought to incorporate the views of IDB stakeholders in addition to reviewing the Bank’s portfolio of activities and relevant background documents. OVE conducted hundreds of interviews with Bank managers, staff, and Executive Directors. It visited 12 countries to hear the views of government, civil society, think tanks, and the private sector on issues highlighted in IDB-9, in addition to the recent visits it has undertaken to numerous other LAC countries—including all FSO countries—during OVE Country Program Evaluations. It undertook a survey of 722 non-managerial operational staff. Finally, wherever possible it benchmarked IDB’s practices against those of comparator organizations.

This evaluation is being undertaken relatively early, roughly at the mid-point of the IDB-9 period.⁴ IDB-9 ends in 2015, and a major goal of this evaluation is to identify emerging lessons that may help with continued implementation.

**B. Overall findings: Full and effective implementation**

Table 2 provides a visual summary of the evaluation’s findings on implementation progress and effectiveness to date by topic under each of the five broad categories. The ratings are based on the evidence laid out in the detailed background papers attached to this report. It is important to emphasize that the ratings do not reflect precise measurements but rather broad judgments based on the knowledge and findings OVE
has gained through the evaluation process. Most topics include a number of IDB-9 requirements, some of which may be more fully and effectively implemented than others, and the ratings represent OVE’s judgments considering the entire set.

**Table 2. Overview of Findings on Implementation and Likely Effectiveness (by IDB-9 Topic)**

<table>
<thead>
<tr>
<th>IDB-9 Topic</th>
<th>Implementation progress</th>
<th>Effectiveness to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector Priorities and Strategies</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Small and Vulnerable Countries, Haiti, and Fund for Special Operations</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Private Sector Development</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Operational Instruments and Processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lending Instruments</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Knowledge and Capacity Building Products</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Country Programming</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Country Systems</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Results Measurement and Monitoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Results Framework</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Development Effectiveness Framework and Overview</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Safeguards and Accountability Mechanisms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macroeconomic Sustainability</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Environmental, Social, Gender, and other Safeguards</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Independent Consultation &amp; Investigation Mechanism</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Combating Fraud and Corruption</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Information Disclosure</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Resource Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Performance and Budgeting</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Integrated Business Solutions (Project Optima)</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Human Resource Development</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Financial and Risk Management</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

High 4
Medium 3
Low 2
Negligible 1
The IDB-9 report defined the strategic direction for the Bank in Latin America and the Caribbean, by pursuing two broad goals: economic growth and reducing poverty and inequality.

© Günay Mutlu, 2011
The strategic direction for the Bank agreed on by IDB Governors is laid out in the IDB-9 Report. It defined two broad goals (economic growth and reducing poverty and inequality), five priority sectors (social policy; infrastructure; institutions; regional and global integration; and environment, climate change, renewable energy, and food security), and two underlying themes (small and vulnerable countries, Haiti, and the Fund for Special Operations; and development through the private sector).

The Report included lending targets, expressed as a percentage of total sovereign-guaranteed (SG) and non-sovereign-guaranteed (NSG) lending, to be met by the end of 2015 in four areas: (i) small and vulnerable countries; (ii) poverty reduction and equity enhancement; (iii) climate change, sustainable (including renewable) energy, and environmental sustainability; and (iv) regional cooperation and integration. The Report also required that Bank Management prepare four sector strategies (one for each of the five priority sectors other than infrastructure) as well as a strategy on private sector development, an NSG business plan, and follow-up guidelines on education, renewable energy, and access to finance for small and medium-sized enterprises (SMEs).

A. LENDING TARGETS

The IDB-9 Agreement requires the Bank to meet four lending targets by 2015: 35% of the volume of its lending is to go to small and vulnerable countries; 50% to poverty reduction and equity enhancement; 25% to support climate change initiatives, sustainable energy and environmental sustainability; and 15% to support regional cooperation and integration. Formally the targets are required to be met only in 2015, though the Bank is seeking to meet them in earlier years. OVE’s review found
that the Bank’s attention to meeting these targets has led to some unanticipated and sometimes counterproductive distortions, both in the categorization of activities and in the prioritization given to other work.

IDB-9’s target categories do not match the categories traditionally used by the Bank to classify projects,5 and the Bank has thus had to develop guidelines to determine what loans fit what IDB-9 categories. Despite the fairly precise definitions of the strategic goals in the IDB-9 Agreement, the guidelines are expansive (as detailed in the background papers), facilitating the Bank’s ability to meet the targets. In some cases entire sectors automatically qualify for inclusion; for example, almost all social sector loans automatically fall under poverty-related lending.6 In other cases the criteria go significantly beyond standard definitions in the literature; projects can be considered to promote regional integration, for example, even if they benefit only one country and are only remotely connected to achievement of any global or regional public good.7

Using those expansive definitions, IDB’s recent 2013 Program and Budget Document reports that the Bank is on track to meet most of the lending targets by 2015 (Table 3): the lending targets for small and vulnerable countries, climate change, and regional cooperation and integration have already been met, and the target for poverty reduction is within reach (despite a dip in 2012).8

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and vulnerable countries</td>
<td>27</td>
<td>36</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Poverty reduction and equity enhancement</td>
<td>20</td>
<td>49</td>
<td>36</td>
<td>50</td>
</tr>
<tr>
<td>Climate change, sustainable energy and environmental sustainability</td>
<td>5</td>
<td>33</td>
<td>33</td>
<td>25</td>
</tr>
<tr>
<td>Regional cooperation and integration</td>
<td>10</td>
<td>12</td>
<td>17</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: 2013 IDB Program and Budget Proposal, GA-252-1. Totals add to more than 100 in some columns because projects fit under more than one target.
The lending targets are defined differently from the set of five priority sectors identified in IDB-9, though there are clear overlaps. A project can contribute to more than one lending target (and the total of all lending targets can add to more than 100%) but can fit in only one sector (as the total for all sectors cannot exceed 100%). Table 4 shows the projected portfolio, as reported in annual Operational Program Reports, divided among the five priority sectors. For purposes of the lending targets, for example one-third of 2012 loans are classified as supporting environment and climate change and 17% as supporting regional integration, whereas the originally projected shares were much lower when classified by priority sector.

Efforts to reach numerical targets create incentives that can arguably distort Bank decision-making. Not only is there an incentive to define the categories broadly, as noted above, but targets may also lead to unintended emphases in the overall mix of activity. For example, IDB-9’s lending targets do not encompass core Bank work on economic and fiscal policy, on institutional reform and governance, or on the investment climate for private sector development—despite the fact that the Bank has been active in these areas for many years and that development literature and IDB-9 clearly place these themes at the heart of the development challenge. IDB’s operational focus on core public governance has declined in recent years, and some Management and staff believe that the lack of a specific lending target has reduced the priority of this work.

### Table 4. IDB’s Projected Lending Program by IDB-9 Priority Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ million</td>
<td>% total</td>
<td>US$ million</td>
</tr>
<tr>
<td>Social policy for equity and productivity</td>
<td>2,124</td>
<td>16</td>
<td>4,000</td>
</tr>
<tr>
<td>Infrastructure for competitiveness and social welfare</td>
<td>5,925</td>
<td>45</td>
<td>5,800</td>
</tr>
<tr>
<td>Institutions for growth and social welfare</td>
<td>3,823</td>
<td>29</td>
<td>2,200</td>
</tr>
<tr>
<td>Competitive regional and global integration</td>
<td>30</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Environment, climate change, renewable energy, and food security</td>
<td>855</td>
<td>6</td>
<td>400</td>
</tr>
<tr>
<td>Total sector priorities</td>
<td>12,757</td>
<td>97</td>
<td>12,500</td>
</tr>
<tr>
<td>Total programmed lending (US$ million)</td>
<td>13,177</td>
<td></td>
<td>12,840</td>
</tr>
</tbody>
</table>

Lending targets may also influence decisions on the use of instruments within a priority area. For example, it is interesting to note the dramatic increase since IDB-9 in fast-disbursing (policy-based) lending in the environment and natural disaster sector (Table 5), classified under the lending target for climate change and environmental sustainability. Whereas fast-disbursing lending accounted for less than 20% of total lending for this theme in 2000-2008, it rose to about three-quarters of total lending for this theme—and one-fifth of total fast-disbursing lending in the Bank—during 2009-2012. While there are likely to be multiple reasons for this increase in fast-disbursing lending, there is a clear correlation between this trend and internal Bank incentives to increase lending classified as supporting climate change.

**Table 5. Lending for Environment and Natural Disasters (PA) by Lending Instrument (US$ million)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2000-008</th>
<th>2009-012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment lending and guarantees</td>
<td>Policy-based lending</td>
</tr>
<tr>
<td>PA lending</td>
<td>770</td>
<td>200</td>
</tr>
<tr>
<td>IDB lending</td>
<td>46,085</td>
<td>18,255</td>
</tr>
<tr>
<td>Share of PA in total IDB lending</td>
<td>1.7%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Notes: Includes approved sovereign and non-sovereign lending as of July 24, 2012. Investment lending includes Investment Loans, Project Preparation Facility, Reimbursable TC, Small Projects, and Private Sector Supplementary Loans. Table excludes grants and MIF operations.

Source: OVE, using Bank systems.

**B. Sector Strategies**

The IDB-9 Agreement called for the Bank to prepare strategies in four of the five priority sectors—social policy, institutions, regional integration, and climate change and sustainable and renewable energy. The only priority area for which a strategy was not required is infrastructure. The Agreement did not specify the exact scope and content of these strategies, except to say that they were to “define the main priorities in a sector and offer guidance to staff on the design and implementation of programs and projects.” OVE looked at the literature on business strategies and at practices in other MDBs to define standards against which to evaluate IDB’s sector strategies.

A strategy can be broadly defined as a document that defines objectives and lays out a plan to achieve them. While the literature varies on exactly what key components a strategy should have, the capacity to guide actions and the internal coherence of those actions are two essential elements. OVE thus considered two questions in reviewing...
the four sector strategies mandated by IDB9: Does the strategy make sense? And does the strategy make a difference?

For the first question, OVE looked at whether each strategy contains (i) a diagnosis, including an understanding of regional needs and capacities and an analysis of IDB’s experience and comparative advantage; (ii) an action plan, including objectives and Bank actions to achieve them (which could be contained in the strategy or in separate action plan document); (iii) an identification of risks; (iv) indicators to track progress; and (v) an approach to monitoring and evaluation. For the second question, OVE considered feedback from the survey of operational staff on their knowledge and use of the strategy, as well as the content of the Bank’s recent operational program.

With regard to full implementation, Bank Management met all of the formal requirements, with all of the strategies approved by the Board on March 22, 2011, one week before the IDB-9 deadline. With regard to effective implementation, OVE finds the sector strategies only partially effective in providing strategic direction as defined above. Specific findings for each of the four strategies are detailed in the relevant background papers and summarized below.

The sector strategies are strongest in identifying current issues in the LAC Region. The social strategy, for example, analyzes the benefits and challenges of early childhood development, and the climate change and integration strategies show insightful understanding of LAC environmental and trade issues. The diagnosis of challenges is uneven, however, across subsectors and countries. The institutions strategy has a much stronger analysis of challenges facing the private sector than of anticorruption and transparency, for example, and the social strategy is weaker on health than on other topics. While some unevenness is understandable, given the breadth of the strategies and the heterogeneity of the Region, it is also likely to be caused by uneven attention to and availability of background work in IDB. Although the strategies purport to draw on the Bank’s deep sector expertise, they do not do so systematically and evenly.

The strategies are generally weak in the other dimensions evaluated by OVE. Little if any effort is made to include lessons from past Bank experience or to analyze the Bank’s comparative advantage in a meaningful way. None of the strategies or follow-up action plans lays out clear Bank objectives and approaches to meeting them, or provides an indication of possible timetables or resource needs. Risks are rarely mentioned. Results frameworks and indicators are weak, linking with problematic indicators in the IDB-9 Results Framework (see below), and virtually no effort has been made to track progress.

