




# Evaluation of Special Programs Financed by Ordinary Capital



The Board of Directors of the Inter-American Development Bank has requested that the Office of Evaluation and Oversight (OVE) undertake an evaluation of SPs as part of its 2014 work program. The evaluation seeks to shed light on whether the current practice and arrangements for allocating US\$100 million from OC net income to 19 SPs are an effective way to finance TCs to address priority social and economic development needs in the Bank's borrowing member countries. The evaluation covers the functioning of OC funded SPs from 2005 through mid-2014 and covers the SP TC portfolio from 2005 to 2013.

# **Evaluation of Special Programs Financed by Ordinary Capital**

Office of Evaluation and Oversight (OVE)



**Inter-American Development Bank**  
December 2014



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## ABBREVIATIONS AND ACRONYMS

## ACKNOWLEDGEMENTS

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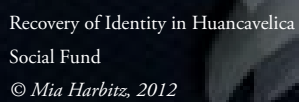
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## ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
CT/INTRA	Intraregional Technical Cooperation Program
DTF	Donor trust fund
EBRD	European Bank for Reconstruction and Development
ESC	Eligibility and Strategy Committee
EVP	Office of the Executive Vice President
FIRII	Fund for the Financing of Technical Cooperation for Initiatives for Regional Infrastructure Integration
FSO	Fund for Special Operations
GCI-9	IDB's Ninth General Capital Increase
GCM	Grants and Co-Financing Management Unit
IDB	Inter-American Development Bank
IFD	Institutions for Development Sector
IMF	International Monetary Fund
INT	Integration and Trade Sector
LAC	Latin America and the Caribbean
LEG	Legal Department
LIBOR	London Interbank Offered Rate
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MDTF	Multidonor trust fund
MIF	Multilateral Investment Fund
OC	Ordinary capital
OPUS	Operations Update System
ORP	Office of Outreach and Partnerships
OVE	Office of Evaluation and Oversight
OVEDA	Office of Evaluation and Oversight Data Analyzer
PCY	Office of the Presidency
PRE	Office of the President
PRODEV	Program to Implement the External Pillar of the Medium Term Action Plan for Development Effectiveness
RES	Department of Research and Chief Economist
RPG	Regional Public Goods
SEC	Office of the Secretary
SECCI	Sustainable Energy and Climate Change Initiative
SEP	Social Entrepreneurship Program
SP	Special Program
SPD	Office of Strategic Planning and Development Effectiveness
TC	Technical cooperation
VPC	Vice Presidency for Countries
VPF	Vice Presidency for Finance and Administration
VPP	Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations
VPS	Vice Presidency for Sectors and Knowledge

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# Executive Summary

In 2005 the Board of Executive Directors of the Inter-American Development Bank (IDB) approved the use of Ordinary Capital (OC) resources for Special Programs (SPs) to fund technical cooperation (TC) in support of specific needs at the country and regional level. Since then, a total of 19 programs have been established,<sup>1</sup> and for eight of them a parallel Multi-Donor Trust Fund (MDTF) provides complementary resources. While SP funding criteria stipulate that such programs are to have specified terms, to date only one (PRODEV) has been allowed to close, and it was immediately replaced by a similar program with a broader mandate.

Following an initial OC allocation of US\$21.5 million for the first three SPs, allocations rose annually, reaching US\$100 million in 2012, 2013 and 2014. A total of US\$776 million OC was allocated to SPs between 2005 and 2014. 1,201 TC projects were approved and 519 completed through the end of 2013 (with the eight MDTFs funding an additional 125 TC projects for US\$83 million during the same period).

OC Special Programs have become a major source of funding for Bank technical cooperation, amounting to about half of all TC funding over the last three years, with donor trust funds accounting for the other half. Special Programs have several broad purposes: (i) to support the preparation, implementation, and evaluation of projects financed by IDB loans; (ii) to support the development of new Bank business areas; (iii) to build capacity in borrowing member countries, including through knowledge sharing; and (iv) to support upstream work and dialogue with an eye to future lending.

