

Approach Paper

# **IDB Support to Strengthen Public Sector Transparency and Integrity in Latin America and the Caribbean**

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## ACRONYMS AND ABBREVIATIONS

AAF	Transparency Trust Fund
CPE	Country Program Evaluation
CS	Country Strategy
IDB(G)	Inter-American Development Bank (Group)
IDB-9	IDB's Ninth General Capital Increase
IGR	Project Specific Investment Grant
INL	Investment Loan
LAC	Latin American and the Caribbean
OVE	Office of Evaluation and Oversight
PAACT	Action Plan to Support Countries in their Efforts to Fight Corruption and Foster Transparency
PBL	Policy-based loan
SFD	Sector Framework Document (SFD)
TC(P)	Technical Cooperation
UIS	Update to the IDB Group Institutional Strategy

## I. INTRODUCTION

- 1.1 **As part of its 2020-2021 work program, the Office of Evaluation and Oversight (OVE) will conduct an evaluation of the Inter-American Development Bank (IDB or the Bank) efforts to strengthen public sector transparency and integrity (T&I) in Latin America and the Caribbean since 2010.** In 2010 the IDB's Board of Governors approved the 9th General Capital Increase of the IDB (IDB-9). The Agreement for the 9th General Capital Increase ("IDB-9 Agreement", document [AB-2764](#)) laid out a series of reforms intended to strengthen the strategic focus, development effectiveness, and efficiency of the IDB to help it remain competitive and relevant in the years ahead. The prevention of fraud and corruption in IDB financed activities, the strengthening of public sector transparency and integrity in the region, and the fostering of staff integrity are the three pillars of IDB-9 commitments to strengthen IDB activities to combat fraud and corruption. OVE's two previous evaluations on IDB-9 commitments (document [RE-425](#), completed in 2013 and document [RE-515-6](#), completed in 2018) found progress in these three pillars but highlighted that progress towards the pillar of strengthening of public sector transparency and integrity in the region had been constrained due to crowding out from other development priorities and weak overall governance in some countries. This evaluation will take a more in-depth look at IDB's work under IDB-9 commitments to support the strengthening of public sector transparency and integrity in its borrowing member countries in the region.
- 1.2 **The evaluation aims at takings stock of IDB activities in the area of Transparency and Integrity between 2010 and 2019 and at extracting insights from the implementation of these activities.** The Update to the IDB Group Institutional Strategy (UIS) 2020-2023 (document [AB-3190-2](#)), approved in 2019, includes supporting the region's efforts to increase transparency and integrity as one of the new four areas of emphasis for the operational and corporate work of the Inter-American Development Bank Group (IDBG). The first IDB Sector Framework Document (SFD) on Transparency and Integrity (document [GN-2981-2](#)) was approved in February 2020 and proposes the different activities in the area.
- 1.3 **The evaluation will also provide insights for country dialogue and the prioritization and design of future IDB activities and operations to support public sector transparency and integrity in the region.** The evaluation will analyze the relevance of past Bank activities and operations in the context of IDBG institutional priorities, sector and country needs and IDBG comparative advantage, their implementation, and their effectiveness in reaching their stated objectives as well as in contributing to IDB priorities in the area. The primary audience for this evaluation is the IDB Board of Executive Directors. In addition, IDB management and staff, IDB counterparts in client countries and stakeholders interested in the development effectiveness and relevance of IDB activities may benefit from the findings of the report.

## II. CONTEXT

- 2.1 **Policies to strengthen public sector transparency and integrity are essential to reduce the risks of corruption in countries (see Box 2.1 for definitions), and even though corruption is common, especially among developing countries with institutional weaknesses, measuring its prevalence is difficult.** Corruption is a complex and, most often, clandestine conduct. Corruption encompasses many distinct legal and illegal behaviors such as high-level favoritism, cronyism, patronage, state capture, extortion, paying or accepting bribes, influence peddling, rent-seeking, embezzlement, money laundering, and prevarication, to mention a few, and it is difficult to develop a single measuring instrument that captures this complexity. Corruption is mostly carried out in secret and, therefore, difficult to observe directly. Most corruption indicators rely on perceptions or partial hard data. All existing methods have reliability and validity limitations (Malito, 2014).

### Box 2.1. Definitions

Public sector transparency - Access to information and open communication about public policy that promotes accountability.

Public sector integrity - Public officials' upholding of ethical values, principles, and norms that prioritize public over private interests.

Corruption – The abuse of entrusted power for private gain.

- 2.2 **Notwithstanding its measuring challenges, there is a strong consensus that corruption has many perverse effects on society.** An earlier generation of scholars debated the relative costs and benefits of corruption, with some observers holding that corruption was not necessarily a hindrance to economic development and that it may improve economic efficiency by speeding up bureaucratic red tape.<sup>1</sup> Current scholarship, however, unquestionably maintains that corruption is economically, socially, and politically detrimental to society. The detrimental effects range from affecting economic development via a myriad of entry points to promoting income and gender inequality, environmental degradation, national and transnational crime, and the deterioration of political institutions and democracy. Box 2.1 summarizes part of the scholarly work on some of the detrimental effects of corruption on society.