Most importantly, the strategies do not appear to have made a major difference in practice. They tend to reflect, rather than guide, ongoing Bank activities, and the selection and organization of topics mirrors the Bank’s existing bureaucratic organization.13 In certain areas they are aspirational and not relevant to ongoing Bank
engagement with borrowers. OVE’s survey of staff indicates that relevant staff in the Vice-Presidencies for Sectors (VPS), Countries (VPC), and Private Sector (VPP) have uneven knowledge of the strategies’ content – or even their existence (Table 6), use them little in their daily work (Table 7), and have little confidence that they will be used in the future. In most cases there has been limited input from, or dissemination to, country counterparts.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>VPC</th>
<th>VPS</th>
<th>VPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Protection for Equity and Productivity</td>
<td>0.27</td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td>Climate Change Mitigation and Adaptation</td>
<td>0.25</td>
<td>0.49</td>
<td></td>
</tr>
<tr>
<td>Global and Regional Integration</td>
<td>0.23</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Institutions for Growth</td>
<td>0.28</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td>Private Sector</td>
<td>0.17</td>
<td>0.18</td>
<td>0.36</td>
</tr>
</tbody>
</table>

**Table 7. Current Use of Strategies by Vice Presidency (as a percentage of those with knowledge reported in Table 6 above)**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>VPC</th>
<th>VPS</th>
<th>VPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Protection for Equity and Productivity</td>
<td>0.10</td>
<td>0.41</td>
<td></td>
</tr>
<tr>
<td>Climate Change Mitigation and Adaptation</td>
<td>0.11</td>
<td>0.22</td>
<td></td>
</tr>
<tr>
<td>Global and Regional Integration</td>
<td>0.09</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>Institutions for Growth</td>
<td>0.08</td>
<td>0.39</td>
<td></td>
</tr>
<tr>
<td>Private Sector</td>
<td>0.05</td>
<td>0.04</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Source (Tables 6 and 7): Author’s estimation using IDB-9 Survey. A value equal to one means respondents read the document and use it in their current work, respectively. VPC staff were asked about all sector strategies, while VPS and VPP staff were asked only about the strategies relevant to their unit’s work. See the background paper IDB-9 Staff Survey for more details.

In sum, the sector strategies appear to have been produced largely to meet the IDB-9 requirement rather than to address a felt need for strategic guidance, prioritization, or Management and staff direction. They were conceived of more as conceptual documents than as management documents to guide the Bank’s work. Prepared under tight time and resource constraints, they did not reflect the wealth of IDB’s past experience or an expectation of future accountability for results. The extent of consultation varied among strategies but overall was limited, particularly among Bank staff. Management is to be commended for its efforts to meet the IDB-9 requirements in a timely manner, but a deeper effort will be required if the Bank’s sector strategies (and accompanying guidelines and action plans) are to guide Bank activities and meaningfully identify the intersection between Bank capacities and country demand.
C. **Small and Vulnerable Countries (including FSO and Haiti)**

One of the two cross-cutting strategic priorities that Governors highlighted in IDB-9 was support to small and vulnerable countries, including ensuring the sustainability of the Fund for Special Operations (FSO) and increasing nonreimbursable grants to Haiti. The definition of small and vulnerable countries is expansive, including 19 of LAC’s 26 borrowing countries: The Bahamas, Barbados, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad and Tobago, and Uruguay. For this group as a whole the main IDB-9 requirement relates to the lending target noted in Table 3 above, which has been met. The Agreement highlights two topics relevant to subsets of this group: (i) the FSO, which provides concessional resources to the poorest LAC countries (currently Bolivia, Guyana, Honduras, and Nicaragua), and (ii) special support to Haiti.

At the time of IDB-9, the financial situation of the FSO was already severely strained. Yet IDB-9 did not address this issue directly, leaving the issue of replenishment to a later date. Only minor short-term actions were included, and these have been fully implemented. FSO is unlikely to be financially sustainable through 2020, as projected in IDB-9, unless liquidity-enhancing actions are taken. The FSO needs a strategic redefinition, including exploring options for its revitalization.

Most of the IDB-9 focus on small and vulnerable countries went to Haiti. The IDB-9 Agreement mandated that the FSO provide 100% relief for Haiti’s debt and cancel the country’s obligation to convert local currency. It required that the IDB provide grant resources to Haiti in 2010 in the amount of US$200 million and that it transfer US$200 million per year to the IDB Grant Facility for Haiti for the next 10 years (2011-2020), subject to annual approval by the Board. It also mandated that the Bank help to catalyze resources from other sources and take a leading role in donor coordination.

The financial requirements have been largely met. The Bank forgave US$479 million of Haitian debt and approved grants of US$231.6 million in 2010. The required transfers of at least $200 million to the IDB Grant Facility were made in 2011 and 2012. Approvals of projects for Haiti exceeded US$240 million in both 2011 and 2012, while disbursements amounted to US$182 million, US$180 million, and US$147 million in 2010, 2011 and 2012, respectively. As a result, the non-disbursed portfolio increased from about US$500 million before the earthquake (in Dec. 2009) to almost US$740 million at the end of 2012. The IDB has played an important role in technical coordination at the sector level, though resources from other donors have fallen since 2010 and donor coordination has not been as effective as desired given the enormous challenges facing the country.
The effectiveness of the implementation of the IDB-9 requirements, however, appears limited to date. In 2011 OVE undertook an evaluation of the Haiti Country Program, and for this IDB-9 evaluation OVE again reviewed the program, including making two visits to the country in mid-2012 to review recent results. The challenges of working in Haiti are enormous, and it is clear that Bank staff and Management have made strong efforts to build a program of support in the country. But ensuring relevance and achieving results has been very difficult. The Bank has not focused significantly on the enormous challenges of post-earthquake reconstruction, though an estimated 400,000 Haitians are still living in tents in the capital city and most public buildings and houses are waiting to be reconstructed. Implementation problems, cost overruns, and delays have limited the achievement of goals in the sectors where the Bank has engaged. Education has been a focus, though the ambitious objectives laid out in the strategy contrast sharply with the major delays in implementation, including in the rebuilding of thousands of destroyed schools. Bank projects in agriculture, energy, and water also show limited results to date. While there is progress in the roads sector, cost overruns still present a major problem and the relevance of highway investments in the face of Haiti’s urgent reconstruction challenges is arguable. The Bank has exited altogether from core public management support, including traditional areas of Bank support such as financial management and revenue administration. The focus is now on institutional strengthening in the sectors in which the Bank is undertaking investment projects. Finally, the Bank funded an ambitious project to support construction of an industrial park in the infrastructure-deprived area in the north of the country. The project has attracted two companies (one international and one local) and generated about 1,500 jobs by late 2012, though other companies are reportedly interested, spurred by the preferential access that the park’s exports have to the U.S. market.

In terms of lending targets, pressures to maintain present levels of approvals or disbursements can have unanticipated consequences. A perceived imperative to approve and disburse US$200 million per year can push lending toward sectors—such as large infrastructure programs or fast disbursing operations—in which disbursements can be made relatively quickly, independent of whether these sectors are most critical for poverty reduction or economic growth. Interestingly, IDB-9 does not in fact explicitly require US$200 million in either approvals or disbursements, but requires only a transfer of US$200 million for Haiti to the IDB Grant Facility. It would presumably be possible to treat the grant funds more like an endowment for Haiti’s reconstruction and development, with approvals and disbursements to be made in a timeframe considered most conducive to effective implementation.
D. **Private Sector Development**

A second cross-cutting priority identified in IDB-9 was development through the private sector. Numerous IDB-9 requirements were meant to enhance the Bank’s focus and effectiveness in this area. On the strategic side, the Bank was required to submit a new Private Sector Development (PSD) Strategy, an NSG Business Plan, and Guidelines for SMEs, and to review NSG guidelines for entities with public participation. To spur engagement with the private sector, the Bank was to gradually expand NSG prudential limits and support the Inter-American Investment Corporation with subordinated lending. To enhance effectiveness, the Bank was to improve coordination among PSD operations windows, adapt the public-private mix to country requirements, and enhance the contribution of NSG operations to development. Together these efforts were supposed to increase the development impact of the Bank’s private sector activities “by capitalizing on the IDB’s comparative advantages, in a manner consistent with its institutional goals.”

Bank Management has taken all of the formal steps to address the IDB-9 strategy requirements, finalizing all required documents and guidelines. Constraints to private sector development are properly identified in key documents—the PSD Strategy, the NSG Business Plan, and the Guidelines for SMEs. These documents discuss the factors behind low productivity in the private sector, detail the Bank’s efforts to foster financial inclusion and develop local and regional capital markets, and indicate the need for Bank efforts to overcome inadequate infrastructure. Furthermore, the revised NSG Guidelines relax previous requirements regarding private sector ownership to facilitate public-private partnerships (PPPs) and enhance subnational lending.

OVE finds, however, that these documents are not effective in providing a compelling framework and “roadmap” for the Bank Group’s PSD-related initiatives and lending policies. They do not address some critical strategic questions—under what circumstances firms maximize their contribution to development; how to align private objectives and public interest; and how to use the Bank’s comparative advantages to help countries and firms enhance the benefits of more open and competitive markets. As a result, the new strategies have not significantly influenced the way projects have been prepared. OVE’s survey of Bank staff confirmed that they have limited knowledge of the PSD Strategy and, where there is knowledge, a generally skeptical view of its impact on country dialogue and project selection and design.

Economics literature points to the positive impact that the private sector can have on development when both newcomers and innovators are able to enter markets and promote competition, and when the policy regime supports entrepreneurial effort and ensures a level playing field by removing policy and regulatory barriers to mobility and growth and by discouraging rent-seeking activities. The Bank’s ability to support both public and private sectors is a key potential comparative advantage. The biggest impacts on PSD are likely to result when the Bank’s public (SG) and private (NSG) sector
operations are coordinated to, on the one hand, enhance the business environment through improved policies and regulations while, on the other hand, supporting a supply response by firms. This approach hinges on a far closer collaboration among PSD windows—on both the public and private sides in the Bank, and among the various private sector windows in the Bank Group—than currently exists.

OVE suggests that the Bank consider two structural options for better coordination. One option would be to fully integrate the private sector windows into the Bank’s sector departments. This would result in only one IDB division for each sector, handling both SG and NGS lending—as is done, for example, in the Andean Development Corporation and the European Bank for Reconstruction and Development. Sector managers would be in charge of delivering the program, using the full scope of available SG and NSG instruments to support national and subnational governments, state enterprises, and private firms. Critical knowledge (such as on PPPs), which is currently fragmented, would be concentrated. A second option would be to merge the private sector windows into a single entity (as is done, for example, in the World Bank Group) while simultaneously ensuring coordination by assigning power, resources, and a full mandate to a Country Manager or Representative for each country. This Country Manager or Representative would—in close cooperation with governments—need to have the power and authority to integrate Bank Group efforts and commitments in both public and private dimensions. Each of these approaches (one integrating through the sector side of the matrix, the other through the country side) has clear advantages in certain dimensions—flexibility, autonomy, the use of IDB’s capital base, and development effectiveness (which is most critical, as it is the raison d’être of the IDB Group)—that need to be explored further.

Regarding development effectiveness, although it is still too early to assess the results of projects approved after IDB-9, analysis of the design of recent projects shows some improvement in design over 2008-2012. An increasing share of project documents identify market failures and propose clear solutions to overcome such failures, and some two-thirds of projects provide indicators to measure results.