This evaluation was carried out by IDB's Office of Evaluation and Oversight (OVE) at the request of the Board. The evaluation seeks to shed light on whether SPs have been an effective and efficient vehicle for the Bank to fund TCs to support priority social and economic development needs in its borrowing member countries. The evaluation covers the period 2005 through mid-2014 and assesses SPs at the institutional level, at the level of individual programs, and at the TC project level. At the institutional level, the evaluation examines cross-cutting issues of management, resource allocation, and

development effectiveness. At the program level, it looks at program-level management and resource allocation, alignment of the SP portfolio with SP objectives, and evidence of achievement of SP objectives. At the TC level it examines the relevance, effectiveness and, where applicable, sustainability of individual TCs, and the extent to which TCs have contributed towards achieving broader SP objectives. Given the large number of SP TCs, OVE was unable to review each one in depth. Rather, OVE undertook a desk review of a statistically representative sample of 604 TCs to assess alignment with SP objectives and TC design, and an in-depth field review of 134 recently-closed TCs in nine borrowing member countries (representing a mix of sizes, income levels, and sub-regions) to shed light on results. A full assessment of the results of all 1,201 TCs is beyond the scope of the evaluation.

## ORIGINS AND PURPOSE

TCs have been an instrument of the Bank since its establishment. The agreement establishing the Bank names the provision of technical assistance as one of its functions, as do the charters of most other major Multilateral Development Banks. Three sets of circumstances broadly explain the decision in 2005 to use OC resources, for the first time, to fund TC through earmarked SPs: (i) a sharp reduction in the size of the Fund for Special Operations (FSO), which had been a main source of TC funding; (ii) a period of unprecedented profitability of Bank lending around 2002-04, which resulted from a surge of emergency lending in response to the Asian financial crisis; and (iii) a marked decline in the investment lending program of the Bank. While no detailed rationale or statement of objectives accompanied the establishment of SPs in 2005, three corporate goals can be discerned: to stem the decline in investment lending, to leverage the Bank's own money with donor funding, and to support new areas of work.

Apart from these broad implicit goals, there has been little overall strategic thinking on what the Bank wants to achieve through the use of OC for SPs. SPs have been created on a case-by-case basis without an overarching strategy, making it increasingly difficult for the Bank to balance financing needs of existing programs with the needs for new initiatives as development/institutional priorities evolve.

## PORTFOLIO TRENDS

The TC funding shift from FSO to OC increased access to TCs for higher middle-income countries. Between 2005-2013, US\$107 million of OC went to TCs in group A countries, US\$74 million in group B countries, and US\$84 million and US\$194 million in group C and D countries respectively. Just over 30% (US\$207 million) of OC TC resources have gone to fund transnational and multi-country TCs.



The share of TCs executed by the Bank, as opposed to the recipient country, has risen from fewer than 10% of approvals in 2006 to over 70% in 2013. For example, over 90% of Social Fund TCs, 80% of Food Security TCs, and 60% of Infracund TCs approved in 2013 are Bank-executed. This has had a positive effect on processing and execution times, but is costly to the Bank, as Bank-executed TCs incur higher costs to the Bank than beneficiary-executed TCs.

## MANAGEMENT

As financial commitments, numbers of SPs, and numbers of TC proposals have increased, Management has introduced more formalized management structures and processes. This has introduced a greater level of transparency and made resource allocation more data-driven. This evaluation finds, however, that these structures and processes are not working as envisioned to provide strategic direction and efficiency in the allocation and use of SP resources. There is no process for strategic direction-setting and oversight of the overall SP portfolio. At the program level, most SPs are not managed as specific programs in pursuit of program level objectives—as demonstrated by the absence of program-level direction setting and regular monitoring, reporting, and stock-taking of the achievement of SPs’ objectives. Rather, SPs tend to be seen as a funding source to advance the work programs of particular sector units. Declines in project preparation funding through the administrative budget have been mirrored by increases in the amount of OC TC funding allocated to upstream work, project preparation, and implementation support. Interviews with team leaders and managers suggest that SP resources are an important supplement to the administrative budget to ensure delivery of a unit’s work program.

## RESOURCE ALLOCATION

The existence of 19 separate programs creates efficiency problems—most notably the inability to weigh tradeoffs and allocate funds to their best uses—that are well-documented in the literature on earmarking. While a degree of flexibility (termed “flexibilization”) has been introduced into the allocation process over the last two years, the earmarking still leads to suboptimal resource allocation and perverse incentives. Sector units, in response to new flexibilization rules, rush to approve large numbers of TCs to avoid having to give up “their” resources, potentially at the cost of relevance and quality of such TCs. At the same time, the hoped-for leveraging of the Bank’s funds with donor contributions to MDTFs—a major justification advanced by Management to keep earmarked funds—has been modest. While other MDBs use OC resources for grant funding in various ways, none earmarks funding to such a large number of individual programs.



