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***Approach Paper -
OVE Mid-Term Evaluation of
IDB-9 Commitments***

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ACRONYMS

BSC:	Balanced Scorecard Performance Management System
CAP:	Capital Adequacy Policy
CUR:	Capital Utilization Ratio
DEF:	Development Effectiveness Framework
DEO:	Development Effectiveness Overview
EITI:	Extractive Industries Transparency Initiative
ESG:	Environmental and Social Safeguards
FSO:	Fund for Special Operations
GCI:	General Capital Increase
GDP:	Gross Domestic Product
ICIM:	Independent Consultation and Investigation Mechanism
IDB:	Inter-American Development Bank
IDB-9:	Ninth General Increase in the Resources of the IDB
IMM:	Income Management Model
LAC:	Latin American and Caribbean Region
MSA:	Macroeconomic Sustainability Assessment
OC:	Ordinary Capital
OVE:	Office of Evaluation and Oversight, Inter-American Development Bank
RBB:	Results Based Budget
RDG:	Regional Development Goals
RF:	Results Framework

I. EVALUATION OBJECTIVES

- 1.1 **This paper describes OVE’s approach to evaluating the implementation of the commitments contained in the Ninth General Increase in the Resources of the Inter-American Development Bank (IDB-9).** At their 2010 Annual Meeting, Governors issued the “Cancun Declaration” (AB-2728), agreeing to a process leading to a General Capital Increase (GCI or IDB-9). Governors tied this process to a series of Bank reforms, further detailed by Management in the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (AB-2764 or IDB-9 Report), which was subsequently adopted by Governors as part of the resolution inviting member countries to vote on IDB-9.
- 1.2 **The overarching objectives and timeframe for OVE’s evaluation are mandated in the IDB-9 Report.** To help assess progress in implementing these reforms, the IDB-9 Report specifies that “*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*” (Par. 4.27, IDB-9 Report, AB-2764).
- 1.3 **OVE’s core objective for this evaluation will thus be to document the progress and effectiveness of implementation to date of the IDB9 reforms.** From this exercise OVE also hopes to be able to provide constructive feedback to IDB Management to help with implementation going forward.

II. EVALUATION SCOPE AND METHODOLOGY¹

- 2.1 **Two documents provide binding mandates under IDB-9: the Cancun Declaration (AB-2728) and the IDB-9 Report (AB-2764).** The Cancun Declaration contains 13 specific mandates in its “Overview Framework” (see Annex), plus an additional 14th mandate in the text of the declaration itself to “*modify the existing Grant Facility to Support Haiti's reconstruction and development and ensure FSO is fully replenished for the next decade*” (Par. 5, 6 & 7). The IDB-9 Report (AB-2764) approved by Governors further details the 14 *Cancun Mandates* and also lays out the ongoing reform agenda for a “Better Bank”. The Report adds several commitments to those already covered in the Cancun Declaration, including commitments for the Bank to review practices and/or adopt reforms in the Bank’s risk management framework, operational instruments, knowledge products, use of country systems, information technology, gender, human resources, and efforts to combat fraud and corruption. Though not mentioned specifically in the Declaration, these commitments fall generally within

¹ In defining the approach to this evaluation OVE has benefited from meetings with Board members and Management to discuss the organization and priorities of the evaluation and from comments received at two discussions at the Board’s Policy and Evaluation Committee.

the Declaration’s general requirement for the Bank to “*commit to a rigorous and time-bound reform agenda*” (Cancun Declaration, Paragraph 9 and Overview Framework).

- 2.2 **The two IDB-9 documents have a broad reach, touching on many areas of IDB functioning.** Since the two documents have a somewhat different structure, OVE has aligned the mandates from both the Cancun Declaration and the IDB-9 Report into 5 *IDB-9 Thematic Areas*, as shown in Table 1, similar to the organization of the IDB-9 Report. Analysis at this thematic level will allow OVE to highlight key issues within each area, while still preserving a direct link with the IDB-9 documents.