E. SUMMARY: INSTITUTIONAL STRATEGY

The implementation of the strategic elements of the IDB-9 Agreement has been reasonably complete. The lending targets are likely to be declared achieved in 2015 with the help of liberal categorization rules, and the mandated sector strategies and strategic documents on private sector development have been prepared and presented to the Board. The required level of nonreimbursable transfers of $200 million per year is being made to the IDB Grant Facility for Haiti.
But the evidence gathered in this evaluation indicates that these actions are not likely to be fully effective in meeting their underlying objectives. The sector strategies are not widely known or used by Bank staff, and in many cases they follow rather than guide Bank action. The lending targets are blunt instruments that may distort Bank decision-making in unexpected ways. Though dedicated Bank staff have worked diligently to deliver assistance in the challenging context of Haiti, the mandated levels of assistance to Haiti create incentives for the Bank to focus on areas where disbursements can be made quickly, and relatively few results have been achieved to date. IDB-9 requirements on private sector development have not materially addressed fundamental concerns about IDB’s NSG strategy and internal coordination. In sum, the experience raises questions about the role and effectiveness of externally mandated processes and numerical targets in an essentially demand-driven Bank. IDB’s institutional strategy needs to grow out of a deep and honest examination of its capacities and comparative advantage in an increasingly competitive Region, and this has not yet been accomplished.
Under the IDB-9 Agreement, the IDB was required to support borrower needs effectively and efficiently in the areas of lending instruments, knowledge and capacity-building products, country strategies and country programming, and the use of country systems.
Though the Overview Framework of the Cancun Declaration did not include specific requirements related to operational instruments and processes, the IDB-9 Agreement included a discussion of these issues and a number of related requirements. The objective of these requirements is to support borrower needs effectively and efficiently in four areas: (i) lending instruments, (ii) knowledge and capacity-building products, (iii) country strategies and country programming, and (iv) the use of country systems.

A. Lending Instruments

The IDB-9 Agreement called on Management to undertake a review of lending instruments to eliminate unnecessary instruments, identify gaps or new instruments that the Bank should consider adopting, and update administrative policies and tailor instruments to specific needs. OVE finds that Management has moved to meet these requirements, albeit somewhat slowly. The effectiveness of implementation appears mixed but seems to be heading in a positive direction.

Since 2000 the Bank has created an array of new lending instruments. The growth in the number of instruments resulted in part from IDB’s efforts in the early 2000s to increase its competitiveness and reduce the transaction costs of its loans by streamlining processing times and fiduciary requirements and by introducing new instruments to bypass particular constraints. These new instruments have taken two forms: some have used a “programmatic” approach to facilitate multiple loans if interim targets or other criteria are met, while others have emphasized flexibility to support pilot or innovative activities more quickly than standard loans.
As a result of this expansion, the Bank now offers its borrowers an array of instruments equal to or wider than that of other MDBs (Table 8). Most practitioners and borrowers interviewed by OVE see this as an advantage rather than a problem—having a substantial menu from which borrowers can pick is positive. Experience suggests that country needs and characteristics drive instrument choice. In practice, countries experiment with a new lending modality and, if the experience is positive, tend to stay with that modality as a primary form of interaction with IDB.

The issues surrounding lending instruments changed somewhat with the advent of the global financial crisis in 2008. It was no longer a question of whether there was demand for Bank funding, but instead whether the Bank could provide funding with the speed and at the levels that the crisis demanded. Lending increased to US$10 billion in 2008 and US$15 billion in 2009, precipitating the need for a general capital increase. But the existing lending instruments were not ideal for lending in times of crisis. An unprecedented series of natural disasters between 2008 and 2010 also led to calls for the Bank to develop lending products to support quick response.

In response to IDB-9 requirements and experience during the global crisis, Bank Management undertook an analysis of the Bank’s SG instruments in 2011. In December 2011 the Board approved a “Proposal to Reform the Bank’s Sovereign Guaranteed Lending Instruments” (GN-2564-3), eliminating two instruments, innovation loans and the sector facility framework. In 2012 the Board approved two new instruments: the Development Sustainability Credit Line (DSL), designed to protect poverty-related programs in the event of external shock, and the Contingent Credit Line for Natural Disasters (CCL), designed to complement the current Contingent Credit Facility for Natural Disasters and provide additional resources in the event of natural disasters. The use of the deferred drawdown option for regular policy-based operations was also approved, to allow countries to approve their allocation of policy-based loans (PBLs) in a given year but have access to the resources in amounts, and at the times, that meet their needs most effectively.

In addition to this array of lending instruments, the Bank offers guarantees to borrowers. Until 2005 the use of guarantees was limited to the private sector. In 2004 the Board approved guidelines for local currency guarantees to public sector entities. Only two of these guarantees have been made, both designed to provide assurances to private participants in PPP operations that the public sector would meet its contractual obligations, thereby making it possible to attract well-qualified international companies to build and operate infrastructure in Peru and Guyana. In November 2012 the Board approved a guarantee instrument to support public sector debt restructuring in Panama.
Table 8. Comparison of Lending Instruments of Multilateral Development Bank

<table>
<thead>
<tr>
<th>Lending Instruments/Approaches</th>
<th>MDB Lending Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IDB</td>
</tr>
<tr>
<td>Investment Lending</td>
<td></td>
</tr>
<tr>
<td>Specific Investment Loan</td>
<td>√</td>
</tr>
<tr>
<td>Immediate Response Facility for Emergencies caused by Disasters</td>
<td>√</td>
</tr>
<tr>
<td>Technical Cooperation Loan</td>
<td>√</td>
</tr>
<tr>
<td>SWAp (approach)</td>
<td></td>
</tr>
<tr>
<td>Project Preparation &amp; Execution Facility</td>
<td>√</td>
</tr>
<tr>
<td>Multi-phase Operation</td>
<td>√</td>
</tr>
<tr>
<td>Global Credit Loans</td>
<td>√</td>
</tr>
<tr>
<td>Sector Loan</td>
<td></td>
</tr>
<tr>
<td>Innovation Loan</td>
<td>(dropped)</td>
</tr>
<tr>
<td>Sector Facility</td>
<td>(dropped)</td>
</tr>
<tr>
<td>Multiple-Works Loans</td>
<td></td>
</tr>
<tr>
<td>Performance-Driven Loan</td>
<td>(piloted 2003-2009)</td>
</tr>
<tr>
<td>CCLIP (approach)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy/Emergency/Contingent Lending (*)</td>
<td></td>
</tr>
<tr>
<td>Policy-Based Lending</td>
<td>√</td>
</tr>
<tr>
<td>Emergency/Contingent Lending</td>
<td>√</td>
</tr>
<tr>
<td>Program-for-Results (PforR)</td>
<td></td>
</tr>
</tbody>
</table>


One remaining gap in the Bank’s instrument mix appears to be the absence of an instrument that disburses against project results. The performance-driven loan, piloted from 2003 to 2009, had little demand from Borrowers due to its requirement that disbursements be tied not only to results but also to selection and verification of specific expenditures on inputs through the Bank’s standard procurement and financial management rules. It would be useful for the Bank to review other MDBs’ recent experience with lending for results to see whether the performance-driven loan could be redesigned to increase its usefulness.21
B. **Knowledge and Capacity-Building Products**

Evaluations conducted over the years to assess the development effectiveness of IDB’s knowledge and capacity-building products—particularly nonreimbursable technical cooperation (TCs)—have been critical of the Bank’s ability to guide, coordinate, and manage these products. To address these concerns, the Bank made a number of fairly general and aspirational commitments in the context of the IDB-9 Agreement: to ensure a relevant mix of products by improving its framework to deliver nonfinancial value-added products; enhance its role as a conduit of external, untied, multi-donor funds to finance TCs; and consider a fee-based services option to tap the unexplored potential for substantial cost recovery and meet clients’ demands for high-quality, fast-turnaround, highly relevant products.

The bulk of the Bank’s knowledge and capacity building work is financed through TCs, which have multiple objectives and funding sources. Some are used to prepare projects, some to deliver medium-term technical assistance, some to undertake analytic work, and some to respond to short-term requests from borrowers. A large amount (US$100 million per year) of TC funding comes out of the Bank’s retained earnings on ordinary capital, while another large share comes from bilateral trust funds. The funding is subject to substantial earmarking for specific target countries, sectors, sub-sectors, and groups. With this complexity in objectives and funding sources, it is not an easy task to design systems for allocating, monitoring, and managing TCs in a way that keeps the transaction costs to manageable levels and does not create a major disincentive to the use of these instruments.

Though significant efforts have been made to improve the framework to deliver and monitor TCs, with several reviews and changes since the IDB-9 Report was finalized in 2010, this is still work in progress. Most operational staff interviewed by the evaluation team commented on the high transaction costs associated with TCs—from the process requirements, the separate steps required to assess whether donor trust funds can be used to fund the TCs, and the procurement arrangements (which, for example, make it prohibitively cumbersome to hire consulting firms rather than individual consultants). Approval and implementation of TCs has been considerably slowed by the complexity of these arrangements. Furthermore, a monitoring and evaluation system has not yet been established for TCs.

Another challenge is to ensure integration and synergy between the Bank’s knowledge work and its lending, ideally through well-structured strategies and programs for individual borrowing countries. Though the Bank’s analytic work helps to inform the preparation of Country Strategies through sector notes, the Strategies themselves rarely address the contribution of analytic work or TCs to the country program.
3 OPERATIONAL INSTRUMENTS AND PROCESSES

IDB-9 called for the development of fee-based knowledge services as an option for borrowers. The only country that has received fee-based services from the Bank to date is Chile, and that was done under a special arrangement. The IDB-9 Agreement specifically mandated that the Bank develop a framework for fee-based services, though it only now appears to be getting off the ground. The new Country Strategy for Peru raises the possibility of fee-based services, and options are being explored in Colombia as well. The Bank is expected to have a general framework in place in early 2013.

On balance, the knowledge area remains work in progress. Most of the Bank managers and staff interviewed felt that the Bank still has some way to go to reach an institutional consensus on what level of knowledge services the institution could provide to clients, given budget and staff constraints, and on how these services should be prioritized, managed, and monitored. The overall consensus is that things are moving in the right direction, with greater transparency and monitorability of internal processes for knowledge delivery. But progress has been limited by the complexity of needing to meet different, incompatible objectives and to balance the various trade-offs. The frequent revisions to guidelines and resource allocation processes for knowledge and capacity building products suggests that the Bank is “churning” in this area and that a simpler, clearer, and more effective approach is still needed.
C. COUNTRY PROGRAMMING

The country programming process is key to ensuring that the Bank is “doing the right thing.” The result of the country programming process is the work program of the Bank, including loans, grants, TCs, and analytic work. A successful programming process results in a work program that builds on the Bank’s strengths and competitive advantages, that is highly relevant in identifying and eliminating development bottlenecks, and that reflects country demand.

The Bank’s country programming process involves two phases and two documents: the Country Strategy, which is meant to provide a multiyear overview of the Bank’s engagement, and an annual document summarizing the program for that year. The most recent Guidelines for these documents were approved by the Board of Directors in 2009, and the process has changed somewhat since then with the replacement of the Programming and Portfolio Memorandum by the Country Program Document (CPD), which focuses on programming but no longer includes a portfolio review.

The IDB-9 Agreement includes requirements relating to both Country Strategies and CPDs. It requires that Country Strategies include broad development frameworks and more specific macro-fiscal frameworks, build on this analysis (and the country dialogue around it) to align the Bank’s country program to country needs, and reflect country demand for the Bank’s lending and nonlending products. To encompass the full array of Bank products and country demand, it mandates that nonlending products and the Bank’s NSG lending be incorporated in the Country Strategy and programming process. It then requires that the annual programming document implement the program laid out in the strategy to ensure that the projects funded by the Bank are in line with country needs.

OVE finds that the Bank’s Country Strategies partially fulfill the IDB-9 mandates. Country Strategies typically provide a general description of the characteristics and development challenges in the country, including recent macroeconomic performance as measured by aggregated indicators such as GDP growth, poverty, prices, and trade. They also provide summary diagnoses of sector needs and possible areas of Bank intervention. But they do not generally articulate a strategic approach for the Bank in key sectors or discuss the implications of the macro-fiscal analysis on the role of IDB or the size of Bank lending allocations. They rarely meaningfully discuss past successes and failures of the Bank or the Bank’s comparative advantage. And they do not always build on relevant analytic work undertaken by Bank specialists.

Country Strategies do not fully meet IDB-9 expectations in two other ways as well. First, as noted above, they pay very little attention to nonlending activities, whether knowledge products or technical cooperation. Second, they provide limited if any information on the NSG lending envelope or portfolio. More generally, most provide
very limited information on the role of the Bank's private sector lending in promoting development or the actual or potential synergies between SG and NSG instruments.