## PERFORMANCE

In the absence of adequate monitoring and evaluation systems at the program level, it is not possible for the Bank to know whether the objectives of each SP are being met. Similarly, there is no systematic monitoring and evaluation at the TC level that would allow the Bank to know whether SP TCs are achieving their objectives or contributing to their funding SP's program objectives. OVE's desk and field-based reviews of individual TCs sought to shed light on results, though a complete assessment of results was beyond the scope of the evaluation.

The desk review found that the vast majority of TCs are well aligned with their funding SP's objectives, recognizing that those objectives are usually drawn very broadly. The field review found that over 70% of evaluated TCs produced the expected outputs, though they were not fully used by the beneficiaries in over one third of cases. Over half of the evaluated TCs were found to have met their stated objectives, although these often stopped at the output level. A similar share was found to have made a contribution towards the funding SP's objective. Fewer than half of the TCs whose results were intended to be sustained were deemed sustainable.

Of the evaluated TCs that focused on project preparation and origination, the direct contribution to Bank lending was limited, as evidenced by the fact that almost half of such TCs produced outputs that were not actually used as inputs to project design. Furthermore, over forty percent of loans whose preparation was supported by a TC were not approved. This suggests that the pairing of TCs with lending operations could have been improved through better programming. Taking a broader view, interviews with team leaders suggest other TCs—i.e. those not directly used for loan preparation, such as those supporting upstream work--can help advance dialogue with counterpart agencies or build the Bank's country knowledge to advance possible later lending. The question arises, however, whether such upstream work is not a necessary part of the Bank's work that should be funded from the administrative budget.

The majority of evaluated TCs created new knowledge that could serve as a basis for analysis and decision making by country policy makers, as well as the Bank, if it were consistently used. Beyond the individual TC, however, no systematic mechanism exists to capture and share such knowledge.

Evidence on the extent to which SPs have been able to advance new work areas for the Bank is scant due to the lack of program-level monitoring. There are some indications that the older SPs established for that purpose, such as PRODEV and SECCI, have indeed helped put new topics on the map, generate knowledge, and build capacity inside the Bank, and thus have helped advance the Bank's work in particular areas. An evaluation of PRODEV (the only SP to have closed) was carried out as part of this SP evaluation (see Annex IV), and it finds relatively weak results due to unrealistic and overambitious objectives and an absence of an outcome-focused monitoring and evaluation system to facilitate program improvements along the way.

## CONCLUSIONS AND RECOMMENDATIONS

The Board approved use of OC funding for Special Programs in a context of record high Bank net income, concerns about low investment lending, a desire to provide higher middle income countries with access to Bank funded TCs, and a vision to spur donor co-funding for such programs. Circumstances have changed considerably in the decade since that decision was made. Investment lending has recovered. SP funding for TCs has helped provide countries with increased access to TCs – higher income countries in particular and the Bank’s external feedback system shows that clients value this support. It must, however, be remembered that these funds come from the Bank’s net income and are thus not a free resource to its borrowing member countries. Donor funding through contributions to parallel MDTFs has been modest, amounting to only 16% of OC allocations.

Discussions around a new capital adequacy policy and the possible reorganization of the Bank’s private sector windows are bringing financial tradeoffs to the fore and highlighting the “opportunity cost” of scarce capital. Specifically, allocating OC net income to fund SPs comes at the cost of higher loan charges and/or reduced ability to build up capital to support higher lending volumes. Moreover, moves toward results-based budgeting in the Bank are emphasizing the importance of transparent and accountable budget management. While allocating some Ordinary Capital to fund a limited number of truly special initiatives or client-led activities (whether to support project preparation or capacity-building) may be justifiable, using Special Programs to fund the Bank’s day-to-day work program obfuscates the true administrative cost of Bank products and makes it more difficult to manage internal Bank resources efficiently.

