



Approach Paper

OVE Annual Report 2015





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Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

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ANNEX

ABBREVIATIONS AND ACRONYMS

CPE	Country Program Evaluation
DEM	Development Effectiveness Matrix
MDB	Multilateral Development Bank
PBL	Policy-Based Loan
PBP	Programmatic Policy-Based Loan
PCR	Project Completion Report
TC	Technical Cooperation
SG	Sovereign guaranteed
XSR	Expanded Supervision Report

I. OBJECTIVE

- 1.1 The Office of Evaluation and Oversight (OVE) has committed to produce its second annual report as part of its 2015 Board-approved work plan (RE-479-1). This approach paper sets out the proposed approach, drawing on lessons from the first exercise in 2014 and on suggestions made by the Board of Executive Directors at a recent review meeting. The goals of the annual report are to enhance knowledge, strengthen feedback loops, and increase the use and influence of OVE’s evaluation products, in line with the recommendations of the 2011 Independent Review Panel and the OECD-DAC.¹

II. SCOPE AND METHODOLOGY

- 2.1 The annual report will draw on OVE’s recent evaluation findings and, where appropriate, complement them with additional analysis. Because the report is not a full evaluation itself, it will not offer new recommendations. As in 2014, it will consist of two parts. Part 1 will summarize key findings and recommendations from OVE’s 2015 evaluations, as well as the results of OVE’s validations of management’s DEM, PCR, and XSR ratings. It will also provide a status report on management’s implementation of Board-endorsed recommendations from prior OVE evaluations, including a review of main points from Board discussions, and it will report on the uses of OVE’s 2015 budget. Table 1 summarizes the topics to be covered in Part 1.

Table 1. Topics to be addressed in OVE’s 2015 Annual Report, Part I

Topics	Evaluation area	OVE products
Summary of key evaluation findings and recommendations	In-depth comparative project evaluations	Procidades (Brazil) CCTs in low-income countries Green lending Bus rapid transport
	Sector and thematic evaluations	Agriculture and food security Financial sector credit lines
	Country program evaluations	Bolivia, Brazil, Colombia, Panama, Uruguay
Project-level results reporting	Support to IDB project evaluation architecture	DEM, PCR and XSR validations completed by OVE in 2015
Implementation of OVE recommendations	Recommendations from prior OVE evaluations	Recommendation tracking system (ReTS) validation
OVE’s role and budget	Internal accountability	

¹ Recommendations 2 and 3 of “Strengthening Evaluation to Improve Development Results,” the report of the Independent Review Panel, June 2011. The OECD-DAC principles for evaluation of development assistance state that “Systematic dissemination is essential for ensuring improved planning and implementation of development assistance activities. Evaluation results may be disseminated in several ways apart from the evaluation report itself, e.g., annual reports providing a synthesis of findings; abstracts/summaries providing a synopsis of findings.”

Box 1. Evolution of policy-based lending at the IDB

Policy-based loans (PBLs) were introduced at the IDB in 1989, under the Seventh Capital Replenishment, to support sector policy and institutional reforms and to contribute to countries' financing needs. As originally designed, policy-based lending was through single operations with several tranches, whose disbursement was dependent upon certification by the Bank that the conditions for that tranche had been met. The major change to the instrument occurred in 2005 with the introduction of programmatic PBLs—or PBPs. PBPs consist of a series of single operations, each with its own loan agreement, set within a medium-term framework of reforms. The first operation of the PBP series sets out the medium/long term reform program and identifies the policy conditions for the first operation as well as the indicative triggers for the subsequent operations. Since the triggers for the subsequent operations are not binding, they can be modified after the previous operation has been approved.

The programmatic approach was introduced to provide flexibility to adjust to new information and changing circumstances during implementation. According to Management, “a programmatic approach may be the best fit if the operation will need to respond to unfolding events/new knowledge during implementation, if implementation capacity is uncertain, or if political support for certain elements of the program might shift. A multi-tranche approach is appropriate when the details of key steps in a medium-term reform process are already well understood” (CS-3633-1).

Between 1990 and December 2014, the IDB approved approximately 290 PBLs^a—an average of 11 per year (compared to an average of about 63 investment loans per year). Since the 1990s, PBLs have supported policy and institutional reforms in a wide range of areas, with many of them supporting reforms in more than one area. According to OVE's classification, most PBLs are concentrated in social investment and education (18%), followed by public sector management (16%), economic management (14%), and financial sector (14%) (Figure 1, Annex). The size of the average PBL is more than double the size of the average investment loan, and policy-based lending has totaled over US\$43 billion since 1989—about 25% of total SG lending approved and 28% of SG lending disbursed during the period.^b Since their introduction in 2005, PBPs have rapidly become the preferred policy-based modality: almost 80% of the 175 PBLs approved between 2005 and 2014 were PBPs (Figure 2, Annex).^c

^a This excludes ERF and emergency facilities, and includes hybrid operations.