Moreover, the annual programming documents are not fully aligned with Country Strategies. It is quite common for projects to be approved and undertaken in sectors that were not envisioned in the Country Strategy, or at times even in the CPD, and the relationship between annual lending allocations and the lending envelopes included in Country Strategies is not always clear. Indeed, the criteria used to determine lending envelopes and annual allocations are not fully transparent and appear to be correlated primarily with past disbursements and, to a lesser extent, with the country’s ownership share in the Bank. In contrast to Country Strategies, CPDs mention TCs that are ongoing or proposed for the year ahead, but with little elaboration beyond the title of the TC and the amount.

The evolution of the country programming process since IDB-9 is in large part a response to Borrower’s desire for greater year-to-year flexibility than what would be feasible through a selective and binding 3- or 4-year Country Strategy. Yet it is important that flexibility not come at the expense of strategic selectivity if Bank support is to contribute to critical development needs and build on what the Bank does best. Country Strategies and annual programming documents need to complement each other and together seek to identify the intersection between country demand, development priorities, and Bank capabilities, with careful attention to each of these dimensions.

The annual nature of the programming process puts time constraints on loan preparation that can hurry the process and lead to year-end bunching of approvals—and possibly squeeze out time for needed analytic work as well as opportunities for careful discussion and review. The Bank could usefully consider a two-year rolling programming process (the first year being binding and the second year showing notional allocations and work programs) to allow more time for planning and executing loans and other Bank support.

**D. COUNTRY SYSTEMS**

The IDB-9 Agreement confirmed the Bank’s commitment to strengthen national systems and to increase their use in Bank-financed operations. The term “country systems” refers broadly to all national norms, regulations, procedures, and structures for the management of the public sector. The “fiduciary” systems include procurement and financial management, and the “development effectiveness” systems include planning, monitoring and evaluation (M&E), statistics, and environmental and social safeguards systems. IDB’s country systems strategy covers the fiduciary systems of procurement and financial management, and, among the development effectiveness
systems, planning, monitoring and evaluation, and environmental and social safeguards.

The Bank’s approach, as laid out in its strategy on country systems approved by the Board in 2010, combines support for uniform international standards with a demand-driven and country-tailored approach to advance toward those standards. It distinguishes between the “strengthening” of country systems and the “use” of those systems, with strengthening activities done mainly with a view to moving toward “validation” of those systems so that they may be used in Bank-financed projects. The strategy commits the Bank to work toward the increased use of country systems in all 26 client countries rather than only the most advanced.

OVE finds that the IDB’s country systems approach is sound and effectively addresses the main factors that have constrained the increased use of country systems in the past. Implementation progress of the fiduciary aspects of the strategy has been satisfactory overall, with somewhat less-than-anticipated progress in the use of reporting systems and external audit compensated for by better-than-expected results in the use of accounting and procurement systems. Going forward, it will be important for the Bank to introduce mechanisms to ensure coordination among the three divisions concerned with (i) diagnosing and validating specific country systems and (ii) managing projects and other Bank activities designed to strengthen public management.

It is important to note that the use of fiduciary country systems is often demand-constrained, as some borrowers prefer to use IDB’s procedures to guarantee integrity and to minimize reputational or corruption risks. The reluctance of some governments to accept the responsibility of relying on their national systems may lessen as the initial good experience continues.

In contrast to fiduciary systems, progress on strengthening and encouraging the use of national M&E systems in Bank-financed activities has been either minimal or unrelated to the country systems strategy. The Bank’s arrangements for handling this area of work need to be reviewed to ensure strong leadership and clear accountability. Similarly, work on the use of country systems for environmental and social safeguards is in its infancy.

Two areas of broad concern in any move to use country systems are the risk of slippages and reversals after a fiduciary system has been validated for use and the degree of flexibility to give Management in validating systems in individual countries. Regarding the first issue, the Bank may want to consider time-bound validations, automatically renewed for subsequent periods barring major adverse developments. Regarding the second issue, the Board may want to consider authorizing Management to approve the validation of a national procurement system in a particular country, subject to ex-post ratification by the Board, as it is done in the case of financial management.
While this area of IDB-9 is moving forward for the most part effectively in the fiduciary areas, it is important to keep realistic expectations. Moving to the use of country systems in Bank-financed projects is important but entails possible risks and delays, and improvements in project efficiency are likely to be achieved only over time.

E. SUMMARY: OPERATIONAL INSTRUMENTS AND PROCESSES

The IDB-9 requirements concerning operational instruments and processes were more general than in many other areas. As a result, these topics have not received the same degree of attention and scrutiny by the Board as some other areas, and implementation has been mixed. The Bank has a solid menu of lending instruments, strengthened further with the recent adoption of contingent instruments to address financial crises and natural disasters. It is also moving forward well in defining and implementing an approach to strengthening country systems, though more in the fiduciary area than in M&E or environmental and social safeguards. In contrast, the mechanisms for allocating resources and implementing technical cooperation still appear complex and confused despite repeated recent attempts to reform them. In addition, the role and content of Country Strategies and CPDs vary somewhat from what was envisioned in IDB-9. While this partly reflects borrowers’ understandable desire for greater flexibility, it has limited the ability of these instruments to identify and build on Bank strengths. Increasing the effectiveness of the Bank’s instruments and processes in these two areas—technical cooperation and country programming—will require continued attention and a careful review and consideration of alternative approaches.
Under IDB-9, a new Corporate Results Framework was implemented to track progress in implementing the corporate strategy and institutional priorities of the IDB.

© Barbé, 2013
IDB-9 placed high priority on setting up mechanisms to track results and promote development effectiveness in all of the Bank’s work. To track progress in implementing the corporate strategy and institutional priorities discussed in Chapter II, the Agreement set out a detailed Corporate Results Framework (CRF) and instructed that Management monitor it and report regularly to the Board and annually in the Development Effectiveness Overview (DEO). To track results at the project level, the Agreement called on the Bank to implement a Development Effectiveness Framework measuring the evaluability of projects at approval and the results of projects at closing, and also to report on project evaluability and results in the DEO.

A. **Corporate Results Framework**

IDB-9 requires that the Bank implement an overarching Bankwide CRF to help it use empirical evidence to manage and be accountable for development results. The CRF, included as an annex to the Agreement itself, has four levels or tiers (Box 1)—regional development goals, output contributions to those goals, lending priorities, and operational effectiveness and efficiency—organized where possible according to IDB-9’s institutional priority categories. Regional development goals include baselines, while the other levels have both baselines (average of 2006-2009) and targets for end-2015.
Box 1. The Four-Level Structure of the IDB-9 Corporate Results Framework

**Level One:** Regional Development Goals. Tracks key regional development indicators reflecting the Bank's five institutional priorities. The IDB-9 Agreement notes that progress on these indicators cannot be solely attributed to Bank interventions, since the IDB may have a relatively small role at the country level. (Level 1 was Level 2 until the 2011 DEO.)

**Level Two:** Output Contributions to Regional Goals. Monitors the “direct contribution” of the Bank’s interventions toward regional development goals and promotes accountability in the use of the Bank’s resources. Indicators are supposed to be disaggregated by gender, Indigenous and Afro-descendants where pertinent. (Level 2 was Level 3 until the 2011 DEO.)

**Level Three:** Lending Program Priorities. An expression of the Bank’s “highest priorities and mandates.” It consists of the four lending targets described in Chapter II. (Level 3 was Level 1 until the 2011 DEO.)

**Level Four:** Operational Effectiveness and Efficiency. Includes indicators on (i) effectiveness of Bank interventions—using evaluability, results at completion and/or other performance indicators—and client satisfaction through the External Feedback System; (ii) efficiency, including costs of project preparation and implementation and decentralization of decision-making to country offices; and (iii) human resources, including gender and decentralization of professional staff.

OVE finds that the Bank has made substantial progress since May 2010 in implementing the CRF. However, it has not yet become an integral tool to guide the Bank’s overall strategy and operations and enhance accountability, as IDB-9 envisioned. The Bank is still in a relatively early stage of implementation, given that the targets are only formally effective in 2012 with the first round of subscriptions to the capital increase. This review thus identifies a number of issues that can usefully be addressed going forward.

First, the content of the CRF has inconsistencies and gaps. It was determined through a process of stakeholder negotiation as IDB-9 was being finalized, and it reflects many of the weaknesses of this somewhat fragmented approach. The rationale and precise meaning of indicators are often unclear. The process for establishing baselines and targets is not transparent, and values are often inconsistent or unrealistic. As noted in Chapter II, the lending targets are not fully aligned with institutional priorities, and the output indicators are not consistently aligned with sector strategies (though the strategies refer to those indicators as they were mandated to do). And the reporting in the DEO has been incomplete to date, as discussed further in the next section.

Second, the difficulty of linking Bank project outputs (Level 2) to higher-level results impairs the usefulness of the CRF. This challenge confronts all MDBs and donors that are attempting to move to a more systematic approach of managing for development results, and the MDBs are learning from each other’s experiences.
In addition, the knowledge and use of the CRF by Bank staff appear limited, and the Bank makes little use of CRF information to inform budget and personnel decisions. The data collection process is not yet fully transparent or institutionalized. There are few mechanisms for quality control over reporting and data, and the involvement of country counterparts is minimal except in the provision of data. Results-oriented management appears to be somewhat more institutionalized in some of the Bank’s individual departments (such as the Andean Region), which might offer a model from which the organization as a whole can learn.

Finally, in the Bank the CRF and the Corporate Strategy are one and the same. This has the benefit of ensuring the alignment of corporate metrics with corporate strategy. However, a strategy and a results framework serve two different objectives, and the most effective use of these tools would require some differentiation. The Corporate Strategy is meant to be a statement of future purpose and a plan to get there, derived from the consideration of client needs, the Bank’s competitive advantages, and the cost-benefits of alternative options to obtain the same results. In contrast, the CRF is meant to be a snapshot, or a series of successive snapshots, reflecting the Bank’s progression along a selected path. Complete equality of Corporate Strategy and CRF robs the strategic process of its dynamism to consider options and react to competitive actions.

Interviews conducted for this study indicate that IDB’s culture is moving toward a results orientation. But the issues summarized above constrain the value of the CRF in this process—in setting corporate goals and targets, monitoring corporate progress, evaluating corporate performance, reinforcing corporate accountability, and supporting corporate decision-making.

B. Development Effectiveness Framework

Reflecting the Governors’ emphasis on managing for results, the Cancun Declaration and IDB-9 Agreement included a set of requirements to complete the implementation of a comprehensive framework—the Development Effectiveness Framework (DEF)—to measure the results of Bank projects, building on discussions and initiatives that had been gaining momentum for several years. Projects being submitted for Board approval must have a Development Effectiveness Matrix (DEM) that rates project evaluability using standard criteria. The Operations Policy Committee (OPC) is to be strengthened to ensure that all projects submitted to the Board for approval have a minimum evaluability score of 5 (on a scale of 1-10). Once a project is approved, a Progress Monitoring Report (PMR) is to be used regularly to monitor implementation and expected results. At completion, all projects are to have completion reports—Expanded PMRs for SG projects and Expanded Project Supervision Reports (XPSRs) for NSG projects—that measure actual results against the DEM’s expected results. The
annual DEO is to report on these results, including the evaluability of the portfolio, the economic analysis contained in the portfolio, and results from project monitoring.

OVE’s analysis indicates that the Bank has implemented many but not all of the IDB-9 requirements relating to the DEF. The SG DEM has been fully implemented and is likely to have led to improvements in project evaluability at entry, while the NSG DEM is still a work in progress. The OPC has increased its focus on evaluability and currently will not accept projects with evaluability scores less than 5 for review, though it failed to identify evaluability problems in NSG operations. The SG PMR has been fully implemented and is being revised to address some of the challenges that have arisen in implementation—for example, the low acceptance and generally poor understanding by staff of the performance index, the difficulties teams face in proper planning, and the weak data received from executing agencies. The survey of operational staff indicates that the DEM and PMR requirements may be leading to some improvements in project results measurement, though further streamlining of Bank processes is still needed.

The new Project Completion Report to report on project results has not yet been implemented, and this is a critical weakness in the current system. It is under construction, and Management has committed to launching it early in 2013. The delay has been costly, as the Bank still does not have a reliable record of project accomplishments—something that some other MDBs have had for many years.