Based on these findings and the changing context since the Board decided to allocate OC to fund Special Programs, OVE makes the following recommendations to the Bank’s Board and Bank management:

1. In the context of the new capital adequacy policy and related financial planning, decide (beginning for FY2015) how much Ordinary Capital should be allocated for grant funding for Special Programs, clearly weighing the trade-offs. If a decision is taken to continue to allocate OC funding, clearly define the desired corporate objectives of such funding and prepare a results framework that explains how those objectives are to be achieved.
2. Limit such funding to three purposes:
  - a) Seed funding to support the introduction of new business areas: Providing seed money for the development of capacity and knowledge to introduce new business areas relevant to the Bank and its borrowing members can serve the countries and the Bank well. Citizen Security and Emerging and Sustainable Cities are examples of this type of program.

- **Time-bound:** Consistent with the infant industry argument, *grant funding for any such program should be time-bound (e.g. up to five years) and guided by clear outcome-focused program objectives whose achievement is regularly monitored.* Each initiative should have a clear closing date that is enforced, after which the initiative will either be mainstreamed into the Bank's regular work program, continue with donor funding only, or cease operations. Funding would be approved for the duration of the initiative with a requirement to regularly report on progress towards achievement of program objectives.
  - **Limited in number:** Given resource constraints, *such initiatives should be limited in number so that they can be adequately funded* (e.g. on the order of 3-5 ongoing at any one time).
- b) Transnational work: As discussed in OVE's 2012 evaluation of Transnational Programs, transnational work is important to the Bank's mission and to development in LAC, but is unlikely to be pursued at an optimal level in the absence of subsidies. For this reason allocating grant funding to a program such as Regional Public Goods is justified, provided the program continues to show evidence of positive results through regular monitoring, reporting, and evaluation.
- c) Client activities needed for project preparation, implementation, and capacity-building: Any decision to support client activities in established areas through OC-funded grants should be taken after weighing the associated financial trade-offs. Two areas of potential support are (i) project preparation and implementation activities that are clearly the borrower's responsibility (e.g. feasibility studies, environmental impact assessments, engineering designs, technical assistance during implementation) and (ii) free-standing advisory and capacity building services.
- **Managed through one fund:** *OVE proposes that any such grant funding for client activities in established areas be managed through one overarching fund rather than the many funds existing today.* Such a fund would absorb existing programs that support Bank work in established areas, such as, for example, the Infrafund, the Social Fund, and the Aquafund. OC allocations to such a fund would be made as needed and based on availability of resources, not necessarily every year.
  - **Annually programmed:** *Resources could then be allocated from the fund to individual TC operations through the Bank's annual programming exercise, based on clearly established strategic priorities and allocative criteria.* This would facilitate integration into the country program, timely availability of funds for project preparation, and strategic prioritization. At the

completion of a particular operation, team leaders should be responsible for reporting on what outputs were produced, how they were used by the beneficiary agency, and what outcomes were achieved.

- **Client-executed:** *To the extent possible, it should be expected that activities financed by this single fund be client-implemented.* This would distinguish them from upstream work and project-related activities that are the Bank's responsibility and would help to reinforce client ownership.

This revised approach assumes continued efforts to mobilize donor funding for all three purposes and would significantly streamline the management and administration of OC-funded grants. The complex management structures and processes of today's earmarked TC programs would no longer be necessary, as each time-bound special initiative (and any parallel MDTFs) would be run as a program rather than a set of individual TCs, and resources from the single fund for support of client project preparation, implementation, and capacity building activities would be allocated during the Bank's normal programming process. A transition to this model would be facilitated by the fact that a number of existing Special Programs have already reached or will reach their end dates in the near future.

3. Adjust the administrative budget as needed to fund Bank upstream work and other activities that are the Bank's responsibility and currently funded by OC Special Programs. The narrowing of the scope for Special Programs recommended above may require an adjustment to the administrative budget to cover the full cost of doing business. Similarly, funding currently allocated under the Action Plan C+D program should be absorbed into the administrative budget, with due adjustments to that budget to ensure there are sufficient resources at the country office level to respond quickly and effectively to specific emerging needs. In the interests of IDB effectiveness and good governance, it is important not only that administrative budgets be adequate to get the work done, but also that budget processes govern the use of all resources in support of the Bank's work program and that the cost of doing business be fully reflected in the budget.