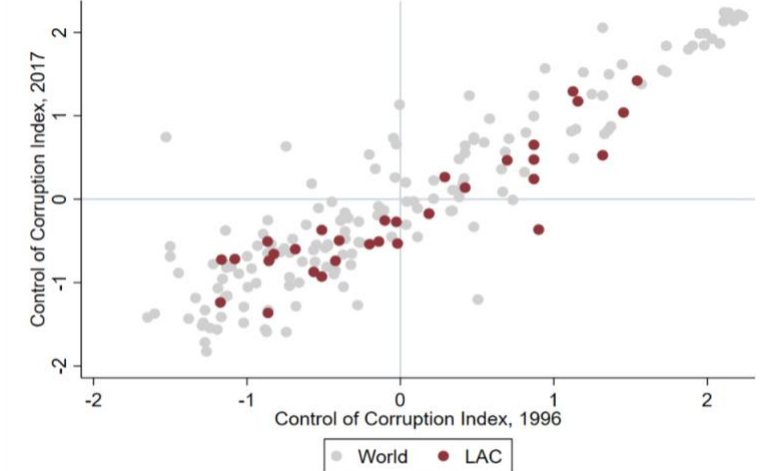
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<sup>1</sup> E.g., Leff 1964; Huntington 1968; Beck and Maher 1986; Lien 1986 and Barreto 2000.

Box 2.2. Some of the detrimental effects of corruption on society	
A. Type of impact	B. Selected References
Corruption negatively impacts economic development:	Mauro (1995); Knack and Keefer (1995); Mauro, P. (1997); Wei (1997, 1999); Lambsdorff (1998); Li, Xu, and Zou (2000); Mo (2001); Tanzi, and Davoodi (2002); Lambsdorff and Cornelius (2000); Kaufman and Kraay (2002)
▪ Through affecting fiscal variables	Wei (1997 and 2002b); Tanzi and Davoodi (1997, 2001, 2002)
▪ Through the deterioration of the composition of public spending	Mauro (1997, 1998, 2002); Tanzi and Davoodi (2001, 2002); Gupta (2001, 2002)
▪ Through the reduction of productivity and the levels of investment and increases in low productivity investment	Mauro, P. (1997); Hall, R., and C. Jones (1999); Brunetti and Weder (1998); Campos, Lien, and Pradhan (1999); Gupta, de Mello, and Sharan (2001); Mauro (1997, 2002); Ades and Di Tella (1999); Tanzi and Davoodi (2001, 2002); Gupta, Mello, and Sharan (2001, 2002); Lambsdorff (2003a and 2003b)
▪ Through the increase in red-tape and government size	Goel and Nelson (1998); Kaufmann and Wei (2000); Ahlin and Bose (2007); Kotera, Okada, and Samreth (2012)
▪ Through the worsening the quantity, and quality of domestic and foreign investment	Smarzynska and Wei (2000); Hellman, Habib, and Zurawicki (2001); Habib and Zurawicki (2002); Jones and Kaufmann (2002); Aizenman and Spiegel (2003); Al-Sadig (2009); Busse and Hefeker (2007)
▪ Through the reduction in exports	Beck, Maher, and Tschoegl (1991); Knack and Azfar (2003)
▪ Through the promotion of financial instability	Wei (2000b); Gelos, and Wei (2002)
▪ Increasing inflation	Al-Marhubi (2000); Braun and Di Tella (2000)
▪ Through increases in the cost of borrowing	Ciocchini, Durbin, and Ng. (2003); Hall and Yago (2000); Panizza (2017)
Affects income distribution and the quality of public services and investments	Li, Xu, and Zou (2000); Gupta, Davoodi, and Alonso-Terme (2002); Gymiah-Brempong (2002); You and Khagram (2005); Andres and Ramlogan-Dobson (2011); Castro, Guccio, and Rizzo (2014)
Affects gender inequality	Transparency International (2007, 2010, 2011 and 2014); Gitlin (2015)
Erodes the viability of the political system and democratic institutions	Strange (1996); Rose-Ackerman (1999); Anderson and Tverdova (2003); Sung (2004); Bhattacharyya and Hodler (2015); Kotera, Okada, and Samreth (2012); North, Orman, and Gwin (2013)
Promotes national and transnational crime	Azfar and Lee (2003); Azfar (2004); Azfar and Gurgur (2004)
Promotes environmental degradation	Brack and Hayman (2002); Elliott (2007); Alessio and Zoliy, (2011); Castro, Guccio, and Rizzo (2014)
Promotes migration flows	Dimant, Krieger, and Meierrieks (2013); Cooray and Schneider (2014); Poprawe (2015)

**2.3 Perceptions of corruption vary across Latin American and Caribbean (LAC) countries, but most LAC countries are placed in the three middle quintiles of the perception of corruption world distribution.** Looking at the Control of Corruption Index for 2017, which measures perceptions of the extent to which public power is exercised for private gain, Chile and Uruguay rank among countries in the 80th percentile (lowest levels of corruption); while Nicaragua, Mexico, and Venezuela rank in the bottom 20% percentile (highest levels of corruption). This pattern can also be found when looking at other corruption indicators. Transparency International's Corruption Perception Index for 2018, for example, had 4 LAC countries in the top 20% and another 4 in the bottom. The rest of LAC counties are ranked in the second, third, and fourth quintiles of the world perception of corruption world distribution. Corruption has been shown to be a persistent phenomenon across countries, and LAC countries have not escaped that trend. As seen in Figure 2.1, there has been little change between the corruption perception index value for a country in 1996 and its value in 2017.