^b OVE based on LMS data.

^c The 143 PBP operations approved since 2005 are grouped in 44 PBP series.

- 2.2 The purpose of Part 2 is to address a special theme highlighted in recent OVE evaluations and of high importance to IDB's partnership with member countries. Focusing on a special theme and including new and innovative analysis can add value from a knowledge perspective while also enhancing the interest of the report to various audiences. As noted in OVE's 2015 work program and budget document, the special theme for 2015 will be the Bank's experience with policy-based lending. In line with a trend in other multilateral development banks (MDBs), policy-based loans have become a routine component in the assistance tool kit of the IDB since their introduction in 1989 (see Box 1). As such, policy-based loans have become increasingly important in OVE's evaluations, especially in recent country program (CPEs) and sector and thematic evaluations.
- 2.3 The report will review the Bank's broad experience with policy-based lending over time, provide key facts on its usage, and highlight findings from OVE

evaluations. As such, this piece could be considered a stepping stone that may lead to a more evaluative document on policy-based loans in the near future. The report will also discuss methodological approaches to analyzing policy-based lending, and background work will seek to systematize approaches for use in the Bank and in OVE going forward.

- 2.4 Table 2 summarizes the core themes to be explored in Part 2. First, the team will review the origins and rationale for policy-based lending in MDBs, with special focus on the story and evolution of PBL lending frameworks since the late 1980s. Second, the team will review the evolution of IDB’s PBL portfolio since its inception, seeking to understand the uses of the instrument by countries and by thematic areas from a historical perspective. Given the importance of PBLs as a fast-disbursing tool, the portfolio analysis will also describe disbursement patterns over time. Third, OVE will explore the financial importance of PBLs from the perspectives of both the Bank and the borrowers (including, in the latter case, the relationship between PBL amounts and countries’ financing needs). Finally, the team will review design and implementation features of a sample of PBLs approved during the last decade. Among other topics, OVE will use the sample to look at the relationships between PBLs and TCs and investment loans, the evolution of policy matrixes within PBP series, and the nature of reforms supported by the PBLs.²

Table 2. Topics to be addressed in OVE’s 2015 Annual Report, Part 2

Topics	Dimensions of analysis
PBL framework overview	Origins and rationale for PBLs in MDBs Evolution of policy-based lending frameworks
PBL portfolio overview	Evolution of PBL portfolio Usage of PBLs across countries and thematic areas at the IDB Disbursement patterns <i>vis-a-vis</i> investment loans
PBL financial importance	Relationship between PBL disbursements and IDB financial stance Relationship between PBL amounts and countries’ financing needs Relationship between PBLs and other financial institutions’ programs
PBL design and implementation	Relationship between PBLs and TC and investment loan portfolios Extent of completion of PBLs and PBP series Evolution of policy matrixes Nature of reforms supported by PBLs

- 2.5 The analysis in Part 2 will not seek to assess the development outcomes achieved through PBL lending. Not only would such an analysis be beyond the scope of an annual report exercise, but in the case of PBLs it would face such methodological

² For the last year OVE has been piloting a methodology to analyze the nature of the reforms supported by IDB’s PBLs. Based on the country and sector context, OVE assigns a policy depth rating to each disbursement trigger to capture the extent and durability of the changes that implementation of the measure can be expected to bring about. The analysis for the 2015 Annual Report will provide an opportunity for OVE to further refine and document the methodology, and perhaps to explore additional approaches to the assessment of policy conditions.

challenges that clear and convincing findings would be unlikely. Determining the social and economic impacts of specific policy and institutional reforms (as measured against a counterfactual of no reforms) is very challenging in any single country, and would be extremely difficult across the entire LAC region. And even if it were possible to measure the impacts of such reforms, attributing these impacts to IDB support would be problematic considering that IDB lending often contributes only a small portion of overall public resources in a reform program. For the PBL framework overview, the team will draw on IDB guidelines and protocols on PBLs, relevant OVE evaluations (RE-239, RE-300, RE-342-1, RE-425 background paper, among others), and pertinent evaluations on policy-based instruments conducted in other MDBs. For the broad portfolio overview and the financial analysis, the team will include the universe of PBLs approved since 1989.³ For the review of PBL design and implementation, OVE will select a random sample of operations approved since 2005 in the thematic areas with the most PBLs: public sector management, social, and economic management (Figure 1, Annex). PBLs in the financial sector will also be included to increase synergies with ongoing OVE work, such as the evaluation of credit lines through financial intermediaries. If time and resources allow, PBLs in the energy sector will also be considered to shed light on experiences with public utilities. OVE expects to select a sample of approximately 50 operations, which represents 40% of all multi-tranche and programmatic PBLs approved in those thematic areas since 2005. Recent OVE CPEs and sector and thematic evaluations will also serve as inputs to complement the analysis.