1



# 1 Introduction

In 2005, the Board of Directors of the Inter-American Development Bank (IDB, or the Bank) approved the use of ordinary capital (OC) resources for Special Programs (SPs) to fund technical cooperation in support of specific needs at the country and regional level. SPs fund non-reimbursable<sup>2</sup> technical cooperation (TC) for several purposes: (i) to support the preparation, implementation, and evaluation of projects financed by IDB loans; (ii) to support the development of new Bank business areas; (iii) to build capacity in borrowing member countries, including through knowledge sharing; and (iv) to support upstream work and dialogue with an eye to future lending. SPs are one source of funding for TC grants that the Bank extends to its borrowing member countries; the other main source is donor trust funds (DTFs). SP TCs can be executed by the Bank or by a recipient agency, which may be a government agency at the national, state, or local level; a private enterprise borrowing from the Bank; or a civil society organization. Since 2005, a total of 19 SPs have been established, and the Bank has allocated a total of US\$766 million to them. For ten of these SPs, parallel multi-donor trust funds (MDTFs) have been established to boost resource availability, though only eight of them have raised donor contributions so far.

## **A. EVALUATION OBJECTIVES AND SCOPE**

The Board has requested that the Office of Evaluation and Oversight (OVE) undertake an evaluation of SPs as part of its 2014 work program. The evaluation seeks to shed light on whether the current practice and arrangements for allocating US\$100 million from OC net income to 19 SPs are an effective way to finance TCs to address priority social and economic development needs in the Bank's borrowing member countries. The evaluation covers the functioning of OC funded SPs from 2005 through mid-2014 and covers the SP TC portfolio from 2005 to 2013.

## **B. EVALUATION QUESTIONS AND APPROACH**

The overarching question the evaluation seeks to answer is: Have SPs been an effective and efficient vehicle for the Bank to fund TCs to support priority social and economic development needs in its borrowing member countries? The evaluation assesses SPs at





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the *institutional level*, at the level of individual programs, and at the TC project level. At the institutional level, the evaluation examines cross-cutting issues of management, resource allocation, and development effectiveness, such as the rationale for earmarking OC TC resources for sectors and themes, whether SP management structures and processes allow for efficient resource allocation and effective program management and oversight and the costs of SPs. At the *program level*, the evaluation examines issues of program-level management and resource allocation, alignment of the SP portfolio with SP objectives, and evidence of achievement of SP objectives. At the TC project level, the evaluation examines the relevance, effectiveness, and, where applicable, the sustainability of individual TCs financed through SPs, and the extent to which TCs have contributed toward achieving SPs' objectives.

### C. METHODOLOGY

The evaluation uses a mixed methods approach: analysis of processes, portfolio, and financial data; document reviews; interviews; and desk- and field-based evaluation of individual TCs.

- Among the key documents analyzed were SP establishment and extension documents, SP progress reports and evaluations, TC policy and guidelines, the Bank's annual budget documents, trust fund agreements, TC profiles and plans



of operations, guidelines pertaining to SP management and resource allocation, minutes of meetings of committees established to decide on the selection of TCs to be funded by SPs, minutes of Board meetings and other relevant internal documents.

- To gain an understanding of the focus of the TC portfolio in each SP and assess TC design issues, OVE carried out a desk-based portfolio review of a statistically representative sample of TCs covering 604 TCs in total.<sup>3</sup> A smaller sample of 134 TCs was assessed for relevance, design, and development effectiveness through field visits in nine borrowing member countries representing a mix of sizes, income levels, and sub-regions in Latin America and the Caribbean (LAC). This sample includes virtually all country-specific and all FIRII regional TCs that closed in 2011-13 in these nine countries.<sup>4</sup>
- OVE conducted interviews with 26 IDB managers, division chiefs, and country representatives, 159 IDB staff, 18 former staff and consultants, and eight MDTF donors to gain a clear understanding of the functioning of SP management structures and processes, of the value-added and challenges encountered by SPs, and of TC achievements. 140 representatives of TC beneficiary agencies were interviewed in the context of the TC field assessments.
- Drawing on ORP/GCM, OVEDA, and OPUS data, OVE established a SP database that formed the basis for data analysis.