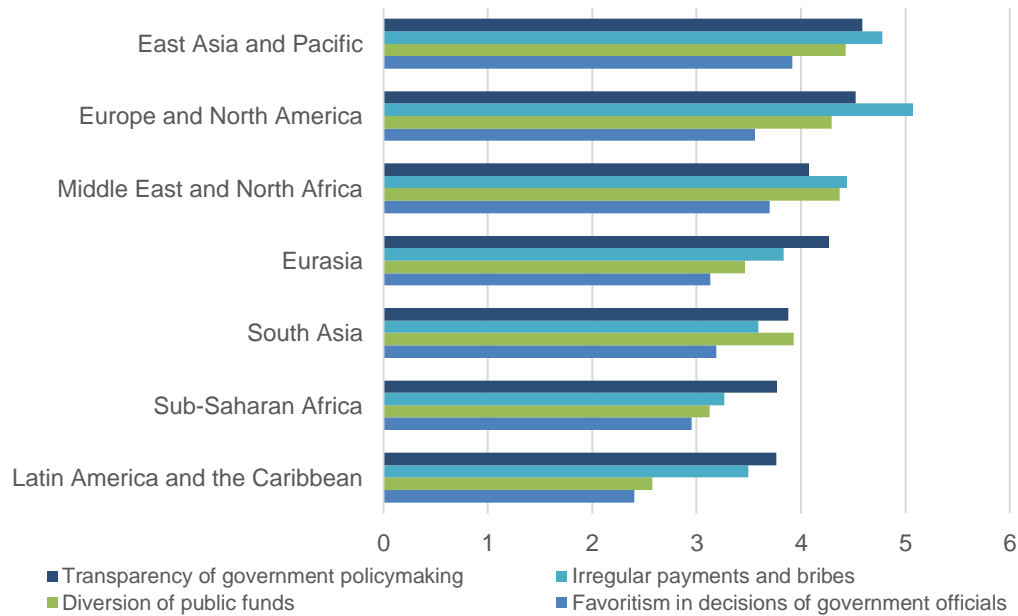
**Figure 2.1. Control of corruption index evolution (1996-2017)**



Source: World Governance Indicators, World Bank.

2.4 **Even though most LAC countries do not rank among the worst according to overall corruption perceptions indexes, they tend to do worse when looking at specific corruption dimensions.** LAC is the second-worst region in the world when looking at bribery. Survey data from Transparency International showed that 29% of respondents in LAC paid a bribe when accessing public services; the world average is 25%. Countries in the region also rank last in the corruption-related components of the Global Competitiveness Index’s institutional pillar. LAC is ranked last in the diversion of public funds and favoritism in decisions of government officials, second to last in irregular payments and bribes, and third to last in the transparency of government policymaking (Figure 2.2).

**Figure 2.2. Regional comparison of selected components of the Global Competitiveness Index, 2017<sup>2</sup>**



Source: Global Competitiveness Index 2017, World Economic Forum.

<sup>2</sup> The new version of the index (2018) uses a new methodology that does not disaggregate the institutional pillar in the same components.



### III. POLICIES TO STRENGTHEN TRANSPARENCY AND INTEGRITY TO REDUCE CORRUPTION RISKS: EXISTING EVIDENCE

3.1 **Given the complexity of the phenomenon, there is no single theory that identifies which policies are most effective in reducing corruption risks.** There are many hypotheses about the causes of corruption, but they could be categorized into structural and individualistic approaches (see Table 3.1). On the one hand, structural approaches try to explain corruption in terms of structural causes (cultural, political, economic, and historical factors). These approaches generally see corruption as a rather deterministic phenomenon, difficult to tackle from an applied policy perspective.<sup>3</sup> On the other hand, individualistic approaches try to explain corruption based on the individual as a rational utility maximizer. That is, individuals balance the potential benefits from corrupt behavior against the potential penalties if caught and punished. Although these approaches are simplistic,<sup>4</sup> they have been used to propose a wide variety of policy initiatives to reduce corruption risks.