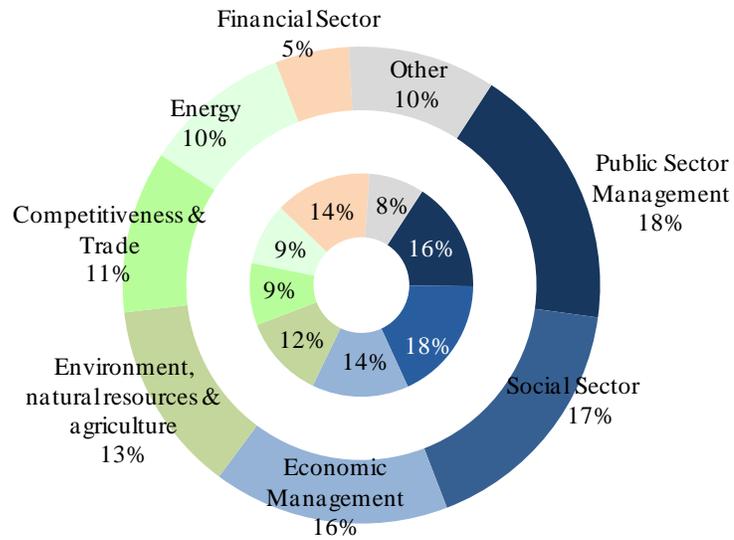
- 2.6 To keep the main report concise, OVE will produce a longer background paper with in-depth analysis of the various PBL-related topics noted above. The content will be summarized in a Power Point to be presented to the Board before the annual report is finalized.

III. TEAM AND TIMELINE

- 3.1 The report will be prepared by a team led by Agustina Schijman under the direction of Cheryl Gray (Director, OVE). Other team members include Ana Maria Linares, Cesar Bouillon, Ali Khadr, Verónica González Diez, Pablo Alonso, Miguel Soldano, Kate Britton, Maria Jose Hernandez, Maria Paula Mendieta, Ana Ramirez-Goldin, Mayra Ruiz, and Victor Beltran.
- 3.2 The draft report is expected to be ready for Management review in January 2016 (to allow time to complete OVE's validations covering 2015) and for submission to the Board of Executive Directors in February 2016. The presentation of the PBL analysis to the Board is expected in late 2015.

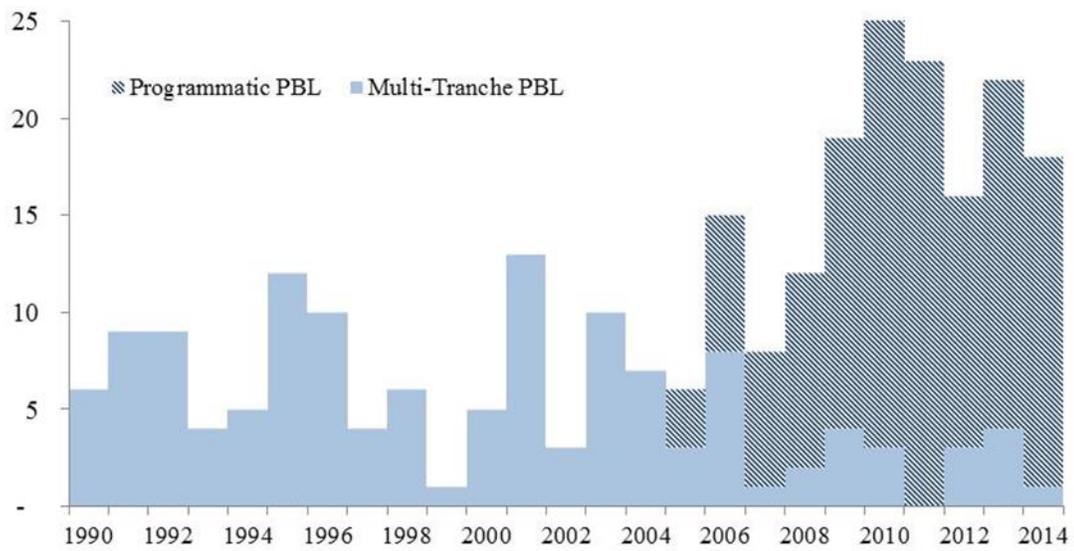
³ The Emergency PBL modality that existed between 1998 and 2000 will be considered, but more recent contingent credit lines, such as the Emergency Lending Facility and the Development Sustainability Contingent Credit Line, will be excluded from the review.

**Figure 1. Share of total number of PBLs approved, by theme
1990-2014**



Outer circle corresponds to 2005-2014 and inner circle to 1990-2014
Source: OVE based on IDB Data Warehouse

**Figure 2. Number of PBLs approved,
1990-2014**



Source: OVE based on IDB Data warehouse