The evaluation also draws on two earlier evaluations: Evaluation of *Transnational Projects* (RE-415, 2012) and *Evaluation of the Bank's Process for Managing Technical Cooperation* (RE-364, 2010). OVE's evaluation addresses the following guiding questions:





# 2 The Origin and Evolution of Special Programs

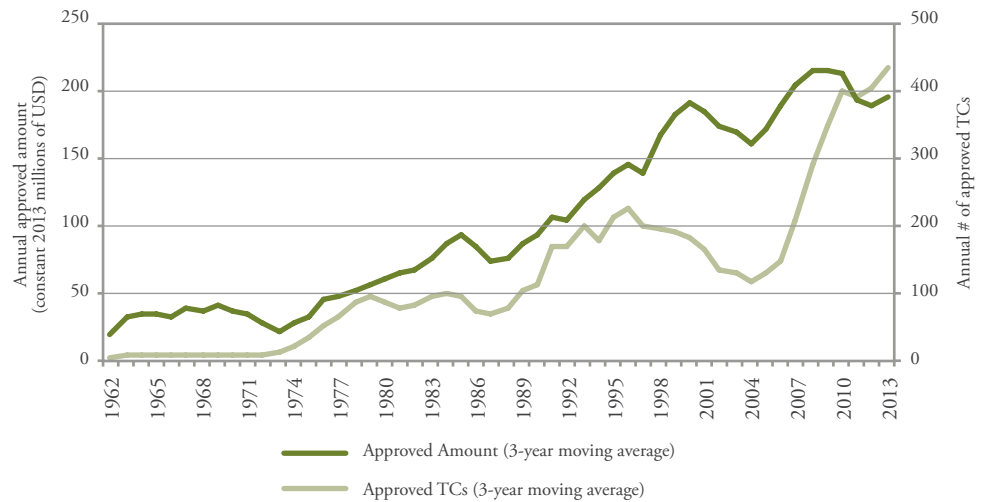
## A. DRIVERS FOR THE ESTABLISHMENT OF THE OC-FUNDED SPECIAL PROGRAMS

Technical cooperation has been an instrument of the IDB since the Bank's creation. The Agreement establishing the Bank includes among the Bank's functions the provision of "technical assistance for the preparation, financing, and execution of development plans and projects, including the consideration of priorities and the formulation of loan proposals and the development and advanced training, through seminars and other forms of instruction, of personnel specializing in the formulation and implementation of development plans and projects."<sup>5</sup> From 1960 through 2013 the Bank approved some 11,240 TCs for a total of US\$3.6 billion (US\$5.8 billion in constant 2013 US\$), with almost one-third of the total funding provided in the last decade alone. Figure 1 shows the rising trends in both approvals and amounts of TCs over the Bank's history. The marked increase in TC approvals over the past decade has brought back the ratio of TC to lending approvals to the level of the early 1990s (around 2%) after it had dropped to below 1% by 2005 (see annex 1).

From 1960 to 2004, the Fund for Special Operations (FSO) and donor trust funds (DTFs) provided the funding for TCs; over the four decades, FSO accounted for some US\$1.2 billion in approvals, and DTFs for US\$0.8 billion. Since 2005, OC/SP resources have progressively overtaken FSO TC support. Notably, from the first year of OC/SP funding in 2005, OC/SP TC approval amounts have risen from US\$11.96 million to US\$147.3 million (in 2013), while FSO TC amounts dropped from a peak of US\$102.1 million in 1991 to US\$26.5 million in 2010, FSO's final year of financing TCs. Thus, since 2005 OC resources have come to account for just under half of the total funding of approved TCs, with DTF resources accounting for some 51% (see Figure 2). These DTF resources come from a combination of single-donor trust funds, MDTFs, and other donor TC funding vehicles such as project-specific grants.<sup>6</sup>

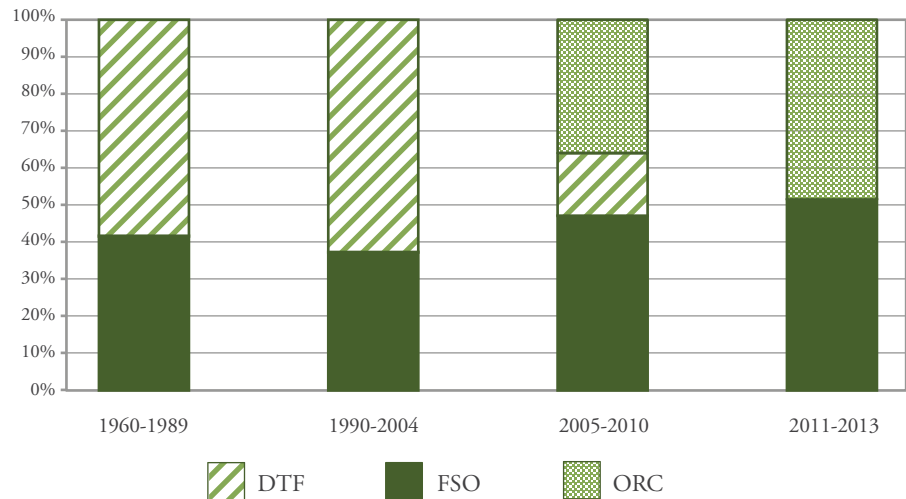
**FIGURE 1:**  
**Trends in TC approvals and amounts, 1962-2013**