Table 1: Linking the IDB-9 Report and the Cancun Mandates

IDB-9 Report Structure	Cancun Mandates
<i>Institutional Strategy</i>	
<i>Framework</i> Corporate Strategic Context Corporate Results Framework Corporate Monitoring and Evaluation	1: Institutional Priorities
<i>Sector Priorities</i> Social Policy for Equity and Productivity Infrastructure for Competitiveness and Social Welfare Institutions for Growth and Social Welfare Competitive Regional and Global International Integration Environment, Climate Change, Renewable Energy and Food Security	2: Sector Strategies and Guidelines
<i>Strategic Goals</i> Private Sector Development Small & Vulnerable Countries, Haiti, and FSO	10: Private Sector Development 14: Haiti and FSO
<i>Agenda for a Better Bank</i>	
<i>ABB - What the Bank Does</i> Financial Instruments Knowledge and Capacity Building Products Development Effectiveness Framework and Overview Country Programming Macroeconomic Sustainability	4: Project-Level Reporting 5: Loan Quality 6: Development Effectiveness 13: Macroeconomic Safeguards
<i>ABB - How the Bank Works</i> Risk and Financial Management Environmental, Social, Gender and other Safeguards Independent Consultation and Investigation Mechanism Combating Fraud and Corruption Disclosure Policy and Procedures Organizational Performance and Budgeting Organizational Structure and HR Processes Country Systems and Fiduciary Controls Information Technology	3: Income Management Model 7: Independent Inspection Mechanism 8: Disclosure Policy and Procedures 9: Environmental and Social Safeguards 11: Results-Based Budgeting 12: Capital Adequacy Policy

- 2.3 **Within each thematic area, OVE will verify full compliance with the IDB-9 Report Actions and Cancun Mandates.** Depending on the area, such verification may need to consider aspects such as completeness, timeliness, and sustainability.
- 2.4 **OVE will also seek to assess the effectiveness of implementation to date.** Effectiveness is demonstrated over time, yet OVE has been mandated to deliver its

assessment by March 31, 2013, earlier than many of these results are likely to materialize. Thus, OVE will seek to assess effectiveness to date within each thematic area and, to the extent possible, provide a view on the likelihood that the implemented reforms will produce the results intended by the Governors.

- 2.5 **A variety of tools, tailored to each thematic area, will be used to gather evidence (Box 1).** OVE will review the background discussions on each one of the themes to identify and assess the assumptions underlying the design of the respective actions. OVE will also look at lessons learned from past and ongoing evaluations in the respective themes, as well as best practices in other development institutions, if relevant. For most of the actions it will be necessary to carry out structured interviews, and in a few cases stakeholder surveys will shed light on progress to date. OVE will also review relevant data on implementation and, where available, on preliminary or final results. The assessment of each thematic area will be preceded by specific terms of reference, detailing the approach, evaluation questions, and evaluation methodology.

Box 1: Sources of Evidence and Tools for the Evaluation

- ✓ **Document and Context Review:** Understand underlying objectives and management's approach in various areas by reviewing background documents and management reporting.
- ✓ **Lessons from Prior and Ongoing Evaluations:** Identify lessons learned by incorporating findings of OVE and other institution's evaluations in the respective thematic areas.
- ✓ **Structured Interviews - IDB Clients, Board Members, Bank Staff, and Topic Experts:** Identify key issues and gather information via structured interviews with internal and external experts and clients.
- ✓ **Resource Allocation and Process Workflow:** Assess relative resource allocation and priorities.
- ✓ **Review of Bank Outputs :** Assess implementation progress via reviews of representative samples of projects and other Bank outputs.
- ✓ **Data Analysis:** Analyze relevant data on implementation and, when available, preliminary or final results.
- ✓ **Stakeholders' Survey:** Reflect stakeholders' input in those thematic areas where effectiveness is to be determined, in great measure, relative to their needs and expectations.

- 2.6 **OVE will benefit from work recently completed or concurrently underway on other evaluations in its work program.** This includes evaluations on the Development Effectiveness Framework (DEMs, PCRs), Education, IDB Regional Initiatives, the Haiti Country Program, the MIF, OMJ, the FSO, K&L, Middle Income Countries, and the Independent Inspection Mechanism (ICIM). Tasks undertaken for this evaluation will also provide inputs to 2012 evaluations on the Realignment, Environment and Climate Change, and Agriculture and Food

Security. These synergies in OVE activities help to make the task doable with the time and resources available.