Finally, OVE’s analysis of the DEO points to a number of issues. The incomplete architecture of the DEF—including both weaknesses in SG project results reporting and the failure of the NSG DEM to measure evaluability—limits the ability of the DEO to provide an accurate picture of IDB’s performance. DEOs to date have relied heavily on ad hoc descriptions of selected projects, which, while interesting, are not generalizable and do not give an accurate view of overall Bank results. The DEO has referred to promised impact evaluations for several years but has not yet presented a description of the impact evaluation program or reported on findings to date (recognizing that most impact evaluations are still underway). The DEO has also not included information on economic analysis in Bank projects as called for by IDB-9. Thus the DEO is not yet fulfilling the reporting and accountability role envisioned in the IDB-9 Agreement, though further progress toward that end is readily achievable once the various components of the DEF are fully implemented.
C. **SUMMARY: RESULTS MEASUREMENT AND MONITORING**

The Bank is making significant progress in implementing the DEM and thereby improving results measurement and monitoring at the project level. If accurate project-level results reporting is put in place in 2013 as expected, the system will be largely complete. Progress in measuring and monitoring results at the corporate level is not as strong, as the CRF does not appear to be widely known by staff or used to guide Bank activities. The CRF is closely tied with the institutional and sector strategies discussed in Chapter II, and problems with one are reflected in problems with the other. For the CRF to be a meaningful tool guiding the Bank, it needs to reflect a broadly-owned corporate strategy that emerges out of a careful analysis of the Bank’s role and comparative advantages in the LAC Region.
The Cancun Declaration and the IDB-9 Agreement established a series of requirements to strengthen safeguard and accountability mechanisms in IDB.
Several key requirements in the Cancun Declaration and the IDB-9 Agreement were designed to strengthen safeguard and accountability mechanisms in IDB. Both documents included specific requirements to avoid lending in situations of macroeconomic unsustainability; to implement a strengthened system of environmental, social, and gender safeguards for Bank projects; to set up the Independent Consultation and Investigation Mechanism to handle complaints related to IDB’s adherence to its own policies; and to strengthen the Bank’s policy on information disclosure. The IDB-9 Agreement also mandated that the Bank implement the recommendations of an independent external review of the Bank’s mechanisms to address fraud and corruption in its projects, in the Region, and among Bank staff.

A. Macroeconomic sustainability

One of the most challenging requirements put in place by the IDB-9 Agreements has been the requirement that the Bank prepare annual Macroeconomic Sustainability Assessments (MSAs) for all borrowing countries, combined with the IDB-9 requirement that overall exposure not increase for a borrower with a negative MSA. Though the IDB-9 Agreement does not specify the underlying rationale for this requirement, it was presumably based on both a credit risk and development rationale. On the credit risk side, the requirement would limit Bank exposure to countries with a higher risk of default; on the development side, the requirement would avoid increasing countries’ debt burdens and could promote better macroeconomic policies.
OVE finds that the MSA requirement has been substantially implemented but faces many difficulties that seriously impede its likely effectiveness. A first fundamental challenge is methodological: it does not appear possible for the Bank to do what MSAs are expected to do effectively—that is, to predict the timing of a macroeconomic crisis. The MSA methodology used by Management, though highly professional, is not adequate to this task, and there is no other methodology that would necessarily do it better. Indeed, the general consensus of economists is that short-term predicting is fraught with uncertainty. The International Monetary Fund uses a methodology similar to the MSA’s, but for a different and more appropriate purpose—to analyze and discuss medium-term policy issues with governments to help them with policy reform.

OVE reviewed all 52 completed MSAs and found that although the quality was reasonable, given the resources allocated, they lacked depth in many areas—most notably financial sustainability and inflation. MSAs draw very heavily on IMF data and analysis, particularly Article IV consultations and Financial Sector Assessment Papers. In a few cases OVE found some inconsistencies, both within documents and between documents for the same country in 2011 (completed in early 2012) and 2012.

Once the MSA is completed, it is the sole responsibility of the Chief Economist to draw a conclusion and determine whether the country is characterized by macroeconomic sustainability—and, therefore, whether the Bank can lend to the country. There are few checks and balances in the MSA process, and none relating to the Chief Economist’s role. It is unusual for an organization to give responsibility for decisions of such importance for it and its client countries to a senior official without any opportunity or requirement for review or appeal. While this broad discretion may have been seen as necessary for independence, the inherent weakness of the methodology and inexact nature of any resulting judgments makes it particularly risky. This is further exacerbated by the secretive nature of the process, which does not seem fully warranted by the information contained in MSAs, most of which is public and available on the Internet.

The MSA process entails significant costs for the Bank. From a purely financial standpoint the costs are not so large for the Bank as a whole, though the process imposes an unusual burden—not aligned to normal and expected job responsibilities—on the Chief Economist and the Research Department of the Bank. The substantial overlap between MSAs and the Bank’s Independent Macroeconomic Assessments (IMAs)—another macroeconomic assessment tool used for PBLs—is likely to lead to unnecessary duplication and wasted resources. More broadly, negative MSAs can cause disruptions in the Bank’s annual programming process as efforts are made to rearrange lending allocations and individual programs. There have also been notable costs to date to country relations and IDB Board cohesion and collaboration.
On the benefit side, the MSA process has the potential to accomplish the underlying IDB-9 goal of preventing additional lending in unsustainable macroeconomic situations. However, under existing rules it may also just shift lending forward (to the current year, given that MSAs formally take effect only in the following year) or backward (to later years) rather than limit its magnitude over time. Furthermore, MSAs will not achieve the broader objective of stopping increases in Bank exposure for the foreseeable future. It was clarified early on that MSA limits apply only to new approvals rather than disbursements of already approved loans, and existing Bank disbursement and repayment schedules will lead to increasing exposure in almost all LAC borrowing countries in the coming 5 to 10 years.

These findings suggest that the weaknesses and institutional costs of the MSA process as currently designed are quite high and may be disproportionate to the benefits gained. In light of these findings, OVE would suggest that the Governors, the Board, and Management reconsider the design of the MSA process to align benefits and costs more closely. A useful way to think about changes is to “unbundle” the two rationales discussed earlier in this paper—credit risk and development effectiveness. Both are important goals and deserve careful consideration. But they are not necessarily best accomplished with one instrument.

The credit risk rationale argues for the type of short-term focus and yes-no decision-making used in the MSAs. In line with other comparator institutions (notably the World Bank), Management may wish to strengthen its ability to perform independent credit risk assessment of the sovereign portfolio. This would be done by the Bank’s financial and risk management units, independently from Management, in a confidential manner, and with the sole purpose of protecting the creditworthiness of the Bank. In addition to financial implications (e.g., provisioning), the risk assessment could potentially inform discussions on the country program envelope during the preparation of the Country Strategy.

The development rationale argues for a broader and more medium-term instrument for policy analysis. Many aspects of a country’s public policy and institutional framework are important to development; macroeconomic sustainability is an important one, but not the only one. All aspects of Bank lending and nonlending assistance should focus on policy frameworks for development effectiveness, with policy-based lending being the most obvious. OVE therefore suggests that the Bank consider strengthening the IMAs rather than duplicating them through the MSAs. The IMAs are done at an appropriate time—before approval and disbursement of policy-based loans (PBLs)—and their focus on medium-term policy considerations is highly development-oriented. But IMAs need to fulfill their proper role if they are to be used effectively to achieve the development objectives underlying IDB-9. Clear guidelines should define policy-based lending—or perhaps even a somewhat broader category of lending to be covered by IMAs—and the Bank should not be able to circumvent these guidelines by
relabeling quick-disbursing loans as investment lending. IMAs should also be subject to the presumption of disclosure to create incentives for quality and accountability.

If Governors do not consider the combination of credit risk analysis and strengthened IMAs sufficient to achieve IDB-9 objectives, the Bank could consider strengthening its macroeconomic and policy analysis more broadly through regular economic and sector work. Strong economic and sector work can serve a very useful role in the design of Country Strategies, the prioritization of country programs, and the design of PBLs and investment lending. Governors, the Board, and Bank Management would need to consider what resources to devote to this area of work and how to best utilize them for development advice and support. But it is clearly feasible for the Bank to have a stronger role than it now has in policy analysis and advice to its borrowing countries.

B. Environmental, Social, and Gender Safeguards

The Bank’s commitment to sustainability is enshrined in the Environmental and Safeguards Compliance Policy and policies addressing social concerns: involuntary resettlement, indigenous peoples, and gender equality. Each policy promotes sustainability through a two-pronged approach: mainstreaming of environmental and social concerns, and safeguarding (avoiding harm). The IDB-9 requirements called on the Bank to adopt a new set of environmental and social safeguards consistent with the findings of an external assessment by an Independent Advisory Group (IAG). IDB-9 also called for the adoption of a new Gender Equality Policy.

The IAG assessment, completed after the IDB-9 requirements were adopted, concluded that a revision of the Bank’s safeguards policies was not warranted, but it recommended actions to help the Bank strengthen its mainstreaming of sustainability concerns and its application of safeguards. Management and the Board accepted this conclusion. Thus in terms of the IDB-9 mandate, the Bank has not revised its safeguards policies, but it has adopted the Gender Equality Policy. It has also adopted an action plan to address concerns raised in the IAG assessment. OVE finds that the Bank’s action plan is substantially responsive to the latter and that progress on most actions is well under way. It also finds that implementation of the Gender Action plan has made a good start, with somewhat stronger progress on the proactive than the preventive side.

Mainstreaming of sustainability and gender concerns remains work in progress. The Bank’s sustainability working group has helped raise Management’s overall awareness of sustainability issues, though it lacks a clear longer-term agenda. Moreover, the Bank has not yet found an effective way to integrate sustainability into its Country Strategies. Similarly, gender sector notes have not yet resulted in consistent integration of gender equality into Country Strategies. Mainstreaming of gender in projects is increasing, with 19% of lending operations approved in the first three quarters of
2012 including a gender mainstreaming indicator in their results matrix, up from 9% in 2011. However, a review of these projects and their results frameworks found large variation in the relevance and quality of the gender indicators.

On the safeguards side, progress has been made on integrating safeguards specialists into private sector operational teams, and the Bank has embarked on a more rigorous approach to the supervision of safeguards implementation. Piloting of the gender safeguard has started recently. However, pressure to reduce project preparation times and an increase in high-risk projects seem to have resulted in the Bank’s shifting some important safeguards due diligence work from the preparation to the supervision phase—a change the Bank’s supervision system is not equipped to handle well. A review by OVE of a small sample of projects found that Environmental and Social Impact Assessments (ESIAs) had been undertaken in most cases but had little analysis of indirect project effects, at times lacked baseline information, and were not always completed (along with associated environmental and social management plans) prior to Board approval.26

The Bank could usefully take a number of steps to strengthen safeguards implementation and mainstreaming of environmental, social, and gender concerns. On the safeguards side, the environmental and social assessment process needs to be consistently completed before project approval and safeguards supervision needs strengthening. OVE suggests that Management and the Board revisit the allocation of resources available for safeguards work to ensure that it can be carried out in accordance with the Bank’s sustainability policies. On the mainstreaming side, the social aspects of sustainability can be strengthened by broadening the focus of country environment sector notes and enhancing dissemination of and guidance on the gender policy and action plan.

C. INDEPENDENT CONSULTATION AND INVESTIGATION MECHANISM

MDBs have unique features when it comes to accountability. They are formally accountable only to their member governments, which are represented on their Executive Boards. Their operations are governed primarily by their own policies, not international law. They provide finance to governments that are accountable to their citizens for the activities the MDBs support. And they also finance private sector projects. Their operations are large and highly visible, and are expected to set high standards for environmental stewardship and social responsibility. These unique features have led most MDBs to establish a special type of entity known as an independent accountability mechanism (IAMs) as an external check on Bank compliance. MDBs recognize that these recourse and compliance mechanisms can help improve the quality of their operations.
IDB’s Board approved the policy to establish its IAM, the Independent Consultation and Investigation Mechanism (ICIM, usually known by its Spanish acronym, MICI), in February 2010, just at the time that the Governors were discussing the new capital increase for IDB. In creating the MICI, the Board attempted to place the Bank in the mainstream, if not the forefront, of current practice.