**Table 3.1. Theories on the causes of corruption**

Theory	Hypotheses	Reference
<b>Structural Theories</b>		
Absence of political requisites	In patrimonial and neo-patrimonial states where family, religious, tribal, and other loyalties prevail over loyalties to a nation or state, corruption is more likely	Scott (1972); Johnston (1997)
Degree of economic development	Corruption is the result of low levels of economic development	Tresiman (2002); Broadman and Recanatini (2002); Kauffman and Kraay (2002)
Factor Endowments	Large factor endowments (such as mineral deposits, fertile soil, and oil reserves) allowed the elite to consolidate power inequalities that led to corruption	Krueger (1974); Easterly and Levine (1997); Rose-Ackerman (1999); Sokoloff and Engerman (2000); Engerman, Haber, and Sokoloff (2000); Acemoglu, Johnson, and Robinson (2000); Sokoloff (2004); Alonso (2005)
Cultural Values and Norms	Corruption is the natural consequence of the moral defects of individuals (Bad Apple Theory)	Cusson (1983); Nelen and Nieuwendijk (2003)
	Males tend to be more corrupt than females	Swamy, Knack, Lee, and Azfar (1999); Branisa and Ziegler (2010); Agerberg. (2014)
	Trust in societies decreases corruption	Knack and Keefer (1997)
	Certain colonial and religious heritages and legal traditions promote less corruption	Eckstein (1966), David and Brierly (1985); Weiner (1987); Lipset (1993); La Porta et al. (1997 and 1999); Tresiman (2000 and 2002)
	Ethnic fragmentation generates distorted loyalties that generate corruption	Mauro (1995); Easterly and Levine (1997)
<b>Individualistic Theories</b>		
Labor theory of crime	Corruption is the result of the individual calculating the expected income (size of bribe or gain), against the probability of detection and punishment, and wage (to determine opportunity cost)	Becker and Stigler (1974); Banfield (1975); Rose-Ackerman (1975, 1978 and 1999); Klitgaard (1988); Akerloff and Yellen (1994); Polinski and Shavel (2001); Adrianova (2001)
Public monopoly/Industrial policy	Extent of government intervention in the economy (such as taxation, subsidies, controls, processes, licensing, and red tape) and high levels of discretion of public officials generate opportunities for rents	Klitgaard (1988); Rose-Ackerman (1978 and 1999)

<sup>3</sup> Since one of these theories, the Bad Apple Theory, argues the moral defects of certain people are the cause of corruption, policies such as screening, ethical training, and removing morally defective officers could be developed to deal with this threat.

<sup>4</sup> These approaches do not fully capture the complexity of the phenomenon and assume that the policies they propose are not influenced by the circumstances, the political economy, psychological factors, etc.

3.2 **Policies to strengthen public sector transparency and integrity based on individualistic approaches comprise a wide variety of interventions.** These include actions aimed to increase the probability of detection of corrupt activities, increase the severity of punishment for corrupt behaviors, increase the opportunity cost of corruption, reduce the monopoly power of officials, and increase accountability of public activities. Table 3.2 summarizes some of the existing scholarly work on the efficacy of some of the policies based on these individualistic approaches. However, the evidence surveyed is weak and, sometimes, does not support the claims of a given theory (e.g., rising salaries).

**Table 3.2. Summary of studies of anti-corruption policies based on individualistic approaches**

Approach based on	Policy	Reference
Increasing the probability of detection and adjudication	Judicial and prosecutorial checks on corruption	Anechiarico (2006); Alt and Lassen (2008, 2014); Cordis (2009); Mazzacuva (2014); Howe and Haigh (2016); Corruption Watch (2016); Gatta (2017)
	Whistle-blower protection	Bame-Aldred, Sweeney, and Seifert (2007); Bowers (Ed.). (2007); Carr and Lewis (2010); Goel and Nelson (2014)
	Identification cards	Banerjee, Hanna, Kyle, Olken, and Sumarto (2018)
	Social monitoring	Arroyo and Sirker (2005); Ackerman and Sandoval-Ballesteros (2006); McNeill and Mumvuma (2006); Björkman (2010); McGee and Gaventa (2010); Masud et al. (2013); Borisova (2014); Bjorkman Nyqvist, De Walque, and Svensson (2014)
Increasing the severity of the punishment	Increase the severity of legal punishment	Basu, Basu, and Cordella (2014); Banuri and Eckel (2012); Engel, Goerg, and Yu (2012); Boles (2014); Bai, Liu, and Kou (2014); Verma and Sengupta (2015)
	Ethic codes (i.e., gift policy)	Bello (2014); Graycar and Jancsics (2017); Bac (2019)
	Increase moral costs	Benabou and Tirole (2004); Abbink (2005); Abbink and Hennig-Schmidt (2006); Agbo and Iwundu (2016)
Raising opportunity costs	Increase social costs	Abdalla, Maghrabi, and Raggad (1998); Alvarez (2015); Banerjee (2016); Akanji (2017); Abbink, Freidin, Gangadharan, and Moro (2018)
	Increase salaries	Besley (1993); Abbink (2005); Azfar and Nelson(2007); Borcan, Lindahl, and Mitrut (2014); Lindkvist (2014); Foltz and Opoku-Agyemang (2015); Benito, Guillamón, Ríos, and Bastida (2018)
Reducing monopoly power of officials	Decentralization	Brueckner (2000); Bardhan and Mookherjee (2006); Alexeev and Habodaszova (2012); Alfano, Baraldi; and Cantabene (2019)
	Reduce licensing opportunities	Bose (1995); Manion (1996); Ngo (2009)
Reducing the discretion of officials	Staff rotation	Abbink (2004),
	Reduce regulatory discretion	Johnson, Kaufmann, and Zoido-Lobaton (1998); Kwon (2014); Smart (2018)
	Procurement reform, E-Procurement	Ades and Di Tella, (1997); Di Tella and Schargrotsky (2003); Andvig and Todorov (2011); Azmi and Rahman (2015); Lewis-Faupel, Negggers, Olken, and Pande, R. (2016)
Increasing accountability	Political checks on corruption	Alt and Lassen (2008)
	Improving internal and external audit functions	Blume and Voigt (2011); Gherai, Droj, and Matica (2016); Asiedu and Deffor (2017); Zamboni and Litschig (2018)
	Public expenditure tracking	Reinikka and Svensson (2001, 2005, and 2011), Gauthier (2006), Kolstad and Wiig (2009), Lindstedt and Naurin (2010), Johnsnø and Søreide (2013)
	E-governance	Benjamin, Bhuvaneshwari; and Rajan (2007); Bertot, Jaeger; and Grimes (2010); Bhatnagar, and Singh (2010); Bhatnagar (2013); Banerjee, Duflo, Imbert, Mathew, and Pande (2016)