III. EVALUATION QUESTIONS

3.1 Four overarching questions emphasized in IDB9 will guide OVE’s evaluation:

- (1) Is IDB-9 helping strengthen IDB’s *responsiveness to member countries*?
- (2) Is IDB-9 helping strengthen IDB’s *strategic selectivity*?
- (3) Is IDB-9 helping strengthen IDB’s *development effectiveness*?
- (4) Is IDB-9 helping strengthen IDB’s *financial sustainability, oversight functions and organizational performance*?

3.2 More specific evaluation questions will be developed for each thematic area.

A preliminary set of indicative questions are shown in Table 2 below. Precise terms of reference will be formulated for the work in each area to further specify and prioritize questions and ensure that all findings and recommendations are evidence-based. It is not expected that all topics will be covered in the same degree of depth; OVE expects to focus in depth on those topics that are in both IDB9 documents (i.e. the 14 Cancun Mandates) while also providing information, to the extent feasible, on progress to date in other areas.

Table 2: Preliminary Evaluation Questions

Sub-section	Evaluation Questions
Institutional Strategy - Framework	
Corporate Strategic Context	<i>Is the IDB strategy increasing the Bank’s focus in areas of high development need and IDB comparative advantage? How effectively is the Bank coordinating its work with other development partners?</i>
Results Framework	<i>How suitable is the Bank’s Results Framework for monitoring progress and promoting change? Are lending targets being set on the basis of adequate information, baselines, assumptions, and forecasts? Are the guidelines to classify operations into target areas aligned with the IDB-9’s strategic intent?</i>
Corporate Monitoring and Evaluation	<i>Are IDB-9 Actions being completed by the target dates? Have delays in IDB-9 financial contributions affected the timing of reforms? Does the institutional strategy include an implementation plan, with milestones and a governance mechanism? Are sufficient resources (systems, human, financial) being directed towards the implementation of the reforms?</i>
Institutional Strategy - Sector Priorities	
Social Policy for Equity and Productivity	<i>Are the Bank’s sector priorities and strategies clear and consistent with key challenges in the region? Is the Bank formulating sector strategies and guidelines based on evidence concerning the Bank’s comparative advantages and lessons of experience? To what extent are sector strategies and guidelines driving the allocation of IDB resources?</i>
Institutions for Growth and Social Welfare	
Infrastructure for Competitiveness and Social Welfare	
Competitive Regional and Global International Integration	
Environment, Climate Change, Renewable Energy and Food Sec.	

Institutional Strategy - Strategic Goals	
Private Sector Development	<i>Is the Bank's private sector strategy clear and consistent with the countries' needs? To what extent is it driving the allocation of IDB resources? Is the internal coordination among private sector windows improving?</i>
Small & Vulnerable Countries, Haiti, and FSO	<i>Is the Bank effectively catalyzing and delivering sustainable support for small and vulnerable countries, particularly to Haiti?</i>
Agenda For a Better Bank: What the Bank Does	
Financial Instruments	<i>Are the Bank's financial instruments well-aligned with countries' expectations and needs? Is IDB supporting innovation in its range of financial instruments?</i>
Knowledge and Capacity Building Products	<i>Are IDB knowledge instruments well-tailored to borrowing countries' needs and Bank's goals? How integrated are knowledge instruments within the Bank's product menu? What has been the progress in developing fee-based knowledge instruments?</i>
Development Effectiveness Framework and Overview	<i>Are DEOs reporting project development results and highlighting lessons learned, including those from OVE? Is the DEF improving project design, execution and ability to report on results? Has the OPC's role been strengthened? What improvements has this produced to date?</i>
Country Programming	<i>How effective are country strategies in directing Bank's support towards key country needs? To what extent is the Bank's annual programming guided by country strategies?</i>
Macroeconomic Sustainability	<i>Do the MSAs comply with the criteria set forth in the IDB-9 Report? How effective has the MSA process been to date in achieving the purpose anticipated in IDB-9?</i>
Agenda For a Better Bank: How the Bank Works	
Risk and Financial Management	<i>Has the IMM been implemented as agreed? If so, how likely is it to serve the desired purposes? Has the CAP been implemented as agreed? If so, how likely is it to serve the desired purposes? How is risk managed? Is the framework adequate? How are the responsibilities assigned and monitored?</i>
Environmental, Social, Gender and other Safeguards	<i>How effectively is IDB following up on issues identified in the Independent Advisory Group's report, and what are the results to date? Have other related initiatives mandated by IDB9 been properly adopted, e.g., EITI and Gender safeguards?</i>
Independent Consultation and Investigation Mechanism	<i>Has the ICIM been implemented effectively (e.g. structure, resources, governance)? Is ICIM likely to achieve the desired results?</i>
Combating Fraud and Corruption	<i>Have mechanisms to fight fraud and corruption been implemented effectively to date (e.g. structure, resources, governance)?</i>
Disclosure Policy	<i>Has the disclosure policy been implemented effectively to date (resources, governance)?</i>
Organizational Performance and Budgeting	<i>Has the Balanced Scorecard System been implemented? Is the External Feedback System operational? Are organizational effectiveness and efficiency metrics improving or likely to improve? Has the Bank adopted an Results Based Budgeting System? Has it been effective to date?</i>
Organizational Structure and HR Processes	<i>What progress has been made in talent management, decentralization, gender, and merit-based HR systems?</i>
Country Systems and Fiduciary Controls	<i>What progress has been made on the "Country Systems" agenda and the implementation of risk-based fiduciary supervision systems?</i>
Info. Technology	<i>What actions has the Bank taken to date to leverage information technology to improve service quality? What has been the progress to date with Optima?</i>