The Cancun Declaration and IDB-9 Agreements included support for the establishment of MICI and called on the Bank to fully implement the policy. Because this requirement is included in IDB-9, OVE has also included MICI as a topic for this evaluation. However, in mid-2012 the Board asked OVE to also undertake a full independent evaluation of MICI, and the results reported below are drawn from that evaluation.

OVE finds that the Bank fully implemented the IDB-9 requirements. The first Executive Secretary was appointed in May 2010, the Project Ombudsperson in July 2010, and the panel members in September 2010. MICI is considered to have become effective in September 2010. Between September 2010 and June 30, 2012, MICI received 41 requests, 19 of which became cases (the remaining 22 did not become cases for a variety of reasons: for example, because they were outside MICI’s purview and thus more appropriately handled by another department of the Bank). MICI has two different avenues to consider complaints. The first is a consultation process carried out by the Project Ombudsperson, and the second a compliance review carried out by the Compliance Panel. There are different eligibility determinations for each. To date 14 cases have been declared eligible for consultation and five ineligible. Eight cases have gone to compliance review, of which five were declared eligible and two ineligible, and one is still under eligibility review.

However, OVE also finds that the MICI has been largely ineffective in providing meaningful recourse to individual complainants and in generating systemic lessons to help the Bank perform better. The situation is unlikely to improve with the passage of time or with the appointment of different principals, because the root cause of the failure lies in the MICI policy. The policy reflects confusion about the roles and functions of problem-solving and compliance, and some ambivalence about the extent to which the Bank wants to receive complaints and learn from them. It does not provide a structure that holds MICI accountable for delivering results with integrity and efficiency. The weaknesses in MICI’s policy have been exacerbated by some actions of the incumbent MICI principals, who have conducted MICI operations with insufficient transparency and in open disagreement among themselves.

A new approach is needed, which must be anchored in an unambiguous commitment to creating an effective and accountable mechanism. OVE recommends that the Board end MICI’s two-year pilot phase with suspension of the current office, implement a transition plan, and establish a new Independent Accountability Office with well-defined functions and accountability.
D. **Combating Fraud and Corruption**

The three strategic pillars of the Bank’s anticorruption agenda, like those of the other MDBs, are to (i) protect Bank-financed activities from fraud and corruption; (ii) support member countries in strengthening good governance and combatting corruption; and (iii) ensure the highest level of staff integrity. In 2008, the Bank commissioned an external review to review the entire framework (the “Thornburgh Report”). This review concluded that the Bank activities had had a positive effect, but were ad hoc; and it recommended that the Bank better coordinate and expand its support to help countries move toward good governance and public integrity. The IDB-9 Agreement committed the Bank to implementing the recommendations of the review.

OVE finds that implementation of these IDB-9 requirements has been substantial, particularly in the first and third pillars. Noteworthy actions in the first pillar—protecting Bank-financed activities from fraud and corruption—include creating an Anticorruption Policy Committee, strengthening the independence of the Office of Institutional Integrity, adopting a clearer and more accountable sanctions structure, and finalizing a cross-debarment agreement with other MDBs. Under the third pillar—assuring internal integrity—the code of ethics and the whistleblower policy have been revised, the enforcement capacity of the Ethics Office has been strengthened, and various actions have been taken to bring the system up to good international practice. It is too early to judge the effectiveness of these actions, but they appear to be moving in a positive direction, and OVE’s principal suggestion is for IDB to continue to move implementation forward and help consolidate reforms.
In comparison, less focused attention has been given to the second pillar, helping countries combat corruption. Though many Bank interventions to improve public management and strengthen institutions can have a positive impact on public integrity, this agenda has received less recognition and support than in prior years.27 The Action Plan developed by Management has largely gone unimplemented. Enhancing governance and anticorruption efforts in the Region will require support from top Bank Management, the Board, and borrowing countries; closer multisectoral coordination; stronger analytic work and knowledge sharing; and greater priority and resources.

E. INFORMATION DISCLOSURE

IDB-9 required that the Bank adopt a new and more expansive Information Disclosure Policy, in line with those adopted by peer organizations, and it laid out a number of specific requirements for that policy. OVE finds that implementation of those requirements has been substantial. IDB’s new Access to Information Policy, which took effect January 1, 2011, generally meets the IDB-9 formal requirements and is broadly consistent with reforms other major international financial institutions have made in recent years to their disclosure of information policies. The new policy reiterates the old policy’s “presumption of disclosure” principle, and it introduces several major reforms aimed to better achieve that principle. As a result, under the new policy, several categories of documentation are to be disclosed for the first time, and many are disclosed simultaneously with their distribution to the Board.

The IDB policy lacks clarity and consistency on some key points and, in particular, has one exception—for “country-specific information”—that is not found in comparable form in peer institutions. This exception states that the Bank “will not disclose information contained within country-specific documents produced by the Bank if it has been identified in writing by countries as confidential or potentially damaging to its relations with the Bank.” As currently worded, this open-ended exception undermines the goal of transparency. The Bank needs to close this loophole by developing a consultation process with countries that leaves final decisions on the handling of information to the Bank and includes a remedy of selective redaction rather than nondisclosure of an entire document. Also, to be consistent with the IDB-9 mandate to disclose project results, project results for NSG loans should be included in the list of information to be disclosed (as is done in IFC), with appropriate redaction of confidential proprietary information.

Progress has been substantial in all areas of implementation, though somewhat slower than anticipated, in part reflecting an unrealistic timetable influenced by IDB-9 pressures. Although emerging issues are being addressed as they become evident, some key steps are still under way. For the policy to be fully effective, IT monitoring systems need to be created and consolidated to ensure policy compliance, improve the online accessibility of information, and develop indicators to measure policy effectiveness over time.
F. **Summary: Safeguards and Accountability Mechanisms**

The extensive mandates laid out in the Cancun Declaration and the IDB-9 Agreement to strengthen safeguard regimes and accountability mechanisms have proven to be among the most controversial in IDB-9. Management has made major efforts in this area, though progress has been mixed, in part because of the tight timeframe provided in IDB-9 to design and implement this ambitious set of reforms. The Bank has made progress in strengthening its environmental, social, and gender safeguards system, though full implementation appears to be at some risk due to time pressures and tight resource constraints. Progress in strengthening the Bank's mechanisms to address fraud and corruption in projects and ethics concerns internally has also been substantial, though the other leg of the framework—helping countries address corruption—has received less attention. The new Bank policy on information disclosure has moved the Bank closer to the more transparent and open regimes of some comparator MDBs, but a blanket exception for country-specific information that could harm country relations risks undermining the purpose and effectiveness of the reforms. Finally, the flaws in the design of the MSA process and the MICI are increasingly evident, and reformulation is needed to set them on a better path.
Continued efforts to reform human resource policies and implement Bank-wide business process solutions can contribute to organizational performance, though much remains to be done in both areas.

© OVE, 2013
This final chapter on evaluation findings reviews progress in the four areas of IDB-9 addressing resource management. The first, Organizational Effectiveness and Budgeting, includes the specific Cancun Mandate to adopt a results-based budgeting (RBB) system. The second, Human Resources, includes a number of aspirational goals and specific targets for management and results in IDB’s management of human resources. The third, Integrated Business Solutions, covers implementation of an important Bank business transformation and IT program, Project Optima. Finally, Financial and Risk Management addresses the implementation of the Income Management Model, the Capital Adequacy Framework, the Fund for Special Operations, and the Bank’s risk management processes.

A. Organizational Performance and Budgeting

A key objective of IDB-9 was to create a Bank culture of managing for results. To that end it mandated three steps to support and complement the Corporate Results Framework (CRF) in improving the Bank’s organizational performance and budgeting: (i) adoption of an RBB process aligned with CRF priorities; (ii) implementation of a Balanced Scorecard (BSC) system to improve management for results in the Bank, and (iii) strengthening of indicators to monitor organizational effectiveness and efficiency.

RBB is the component that is farthest along of the three. In 2010 the Bank formed four RBB Working Groups to create the RBB Framework document, which included a three-year implementation plan. This document was approved by the Board in December 2010. Efforts were to be focused on establishing metrics to measure performance, applying those metrics in the budget cycle, creating incentives to achieve
results, and ensuring Management capabilities to meet objectives. It was recognized that IDB-9’s call to link budgets directly to CRF outcome targets would not be feasible, and most of the focus has been on modifying the five phases of the Bank’s budget cycle to strengthen the quality of information and online access to the work program and budget data needed to link inputs to outputs.

The implementation of RBB is moving forward, and the Bank is now in the second year of the planned three-year implementation period. Considerable effort has been expended in making changes, and progress has been made on a number of fronts. But RBB is still a work in process, and the extent to which it has improved decision-making is an open question. If the system is to be effective going forward, Management needs to focus increased attention on the change management process to promote the cultural and behavioral change required and take the time needed to create an organization that manages for results. There must be transparency and clear accountability for results and a willingness to experiment, continually adjust, and learn from mistakes. To date the project’s sponsorship has been assigned at a level that does not provide the organizational traction needed for behavioral change. Furthermore, up to now HR has had little involvement in creating the incentives needed to encourage and reward behavioral change. These broader incentive, behavioral, and leadership challenges are critical to long-term success and need to be addressed going forward.

The other two parts of the IDB-9 mandate have not been implemented. The BSC project was stopped after more than two years of effort and approximately US$2.5 million dollars of spending. While considerable learning resulted from this effort, the project failed to achieve its key objective of implementing a strategic planning and management system to align business activities with organizational strategy and provide a focused and comprehensive perspective on the Bank’s organizational performance. Some Vice-Presidential units have implemented “dashboards,” but these do not provide the focused comprehensive perspective available from a well-designed BSC.

Work on the External Feedback System has recently restarted. A process, governance structure, and implementation plan have been developed and are in the early stages of implementation. Management recognizes the challenges the EFS entails—including the complexities and resources required to design and conduct successful longitudinal surveys, reputational risks related to sharing unfavorable results, and the creation of expectations about the Bank’s ability to respond to partner needs and suggestions. Accomplishing the project’s multiple objectives will not be easy, and ambitions need to be calibrated accordingly.
B. **Human Resource Development**

The IDB-9 Agreement included a wide array of aspirational goals for human resource development in the Bank, and the IDB-9 results framework laid out a number of targets in certain areas, most notably staff decentralization and gender balance at various levels in the Bank. In these areas it is possible to assess results. In other areas, however, the Agreement puts forth general aspirational goals but lacks specific indicators, making it possible only to discuss the general direction of change.²⁸

OVE finds progress in the implementation of many of the IDB-9 commitments on human resource development. The Bank has made significant progress in decentralizing professional staff. It has begun to implement a Results-Based Performance Framework and has undertaken initiatives to improve talent management. The Bank has also recently reformed the process to contract consultants in Headquarters, and is in the process of implementing the new framework in Country Offices.

Yet the Bank is still at a relatively early stage in this process. Much remains to be done, and the results of many of the changes already made will take time to emerge. There has been a marked increase in decentralization, consistent with the IDB-9 mandate, and the Bank is close to meeting its 40% target for the share of professional staff in Country Offices. That said, it is not clear whether this professionalization is yielding the expected results in terms of cost-effectiveness, client satisfaction, reduced time in project preparation and execution, improved project quality and evaluability, increased country knowledge, project origination, and better technical dialogue. Similarly, the Bank has advanced in implementing a Results-Based Performance Framework, but the effects of the new system on staff motivation and productivity have not been studied.