#### IV. TRANSPARENCY AND INTEGRITY IN IDB STRATEGIC DOCUMENTS

- 4.1 **Even though up until 2020 the IDB did not have an explicit strategic document to guide its support to public sector T&I to reduce corruption risks in the region’s member countries, a series of IDB strategic documents have highlighted the need to address corruption issues in the region and have included actions and areas of Bank support to strengthen transparency and Integrity in LAC since the early 1990s.**<sup>5</sup> In 2007 the Bank commissioned an external review of IDB’s anticorruption framework and activities – The Thornburg Report, delivered in 2008 (document [GN-2440-1](#)). The report issued a series of recommendations to ensure that Bank activities become free of fraud and corruption, that the Bank carries out a series of reforms to strengthen the integrity standards of its staff, and that the Bank supports the region’s countries systemic efforts to promote public sector transparency and integrity to effectively reduce fraud and corruption. As part of its response to the recommendations of the Thornburg report, in 2009, the Bank approved an Action Plan to Support Countries in their Efforts to Fight Corruption and Foster Transparency (PAACT) and increased the emphasis of the Bank’s role in addressing corruption issues in client countries in the 2010 IDB-9 agreement.
- 4.2 **The PAACT aimed “to promote and develop high value-added programs, activities, and forums for dialogue in support of the countries’ efforts to combat corruption and foster transparency.” (p. 2.2 a.)** The plan included actions to (i) strengthen contextualized diagnostic capacity in countries, (ii) support the use and development of a new generation of indicators on corruption, (iii) support the implementation of international anticorruption conventions in the region, (iv) support and create opportunities for regional dialogue on governance and corruption, (v) support the strengthening of institutional capacity to prevent, control, and sanction acts of corruption, (vi) support the strengthening of institutional capacity at the subnational level, and (vii) support the involvement of the private sector and civil society.
- 4.3 **Among the commitments of the IDB-9 agreement (2010), the Bank was required to “maintain a leadership position on the issue of combating fraud and corruption,” by fully embracing the three key recommendations of the 2008 Thornburg Report,** which translated into the three IDB-9 pillars to strengthen IDB activities to combat fraud and corruption: (i) prevention of fraud and corruption in IDB financed activities, (ii) strengthening of public sector transparency and integrity in the countries of the region, and (iii) fostering of staff integrity.
- 4.4 **IDB sector strategies, approved in the framework of the IDB-9 Agreement, also highlight the need to strengthen public institutions and the rule of law in the region to address transparency and integrity issues,** including as areas for Bank support reducing excessive regulation; strengthening procurement and civil service systems; strengthening audit, control, and supervision agencies; and strengthening the capacity of judicial systems to fight corruption<sup>6</sup> (Institutions for Growth and Social Welfare Sector Strategy – document [GN-2587-2](#), approved in

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<sup>5</sup> See, for example “The IDB’s frame of reference for Bank Action In Programs for Modernization of the State and Strengthening of Civil Society” (approved in 1996, document [GN-1883-5](#)) and “Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank” (adopted in 2001, document [GN-2117-2](#)).

<sup>6</sup> See also the previous Strategy for Modernization of the State – document [GN-2235-1](#), approved in 2003.