IV. RESOURCES AND TIMELINE

- 4.1 **Staff and consultants with a wide range of technical expertise and evaluation skills will be needed to undertake this evaluation, given its breadth.** Most of OVE's professional staff is expected to contribute to the evaluation in their respective areas of expertise, complemented with consultants to provide specialized skills as needed. The evaluation will be overseen by Cheryl Gray, OVE Director, and managed on a day-to-day basis by Alejandro Soriano, OVE Principal Evaluation Officer, with support from Marco Velarde and Tatiana Soares. Monika Huppi, OVE Principal Advisor, will provide advice and assistance.
- 4.2 **OVE will submit the final evaluation for Board discussion prior to the March 2013 deadline.** A first draft of the report is expected to be shared with Management for comment in November 2012. The final report is expected to be delivered to the Board in January 2013, for Board discussion prior to the evaluation deadline and the Annual Meetings of the Governors in March 2013. Presentation and dissemination materials will also be prepared as needed.

Annex: Overview Framework of the Cancún Declaration			
	<i>Specific conditions to be met</i>	<i>Actions and timeline for implementation</i>	
1	Clarify key institutional priorities.	Governors affirm the following institutional priorities: (a) reducing poverty and inequality; (b) ensuring sustainable development; (c) addressing sustainable energy and climate change (d) addressing the special needs of the poorest countries, (e) promoting regional integration, and (f) fostering development through the private sector.	Implementation of the Institutional Priorities to be monitored through RF and reported in DEO annually.
2	Adopt sector strategies and notional lending targets to address urgent regional needs.	Governors instruct Management to submit for Board consideration strategies (by target date) to promote: (a) regional integration infrastructure and technical assistance, (b) better education performance, (c) broader private sector access to finance, particularly for SMEs, (c) renewable energy, and (d) climate change adaptation and mitigation. Governors also direct Management to integrate lending targets into performance evaluations and budgeting policies by target date.	The Bank will submit for consideration of the Board, prior to the Q1 of 2011, the following strategies: (a) a strategy for regional integration; (b) an integrated strategy for climate change adaptation and mitigation and for sustainable and renewable energy; (c) a strategy on social policy for equity, and productivity with a special focus on the issue of improving education; (d) a strategy for institutions for growth and social welfare with a special focus on access to financial markets, particularly for SMEs. By Q1 of 2011, specific guidelines for education; sustainable energy (including renewable energy); and access to finance, particularly for SMEs.
3	Adopt a comprehensive Income Management Model.	Governors adopt a model that allocates income to cover the following constraints: <ul style="list-style-type: none"> •Minimum annual transfers of \$200 million to the grant facility for Haiti •A capital accumulation rule that preserves the financial soundness of the bank •Loan charges set as to cover administrative expenses consistent with the Bank's multiyear budget. <ul style="list-style-type: none"> •Parameters of the Capital Adequacy Policy •FSO administrative expenses fixed at 3 percent, non-reimbursable TC fully funded by OC •Pricing adjusted to meet these constraints 	Annually, starting FY 2011, and based on the IMM, Management will submit for consideration and approval by the Board of Executive Directors a document proposing the annual allocations for the following year, based on medium-term financial projections.
4	Disclose project-level reporting with stronger metrics.	Governors direct Management to provide public disclosure in the Development Effectiveness Overview (DEO) of ex-ante project-level evaluability analysis, compliance with institutional priorities, and ERR calculations for projects approved that year, and ex-post impact evaluations for any projects evaluated in that year, including for NSG projects.	Annually, by the end of Q1, public disclosure of the Development Effectiveness Overview (DEO)