The Bank seems to be on track to meet two of the three gender objectives of IDB-9. To achieve the 40% goal for professional and executive staff who are women in grades 4 or above, the Bank will have to keep pace with the annual rate of change of the last couple of years; and to meet the 38% target for executive and representative positions filled by women, the Bank mainly needs to keep the same rate at which it is hiring and promoting female staff. Finally, to meet the lower bound of the target for women in the Executive Vice President and Vice President positions, at least one Vice Presidency will have to change its authority in the next 2.5 years. There is still a large difference between the number of female and male country representatives (6 vs. 20). Even though there is no IDB-9 commitment related to female-held positions in the field, it is recommended that further research be done to understand this difference.
C. **Integrated Business Solutions (Program Optima)**

The IDB-9 Agreement committed the Bank to improve its efficiency in delivering services by completing Program Optima, an initiative started in 2008 to replace the Bank’s outdated set of business solutions and IT systems with an integrated approach. Progress to date has been slow. Program Optima has had three different beginnings, each time under different teams with different governance structures and with advisory services from different well-known consulting companies. As of December 1, 2012, the program has spent over US$13 million from the capital budget, plus US$9.2 million from the administrative budget (including personnel costs), with limited results to date. Some focused applications have been developed for particular uses, and significant resources have been spent to develop MapAmericas, a “geovisualization” tool meant to map Bank results. But the Bank-wide integrated system is still a work in progress.

The Bank must move forward with this task. Most of its IT systems, both operational and corporate, are obsolete and unable to properly address business needs, leading to inefficiencies all across the Bank. It appears that the new Optima team is putting in place the necessary mechanisms and the program is moving forward. To maintain this momentum it is vital to have the support of all areas of the Bank. Strong efforts at communication will also be important to clear up any confusion among staff about the vision and scope of Program Optima.

D. **Financial and Risk Management**

During the months leading to IDB-9, the Bank introduced new risk and financial management tools to address the effects of the global financial crisis. When Governors met in Cancun in March 2010, they placed a premium on conservative tools for financially shielding the Bank. IDB-9 included two novel requirements—the Income Management Model (IMM) and the Capital Adequacy Policy (CAP)—to govern income and expenses and the management of the Bank’s ordinary capital, respectively. The IMM is a rule-based approach that links the income from the Bank’s lending with the Bank’s budgetary spending in a long-term planning horizon. It marks a departure from IDB’s prior loan pricing practice, requiring that loan charges cover the bulk of administrative expenses. The new CAP aims at ensuring that sufficient capital is available to sustain the Bank’s risk-bearing activities, most importantly its lending. The new Risk Management Framework aims at a more comprehensive measurement and monitoring of the Bank’s risks.
OVE finds that the Bank has fully implemented the IMM, the CAP, and the new Risk Management Framework as required. Full implementation has been facilitated by the highly detailed and prescriptive nature of the requirements in this area, with models being exhaustively described as part of the IDB-9 Agreement. The CAP’s risk-by-risk approach is more comprehensive than the Bank’s prior policy and better suited to the risks resulting from expanded NSG lending. Current rules impose almost equivalent capital reserve ratios on both SG and NSG lending, however, while other MDBs impose higher relative ratios on NSG lending. OVE suggests that IDB review the capital reserve ratios and, for SG lending, consider the advantages and disadvantages of internally-generated credit risk ratings, to either replace or be combined with the published external country risk ratings currently used.

As in the other areas covered by this evaluation, judging the effectiveness of implementation is more complex than judging its extent. Several broad objectives presumably underlie the IMM and CAP. One objective is efficiency and cost control, and the IMM imposes tight constraints on the Bank, tighter than in comparator MDBs. This may have unintended consequences, such as raising loan charges to support a still uncertain long-term planning horizon or inducing the Bank to reduce expenses beyond what is needed for effective delivery of its programs. OVE suggests a periodic review of the overall rule, including the planning horizon, the coverage rule, and the inclusion of certain expenses, especially those related to investment. It would also be useful to utilize the IMM more as a decision-making tool by identifying lending scenarios (taking into account any volatility in disbursements) and linking them with their associated revenues and costs.
Another objective is presumably the maintenance of IDB’s AAA rating. Ongoing changes in the rating criteria of external agencies indicate an increasing focus on shareholder equity relative to callable capital. The relatively small amount of paid-in capital committed in IDB-9 makes the Bank’s earnings capacity a key driver of capitalization levels. While the Bank is adequately capitalized, the Bank needs to continually review the parameters of the IMM and CAP and future lending scenarios (including country concentration) in light of these changing rating criteria to ensure adequate capitalization and maintenance of the AAA rating over the long-term.

A clear objective of IDB-9 was to step up lending to the Region to a sustainable level of US$12 billion a year, the lowest of the demand scenarios discussed in IDB-9 negotiations. It is possible that the lending capacity could be increased with the current level of capital by gradually removing, with investor and rating agencies’ backing, the Bank’s borrowing limit and replacing it with a more flexible risk-based measure like those used by many comparator organizations. The Bank’s self-imposed borrowing authority limit was introduced more than 50 years ago and no longer underpins external agencies’ rating of IDB’s debt.

Another objective expressed in general terms in IDB-9 was countercyclical lending capacity, though there was no agreement on its extent. Up to now the Bank has relied on opportunistic actions, such as front-loading during the last crisis or the recently introduced countercyclical instruments that depend on IDB-9’s capital build-up until 2015. If IMM and CAP are to build the required reserves, they need a clear articulation of desired countercyclical coverage and a willingness to build capital in “good” times to support countercyclical lending.

Finally, financial competitiveness is an important objective for IDB, particularly considering the expansion in financing sources available to many LAC borrowers. The IMM, and to a lesser degree the CAP, define SG charges via a predominantly inward-looking process, with little direct consideration of competitive pressures. The Bank will likely remain competitive in the short term because of its lower funding costs, but integrating a stronger market orientation in the Bank’s financial architecture merits consideration to avoid an erosion of this financial advantage over time.
E. **Summary: Resource Management**

Though much still remains to be done, the Bank is now making significant progress in all of the areas relating to resource management under IDB-9. Major changes are under way in budget and human resource policies and processes, and the Bank has made significant advances in gender diversity and staff decentralization. The new Income Management Model, Capital Adequacy Policy, and Risk Management Framework are all steps in the right direction, and continued adjustments at the margin will help to ensure the optimum allocation of the Bank’s scarce budget and capital resources for development. And Project Optima appears to be moving forward after three years of delay. All of these areas will need the strong support of Senior Management support—arguably even stronger than has been provided to date—to facilitate the internal ownership and culture change required for effective implementation.
The IDB-9 reforms are worthwhile and, if appropriately designed and well implemented, will serve to strengthen the Bank as a development institution. Taken together, they will help position IDB to serve the LAC Region's needs for many years to come.
A. Full and Effective Implementation

The broad conclusion of this evaluation is that Management has invested heavily in efforts to implement the IDB-9 requirements. The requirement of “full implementation” has been met or is in the process of being met on numerous fronts. The progress toward “effective implementation” has been more mixed. Likely effectiveness varies widely across areas, with some moving forward well and others more slowly, and with a few having little impact or even imposing costs on the organization.

It is important to recognize those areas that appear to be moving in the right direction, albeit with substantial issues still to be resolved and work to be done for effective implementation:

- The mix of IDB’s lending instruments offers substantial flexibility to clients and is generally adequate to address the demands of borrowers, particularly with recent changes to add contingent lending instruments for crisis response and natural disasters.

- The use of country systems is advancing for financial management and procurement, though progress is slower in the area of monitoring and evaluation and safeguards.

- Substantial progress has been made in developing and implementing substantial portions of the Development Effectiveness Framework, and remaining implementation challenges are being addressed.

- The Bank’s work on environmental, social, and gender safeguards has been strengthened in recent years, though the Bank may not be devoting adequate time and resources to ensure effectiveness.
A new policy on information disclosure has modernized the transparency framework for the organization, though further changes are needed to keep exceptions and loopholes from undermining the framework.

Serious efforts have been undertaken to strengthen internal ethics and the protection of Bank projects from fraud and corruption. There has been less focused emphasis on helping countries address problems of corruption, though ongoing support in public sector management and some targeted transparency efforts—including the Extractive Industries Transparency Initiative—are noteworthy.

The Bank is making a serious effort to move toward a system of results-based budgeting.

Numerous initiatives are being undertaken to improve human resource management, and substantial progress has been made in meeting IDB-9 targets on gender diversity and decentralization of professional staff.

The Income Management Model, Capital Adequacy Policy, and Risk Management Framework have been fully implemented and are working generally as intended.

After several false starts, it appears that Project Optima is now moving forward to create much-needed integrated business solutions and management information systems for the Bank.

Implementation has been less effective in a number of areas:

The four sector strategies required under IDB-9—on Social Policy for Equity and Productivity; Institutions for Growth and Social Welfare; Competitive Regional and Global International Integration; and Environment, Climate Change, Renewable Energy and Food Security—are in place but do not fulfill the expectations of a strategy and in practice appear to have little impact.

FSO is unlikely to be sustainable until 2020 (as projected in IDB-9) without additional liquidity-enhancing measures, and the required US$200 million per year in grant financing is being allocated to the IDB Grant Facility for Haiti but with questionable strategic focus and results.

The Bank has a complex network of funding sources and allocation mechanisms for knowledge and capacity-building products—in particular technical cooperation—that lead to significant inefficiencies and delays in implementation. The development effectiveness of this work is poorly monitored.

The Bank’s programming process operates in a less systematic and transparent way than envisioned in the IDB-9 Agreement, in part reflecting a desire for flexibility. Country Strategies have relatively little strategic or analytic content (though background sector notes have improved), generally leaving options open
to accommodate future demand. Annual CPDs often include projects in sec-
tors not envisioned in the Country Strategy, and in some cases even projects not
included in the CPDs are presented for Board approval. The contributions of
nonlending work and NSG lending to the country program are not well-integrat-
ed in either document.

- The Corporate Results Framework is in place but is not a strategic guide for the
  institution as intended. The annual DEO is not yet fulfilling the role originally
  intended of reporting accurately on IDB’s results.

Finally, in a few areas a fundamental redesign of the Bank’s approach will be needed
for effectiveness:

- The strategic rationale of the Bank Group’s private sector activities is uncertain,
  and the activities are poorly coordinated across the four separate windows and
  with the Bank’s public sector work, leading to a loss of potential synergies.

- The Macroeconomic Sustainability Assessments have suffered from confused
  objectives and a nontransparent process, in addition to inherent problems of
  methodology.

- The Independent Consultation and Investigation Mechanism has been ineffec-
  tive due to an unworkable policy and structure and behaviors of MICI principals.
  The underlying objectives are laudable, but a reconfiguration of the mechanism
  is needed.

As the introduction to this report noted, the overarching objectives of IDB-9 and of
the Bank’s work more generally are broad—to promote the Bank’s responsiveness to
member countries, strategic selectivity, and development effectiveness, and to strengthen
its financial sustainability, oversight functions, and organizational performance. Though it is still early to draw conclusions, it appears that the implementation of
IDB-9 is likely to contribute to the achievement of some of these goal—most notably
development effectiveness, financial sustainability and oversight, and organizational
performance. OVE’s consultations with borrowing countries indicate that they view
the Bank as client- responsive, and the broad mix of lending instruments and efforts
to strengthen and promote the use of country systems help in this regard.

However, IDB-9 does not yet appear to have succeeded in promoting IDB’s strategic
selectivity. The Bank needs to be responsive to member countries’ needs but also to
focus on what it does well—and strategic selectivity means finding the intersection of
those two. Corporate, sector, and country strategy exercises to date have not sought
to identify that intersection systematically. In addition, lending targets are unlikely to
contribute meaningfully to selectivity and may even be hindering Bank progress in
achieving development effectiveness in places such as Haiti.
B. **Recommendations**

The background papers accompanying this evaluation provide detailed analysis and suggestions going forward in each of the areas noted above. Drawing on this broad set of findings, OVE considers the following 10 recommendations to be of highest priority for IDB’s Governors, Board, and Management. They are listed in order of specificity, from the broadest to the most specific:

1. **Begin a process to update IDB’s institutional and sector strategies and revisit the Corporate Results Framework with an eye to simplification, improved data accuracy, and full knowledge and ownership by Bank staff and other stakeholders.**

A clear strategic vision and means to measure performance are critical to the success of any organization. An institutional strategy and related sector strategies (with accompanying sector frameworks or action plans) need to build on past experience, take into account institutional strengths and weaknesses, and be understood and owned by important stakeholder groups if they are to have the power and credibility to guide the Organization. And a relatively simple results framework with a limited number of widely accepted indicators that are measured accurately is more likely to be effective in tracking institutional performance than a complex framework with limited understanding, ownership, or data quality. Without strong grounding in the Bank’s past experience or current capabilities, the sector strategies cannot credibly identify where the organization’s true competitive advantages lie. And without broad understanding and consensus across the Bank, the current sector strategies and results framework appear to provide little benefit to the organization. Furthermore, some indicators in the current framework—including the specific lending targets—can distort Bank activities in unforeseen ways and should be reconsidered.