- 2011). The Strategy on Sustainable Infrastructure for Competitiveness and Inclusive Growth (document [GN-2710-5](#), approved in 2013) includes actions for institutional strengthening to increase control, strengthen national systems, promote access to information, and strengthen open government to promote integrity and prevent corruption in the delivery of infrastructure services. The Strategy on Social Policy for Equity and Productivity (document [GN-2588-4](#), approved in 2011) considers strengthening transparency and accountability as an important mechanism to improve social services delivery.
- 4.5 **Other Bank strategies have also aimed to strengthen member countries' capacity to promote transparency and integrity through their work to support country systems.** The IDB Strategy for the Strengthening and Use of Country Systems (UCS Strategy, document [GN-2538](#) approved in 2009, and its update, document [GN-2538-31](#) approved in 2019) commits the Bank to support LAC countries in their efforts to modernize its fiduciary systems (financial management and procurement) working with procurement agencies, control institutions, and others to improve transparency and integrity. The UCS Strategy promotes the adoption of good practices and international standards for strengthening country systems in the short, medium, and long term, focusing on strengthening institutional capacity and the rule of law.
- 4.6 **IDB's Institutional Strategy approved under the IDB-9 Agreement framework<sup>7</sup> also included the strengthening of borrowers' institutional capacity (including activities to promote T&I) as one of the three cross-cutting issues for the Bank's action<sup>8</sup> that needs to be mainstreamed in IDB's work to address the region's challenges of social inclusion and equality, productivity and innovation and regional integration.** The role of Transparency and Integrity issues in the institutional capacity area has been given more importance in the 2020-2023 UIS, which explicitly included fostering transparency and integrity as one of the main areas of emphasis for IDB efforts to strengthen institutional capacity. The 2020-2023 UIS calls for the IDBG to “further integrate transparency and integrity into sector operations, enhance IDBG internal coordination on these topics, continue using its convening power to reinforce the robust implementation of open government principles, and enhance support for international standards and commitments on transparency, integrity, anti-corruption, and governance.” (p. v).
- 4.7 **Several, more recent, Sector Framework Documents include direct and transversal lines of action involving Transparency and Integrity:**
- The Integration and Trade SFDs (document [GN-2715-6](#), approved in 2016, and document [GN-2715-11](#), approved in 2019) incorporate lines of action involving transparency in regulatory areas.
  - The Fiscal Policy and Management SFD (document [GN-2831-8](#), approved in 2018) emphasizes the need to create conditions for fiscal and financial transparency, control of expenditure, and integrity in public resources.
  - The Subnational Governments and Decentralization SFDs (document [GN-2813-3](#), approved in 2015 and document [GN-2813-8](#) approved in 2018)

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<sup>7</sup> Document [AB-3008](#) approved in 2015 for the 2015-2019 period and document [AB-3190-2](#) approved in 2019 for the 2020-2023 period.

<sup>8</sup> Together with gender equality and diversity and climate change and environmental sustainability.

highlight the need to support interventions and institutional changes to address “limited transparency and integrity by subnational governments”.

- The Water and Sanitation SFD (document [GN-2781-8](#), approved in 2017) includes lines of action for improving the transparency and corporate governance framework in the sector, including mechanisms for citizen participation.
- The most recent Transport SFD (document [GN-2740-9](#), approved in 2020) has a line of action for strengthening institutions; it emphasizes the need to promote practices that increase the transparency of public spending; to foster the adoption of clear rules to avoid abuse of authority, to guarantee access to information for collective action, and to ensure the effectiveness of control entities.
- The Urban Development and Housing SFD (document [GN-2732-6](#), approved in 2016) and the Citizen Security and Justice SFD (document [GN-2771-7](#), approved in 2017) underscore the importance of strengthening internal management systems and accountability mechanisms.
- The Support to SMEs and Financial Access/Supervision SFD (document [GN-2768-7](#), approved in 2017) emphasizes the importance of strengthening regulatory frameworks, access to information, financial institutions' corporate governance, and improving the capacity to evaluate the integrity standards of their clients.

4.8 **More recently, the IDB’s first Transparency and Integrity Sector Framework Document (document [GN-2981-2](#), approved in February 2020) provides a roadmap for future IDB operations and activities to address the diversity of institutional challenges and contexts linked to the transparency and integrity agenda** to which Bank borrowing members are exposed. The SFD sets lines of action to support countries in implementing transparency and integrity reforms aligned with international commitments, emphasizing institutional strengthening and access to information. Specifically, the lines of action are divided into three interventions: (i) increase access to information and facilitate public demand and citizen control; (ii) promote reforms to enhance integrity in the public sector; and (iii) encourage reforms to improve integrity in the private sector.

**A. Findings from recent OVE evaluations and IDB reports**

4.9 **Recent OVE evaluations have also analyzed IDB support for strengthening transparency and integrity in member countries, highlighting progress, but also shortcomings of Bank action in the area due to crowding out from other development priorities and weak overall governance in some countries.** OVE’s IDB-9 Mid-Term evaluation (document [RE-425](#)) reviewed the progress on the IDB-9’s goal of “supporting member countries in strengthening good governance and combatting corruption” and found that even though “most Bank interventions to improve public management and strengthen institutions have a positive effect on governance and anticorruption, direct support for combatting corruption in client countries has been crowded out by other development priorities.” OVE’s 2018 evaluation of IDB-9 Implementation and Results (document [RE-515-6](#)) found that “The Bank is also making progress in helping countries develop fiduciary systems and address issues of fraud and corruption, and continued attention is warranted given the importance of strong institutions not only to development outcomes generally but also to the success of Bank support.” (document [RE-515-6](#), p. xi) The evaluation also highlighted as a lesson learned that “One of the Bank’s most



important but difficult challenges – both in supporting development in LAC and in ensuring success in its projects – is to help countries strengthen institutional capacity and governance. Despite IDB-9’s emphasis on poverty, institutional strengthening, and anticorruption, IDB has had great difficulty achieving results in countries with weak governance and institutional capacity. A renewed look at IDB project designs and at staff incentives to deliver results in these settings – and more generally at IDB’s ability to support countries in improving governance and strengthening institutional capacity – is warranted.”