5	Ensure quality of loan portfolio through use of new development effectiveness matrix.	Governors endorse a further strengthening of the Operations Policy Committee by the President of the Bank and Senior Management to ensure that projects meet minimum development effectiveness thresholds as assessed in consultation with the Chief Economist office.	By end of Q3 of 2010: (a) Review of methodologies for evaluability; (b) amend programming process and operational procedures to ensure that all projects meet minimum evaluability thresholds Annually OVE provides yearly reports on project evaluability and validate achieved results for completed projects annually.
6	Strengthening Development Effectiveness.	Governors direct Management to produce the DEO annually, incorporate OVE recommendations previously endorsed by the Board of Executive Directors and consider future OVE recommendations to improve loan quality.	Annually by end of Q1, OVE recommendations incorporated as part of the DEO.
7	Staffing and resourcing the new Inspection Mechanism (ICIM).	Governors direct Management to rapidly staff and implement the new Inspection Mechanism with phased-in coverage of all Bank policies by the time of the overview process.	Completed staffing and institutional arrangements necessary to start processing requests before the ICIM by Q2 2010. Phasing in of all policies in Q2 of 2010.
8	Adopt a new disclosure policy consistent with best practice.	Governors instruct Management to implement a new disclosure policy that meets the highest standards applied by other Multilateral Financial institutions including the following elements: <ul style="list-style-type: none"> •The replacement of a "positive list" of disclosed policies with a limited "negative list" <ul style="list-style-type: none"> •Presumption of disclosure •Release of Board/Committee minutes •Independent appeals mechanism •Voluntary disclosure of ED's statements •Disclosure of project-level results 	Implementation Plan to be submitted to the Board of Executive Directors by July 31, 2010. Effective date of the policy January 1, 2011.
9	Adopt process to update environmental and social safeguards.	Governors instruct the Board of Executive Directors to adopt a revised set of environmental and social safeguards fully consistent with the recommendations of the independent advisory group on sustainability in its final report, and a revised set of social safeguards in line with international best practices.	Action plan with a revised set of environmental and social safeguards fully consistent with the recommendations of the IAG approved by the Board of Executive Directors, by Q1 2011
10	Expand private sector operations.	Governors agree that private sector operations shall be capped at 20% of the Bank's Equity through 2012, after which private sector operations will be subject to the Bank's new NSG strategy and capital adequacy policy.	NSG Strategy presented to the Board of Executive Directors by end of Q3 2010. Private sector strategy presented to the Board of Executive Directors by end of Q4 2010. Annual reporting of NSG operations in the DEO. The Board of Executive Directors will establish new limits after 2012.
11	Adopt results-based budgeting.	Governors direct Management to develop and adopt a corporate strategy for results-based budgeting for the FY2011 budget.	Initial application of the RBB methodology in the 2011 Program and Budget Proposal, implementation beginning in FY 2011.
12	Implementation of the new capital adequacy policy.	Governors direct Management to implement the new capital adequacy policy as approved by Board of Executive Directors.	Implementation of the policy by Q1 of 2010.
13	Ensure adequate safeguards against lending into unsustainable macroeconomic situations.	The Chief Economist and Research Department of the Bank will produce rigorous assessments of macroeconomic sustainability based on objective criteria when called for by country conditions; loans for consideration by the Board of Executive Directors shall meet the criteria.	Macroeconomic sustainability analysis annually for each country as part of the programming exercise, starting in 2011.