2. **Revisit the formal role and content of Country Strategies and Country Programming Documents to balance the need for strategic selectivity with the essentially demand-driven character of the Bank.**

While strategic prioritization is appropriate for a development institution, it can sit uneasily aside borrowing countries’ understandable desire for flexibility and autonomy in the choice of activities supported by IDB. The goal of Country Strategies and Programming Documents should be to find the intersection where country demand overlaps with development priorities and Bank capabilities, and for that purpose the latter has to be considered as carefully as the former. IDB’s current country programming process is more flexible than that envisioned in IDB-9, but in achieving that
flexibility strategic selectivity has largely been lost. Country Strategies can be useful vehicles to seriously explore key development challenges, lessons learned (including from Bank experience), Bank capacities and priority areas for future Bank engagement (lending and nonlending, SG and NSG), and broad indicators of success. A rolling 2-year country programming process (with the first year being binding and the second year indicative) could then build on the Strategy and provide as full coverage of Bank products—lending and nonlending, SG and NSG—as possible to encourage coherence and synergy. While it is useful to track development progress at the country level, measuring the precise results of Bank activities can only be done at the project and TC levels, given difficulties in attribution at higher levels of aggregation.

3. **Restructure the private sector windows of the Bank to integrate them much better with each other and with the public sector side of the Bank.**

Better coordination is essential and will only occur if the Bank’s structure and incentives push strongly in this direction. Two options for integration are feasible: (i) to fully integrate the private sector windows into the Bank’s sector departments, resulting in only one IDB division handling both SG and NGS lending in each sector, or (ii) to merge the private sector windows into a single entity while simultaneously ensuring coordination by assigning power, resources, and a full mandate to a Country Manager or Representative for each country. Each option for integration—through either sector or country units—has advantages and disadvantages, and either will require a major change in how the Bank works.

4. **Undertake further reforms to streamline resource allocation processes and results monitoring for technical cooperation and capacity-building work.**

Current processes to allocate Bank resources for nonlending work (particularly technical cooperation) are unduly complex and lead to delays and likely misallocation of resources. Earmarking of TC resources appears to have led to a situation where these resources are under-utilized, despite unmet demand for potentially useful activities and studies.

5. **Complete the implementation of the Development Effectiveness Framework as envisioned in the Cancun Declaration and IDB-9.**

The areas that are lagging—most importantly, accurate project results reporting—need to be finalized, and the DEO should seek to provide a balanced and accurate review of IDB’s development results.
6. **Refocus the Haiti program intensively on sustainable poverty reduction and economic growth, moderating short-term pressures for loan approvals and disbursements to take into account the country’s absorptive capacity, and providing space for critical yet smaller or slower-disbursing activities.**

IDB must continue to play a major role in Haiti given the magnitude of the country’s development challenges. The central concern of the Bank’s work in Haiti should be sustainable poverty reduction and economic growth, and IDB’s analytic and operational energies should be entirely focused on that end. Financial transfers are important, but they are not in and of themselves sufficient to ensure development effectiveness. Careful analytic work and institution-building are also essential and may take time. Thus OVE recommends that the annual transfers to the IDB-9 Grant Facility mandated in IDB-9 be maintained while allowing annual approvals and disbursements to better match the absorptive capacity of the country.

7. **Redesign the MSA process.**

The MSA process has twin objectives—credit risk management and support to development—that arguably can best be handled by different instruments, as in other MDBs. The Bank should strengthen the ability of its financial and risk management units to assess the credit risk of the sovereign portfolio while also strengthening the Bank’s analytic work—including IMAs and other economic and sector work—in support of development in borrowing countries. With appropriate incentives it would clearly be possible for the Bank to increase its role in providing useful policy analysis and advice to its borrowing countries.

8. **Reform the MICI mechanism.**

The current policy and institutional arrangements have failed to accomplish the results intended and need to be reformulated. As detailed in a separate companion OVE evaluation, the 2-year pilot phase should be brought to an end by suspending the office in its current form, and an interim arrangement of up to one year should be established to oversee MICI activities while this reformulation is undertaken.

9. **Revise the policy on information disclosure.**

Though the new policy is a major step forward, it contains an exception that allows countries to block disclosure of country-specific information and that threatens to undermine the purpose of the policy. OVE recommends that the Bank develop a process of consultation with countries that leaves final
decisions on the handling of information to the Bank and includes a remedy of selective redaction rather than nondisclosure of an entire document. Attention is also needed to the disclosure of NSG project level results.

10. **Undertake further analysis and scenario testing of the Income Management Model and the Capital Adequacy rules.**

The goal should be to determine whether changing certain parameters—such as the IMM’s expenditure coverage rules and the CAP’s reserve ratios for SG and NSG lending—might increase the Bank’s flexibility and lending ability without jeopardizing its longer-term financial stability or AAA credit rating.

In addition to the ten recommendations listed above, OVE suggests that the Bank and its shareholders take steps to re-energize the FSO, as it is an important window through which IDB supports the development needs of the poorest countries in LAC. OVE did not include a formal recommendation on the FSO in this evaluation because IDB-9 did not focus on this area.

The IDB-9 reforms are worthwhile and, if appropriately designed and well implemented, will serve to strengthen the Bank as a development institution. Taken together, they will help position IDB to serve the LAC Region’s needs for many years to come.
Governors drafted and approved the Cancun Declaration, while Management subsequently led the process of preparing the IDB-9 Agreement with Board input and oversight.

There is a background paper on each IDB-9 thematic area and one on the staff survey. The separate OVE “Evaluation of the Independent Consultation and Investigation Mechanism” (RE-416-1), conducted at the same time, serves as the background paper on this topic. All background papers are available at www.iadb.org/evaluation.


The IDB-9 Agreement was signed in 2010 and entered into force with the deposit of the first IDB-9 subscriptions in early 2012. Some actions were already under implementation in 2010 and others began at that time. Specific deadlines were provided for some requirements, while others took effect with IDB-9’s entry into force in 2012.

Bank systems use 18 categories for classification purposes: Agriculture and rural development (AG), Water and sanitation (AS), Urban development and housing (DU), Education (ED), Energy (EN), Financial markets (FM), Industry (IN), Social investment (IS), Other (OT), Environment and natural disasters (PA), Private firms and SME development (PS), Regional Integration (RI), Reform/modernization of the state (RM), Health (SA), Science and technology (ST), Trade (TD), Transport (TR), and Sustainable tourism (TU).

The definitions have also changed from IDB-8 to IDB-9. For example, under IDB-8 only education projects in early childhood and primary education counted automatically towards the target of social equity and poverty reduction; lending for secondary education counted only if its relevance to poverty could be proved.

For example, numerous projects to build roads wholly within countries and without any clear cross-border externalities (such as the ring road around São Paulo) are classified as projects in support of regional cooperation and integration. An electricity transmission project to connect the national grid of Argentina is included in this category. More recently, a number of projects in tourism and citizen security as well as several fiscal consolidation PBLs have been presented to the Board as integration projects. Indeed, Management’s categorization of projects in support of regional cooperation and integration is far broader than that laid out in its own integration strategy, which would lead to a figure for 2012 closer to 4% than the 17% recently reported. For further discussion of IDB’s transnational programs (a subset of its integration activities), see OVE, “Evaluation of Transnational Programs at the IDB” (RE-415), 2012.

Figures in various Management documents have varied widely. With regard to the integration target, for example, the projected lending in this category for 2012 reported in the 2012 OPR submitted in April 2012 was 4%, compared to the 17% figure for actual lending reported in the budget document 6 months later. For climate change, the OPRs for 2011 and 2012 reported expected lending for the two years of 13% and 24%, respectively, while the budget document reported 33% in actual lending in that category for both years.

The OPR numbers are preliminary estimates reported by Management to the Board around April of each year. OVE used these estimated figures in Table 4 because the final breakdown of lending by priority sector is not reported in the annual Development Effectiveness Overview.


See background papers on “Combating Fraud and Corruption” and “Review of IDB’s Institutions for Growth & Social Welfare Strategy”.

Management prepared a new normative framework governing the role of strategies and policies (GN-2670-1), but this was adopted by the Board after all of the strategies called for in the context of the IDB9 had already been prepared and approved by the Board. As such it was not available to guide the preparation of the strategies mandated by IDB-9.
The priority areas in the social strategy, for example, map readily into the four divisions in the Bank’s Social Sector Department: education, social protection and health, labor markets, and gender and diversity. The Institutions strategy lays out priority areas that map readily onto the organizational structure and ongoing activities of the ICF Department. The Integration strategy focuses much more centrally on trade issues—the principal area of focus of the Integration and Trade Department, which prepared the strategy—than on regional public goods in sectors such as infrastructure, environment, or governance.

For more information, including on the content and role of each strategy, see the individual background papers on the four strategic areas and on the IDB-9 staff survey.

Haiti had received debt relief (HIPC and MDRI) in 2006 for loan approvals up to December 31, 2004. At the same time it was established that it would receive grants from 2007 through 2009 (which in IDB-9 became permanent). The new debt forgiveness was for approvals during 2005-2007, amounting to a historically high US$364 million.


For evidence on collaboration see the background paper on private sector development and OVE’s “Evaluation of the Opportunities for the Majority Initiative” (RE-414), June 2012.

In 2008 IDB introduced a Liquidity Program for Growth Sustainability to provide liquidity to intermediary financial institutions affected by the international financial crisis (GN-2493-3). The program was intended to provide liquidity up to US$500 million per country to “regulated financial institutions facing reduced access to foreign credit lines and interbank credit.” The program was transitory, expiring on December 31, 2009. The intention was that the funds for this program would come from emergency lending resources and that therefore, there would be no opportunity cost in terms of the Bank’s normal lending program for investment and policy-based loans. Between 2007 and 2011, the Bank approved five financial emergency operations, but three were subsequently cancelled because of their relatively high cost.

The crisis-response instrument is not available under the FSO, which is a significant gap in the instrument mix, as OVE noted in several recent Country Program Evaluations for FSO countries.

See “Proposal to Establish Contingent Lending Instruments of the IDB” (AB-2890)

It was originally expected that OVE would undertake an evaluation of the PDL pilot, but due to competing demands the evaluation was removed from OVE’s work program with Board concurrence.

For example, OVE’s evaluation of the 2005-2008 New Lending Framework found that “evidence from prior evaluations indicates that technical assistance at the Bank has consisted of isolated efforts, disconnected from a comprehensive assessment of beneficiaries’ needs, priorities, and demands. As a result outputs produced by Technical Cooperation were routinely not integrated into the Bank’s overall sector knowledge, and thus did not advance comprehensive development plans and agendas.”

Accessibility of studies and data has also been an issue. Numerous staff indicated in interviews that in many cases the only way to find a document is been to call the author and get it directly. The Bank is now working to develop new systems to make the studies it funds accessible and searchable.


Country Strategies include lists of the analytic work used in their preparation. Most lists include Independent Macroeconomic Assessments, Debt Sustainability Analysis, Growth Diagnostics, or other documents that indicate that the Bank invests in analyzing the economies of countries in the Region. But it is often unclear how the analysis is used in defining priorities for the Bank.
26 While the sample was too small to make statistically valid inferences to all Bank safeguards work, it nevertheless identified issues for possible follow-up.

27 For a summary of OVE’s evidence regarding trends in this work, see the background papers “Combating Fraud and Corruption” and “Review of IDB’s Institutions for Growth and Welfare Strategy”.

28 Many of these topics will be explored in OVE’s 2013 evaluation of IDB’s 2007 Realignment.

29 MapAmericas was put into production in mid-2011 to be ready to present at the Bank’s Annual Meeting in Montevideo in March 2012.