## V. OBJECTIVES, SCOPE, AND METHODOLOGY

5.1 **The objective of this sector evaluation is to take stock and extract lessons from the IDB’s experience in supporting public sector transparency and integrity in borrowing countries via its loans, TC, and support to country systems during the last decade to provide insights for the prioritization and design of future IDB activities and operations.** To achieve this objective, OVE will analyze the relevance, implementation, effectiveness, and sustainability of Bank activities in the area, including all loans and TCs whose objectives and components aimed to support policies to strengthen public sector transparency and integrity to reduce corruption risks, approved between 2010 and 2019, along with support to country systems, and other instruments such as policy/technical dialogue that complemented the selected projects. Relevance of IDB interventions will be assessed based on IDB priorities in the area (stated in relevant IDB documents, including SFDs approved before 2020 and Country Strategy -CS-documents) and on the needs of its borrowing countries. Implementation, effectiveness, and sustainability will be assessed, for closed operations, considering the goals of IDB operations and activities in the sector, and the goals of IDB Country System support.

### A. Evaluation questions

5.2 **The guiding question for this evaluation is: *What can we learn from IDB’s support to the strengthening of public T&I in the region during the past decade to improve the design and implementation of relevant and effective programs and activities in the area?*** To answer this question, OVE will use the following evaluation criteria and evaluation questions. See the evaluation matrix in [Annex I](#) for details on the sources of information and methods to answer each evaluation question:

#### 1. Relevance

5.3 Relevance measures the alignment of IDB interventions with institutional priorities, sector and country needs, and IDB comparative advantages, as well as their quality of design. For this dimension, the evaluation will seek to answer the following questions:

- What has been the mix of instruments used by the Bank to support public sector T&I in LAC? How does this mix vary by country?
- To what extent were IDB activities to support public sector T&I in LAC aligned with IDB priorities in the area?

- To what extent were IDB activities to support public sector T&I in LAC aligned with country needs? To what extent did IDB operations identify the challenges to strengthen transparency and integrity in each country?
- To what extent was the design of the interventions informed by evidence?
- To what extent have T&I issues been mainstreamed across countries and sectors?
- How does the IDB work in the area compares to other development partners?

## 2. Implementation

5.4 Implementation measures to what extent IDB interventions in the area were carried out within reasonable costs and time. For this dimension, the evaluation will seek to answer the following questions:

- To what extent were IDB interventions carried out without significant delays or shortcomings?
- To what extent were the actors in charge of implementation able to execute projects according to the design and to respond to the challenges that arose in implementation? What factors affected implementation positively/negatively?
- To what extent did the mix of instruments (e.g., loans and TC, other activities) foster implementation?

## 3. Results and sustainability

5.5 Results measure to what extent IDB interventions achieved, or are expected to achieve, their objectives. Sustainability measures to what extent the net benefits of the interventions are expected to continue. For this dimension, the evaluation will seek to answer the following questions:

- To what extent did IDB activities and projects achieve their intended objectives?
- To what extent did the activities and projects produce any unexpected (positive or negative) outcomes (externalities)?
- To what extent were the results sustainable in institutional, technical, financial, and/or social terms?
- What are the main obstacles to the sustainability of the projects?

5.6 **To answer the evaluation questions, OVE will gather evidence from a variety of sources.** OVE will conduct a literature review of relevant existing evidence on transparency and integrity interventions and challenges for the LAC region. OVE will also conduct a desk review of all relevant Bank Group documents related to transparency and integrity, including sector and country strategies, related SFDs, loan and TC documents, Progress Monitoring Reports (PMRs), and Project Completion Reports (PCRs). The desk review will also include lexicographical analysis of IDB loan and TC documents, country strategies and SFD, data analysis on portfolio implementation and results available from the Bank's information systems, external data of transparency indexes, and other relevant variables. OVE will supplement these analyses with phone and video interviews with relevant internal and external stakeholders, including Government officials, executing agencies and client staff, IDBG specialists, and members of other institutions that support transparency and integrity development interventions.

## B. Portfolio

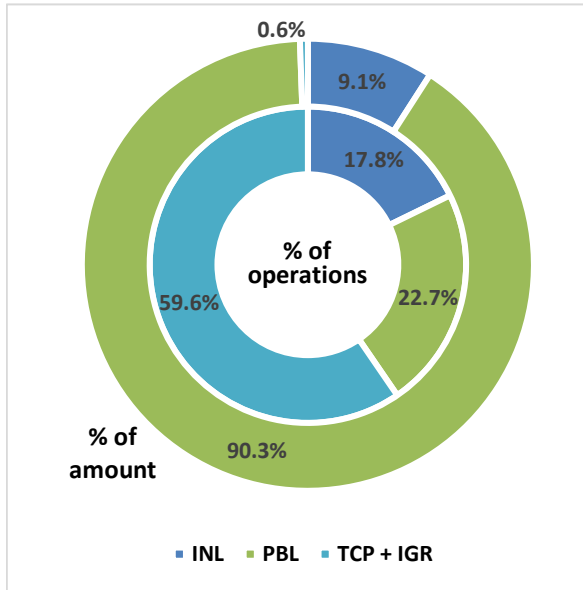
- 5.7 **Since there is no sector tag or flag in IDB systems for operations (loans and TCs) that support transparency and integrity, OVE performed a three-step process to identify the relevant portfolio of loans and TCs for this evaluation.** First, from all operations (Loans and TC) approved by the IDB between 2010 and 2019, the team identified a list of 327 projects that likely included components to promote public sector T&I using the following criteria: (i) operations identified by management in the context of the preparation of the Transparency and Integrity SFD and TCs approved by the IDB Multidonor Transparency Trust Fund (AAF); (ii) operations whose objectives, components, and products are similar to the ones in numeral (i) identified through lexicographical analysis and machine learning methods (see [Annex II](#)); (iii) operations citing IDB documents related to transparency and integrity (i.e., document [GN-2813](#), document [GN-2540](#), document [GN-2966-1](#), document [CII/GN-378-1](#)); (iv) operations citing external sources commonly used to diagnose corruption (i.e., Transparency International, World Governance Indicators and WEF Competitiveness indexes). Second, two reviewers analyzed the title, objectives, and components of the selected projects to determine if they were correctly classified; in cases of disagreement, a third reviewer participated in the revision. Finally, the sample of operations was refined based on an in-depth review of the Loan Proposal documents, Country Strategy, and Country Program Documents, to identify references to loans or TCs not identified by the previous criteria.
- 5.8 **Based on the above-mentioned process, OVE identified a total of 228** operations that constitute the portfolio of the evaluation. The list of operations includes 14 loans (INL & PBL) and 8 TCs identified by management (in the context of the preparation of the new SFD on transparency and integrity); 45<sup>9</sup> TCs approved by the IDB Multidonor Transparency Trust Fund (AAF); 44 loans, one investment grant and 37 TCs identified with Textual Analysis (criteria ii, iii, and iv above); and 32 loans and 48 TCs identified in OVE's in-depth desk review. For a complete list of selected projects, see [Annex III](#).
- 5.9 **Figure 5.1 shows the composition of the evaluation portfolio by type of instrument.** Policy-based loans channeled most of the approved amount (90.3%). TCs amount for most operations approved (59.6%). **Sector-wise, as shown in Figure 5.2, most of the portfolio's operations (78.3%) focused on the Reform and Modernization of the State (RM) sector**, followed by Social Investment (5.8%) and Transport (4.3%). Similarly, most of the approved amounts were channeled in the Reform/Modernization of the State sector (78.3%), followed by Financial Markets (9.7%) and Social Investment (6.1%) (Figure 5.2.).

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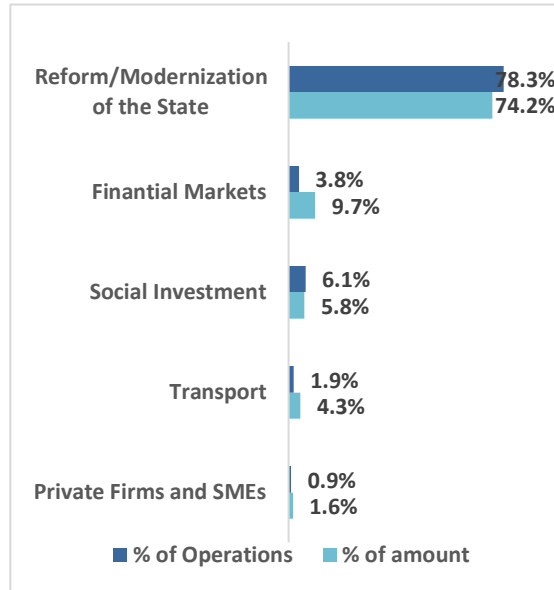
<sup>9</sup> In total 60 TCs were approved by the AFF between 2010-2019, 7 were also in management list. To avoid double counting they are counted only as part of management's TCs.



**Figure 5.1. Portfolio approved amounts (millions) and number of operations by instrument to support Transparency and Integrity (2010-2019)**



**Figure 5.2. Portfolio approved amounts (millions) and number of operations by Sector to support Transparency and Integrity (2010-2019)**



Source: IDB Data Warehouse, OVE calculations.

## VI. Team and Timeline

- 6.1 The evaluation will be carried out by a core team of Cesar P. Bouillon (team leader), Maria Fernanda Rodrigo (Economics Specialist), Michelle Infañón, Henry Dyer, and Sumiko Andrade Sakaguchi (Research Fellows), and external consultants. The planned timeline is illustrated below.

**Table 6.1. Calendar of activities**

Activity	Dates
Approach Paper	May 2021
Draft for management review	September 2021
Final document to the Board	October 2021

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