Source: OVEDA



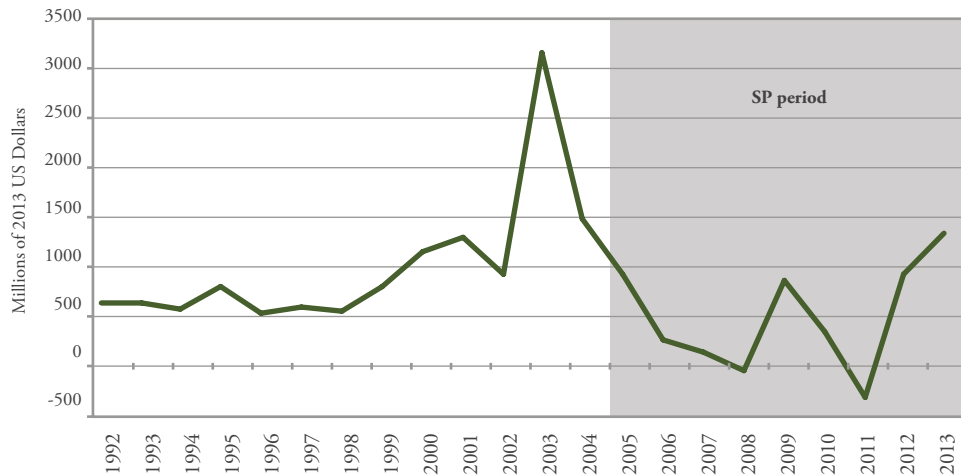
**FIGURE 2:**  
**Evolution in sources of TC funding**

Source: OVEDA



Three sets of circumstances broadly explain the decision in 2005 to use OC resources, for the first time, to fund TC through earmarked SPs:

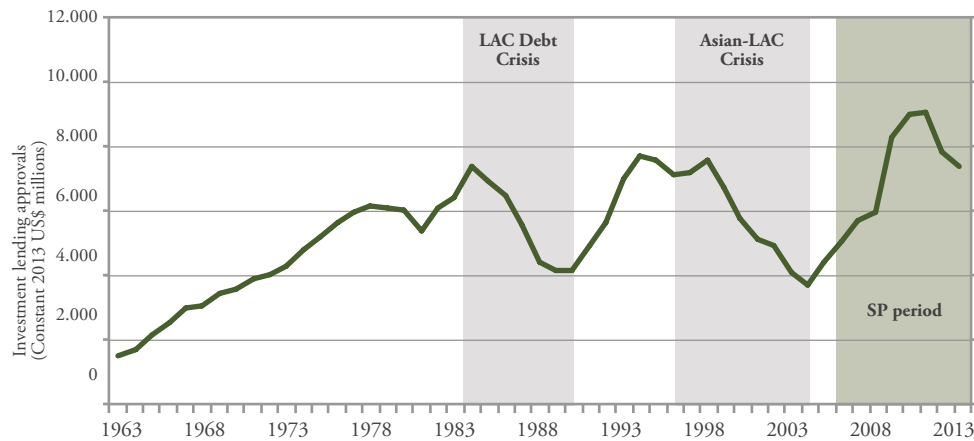
- A sharp reduction in the size of the FSO, which had been a main source of TC funding. FSO contributions were flat between 1960-2013, averaging 0% increase per year in real terms, and its resources were depleted through successive rounds of largely uncompensated debt forgiveness between 1997-2010.
- A period of unprecedented profitability of Bank lending around 2002-04, which resulted from a surge of emergency lending in 1998-2003 in response to the Asian financial crisis of 1998. With a shorter maturity (five years) and premium price (400 basis points above LIBOR), this lending generated an increase in OC net income that reached a record high of US\$2.3 billion (in current dollars, US\$ 3.1 billion in 2013 dollars) in 2003 (see Figure 3).



**FIGURE 3:**  
**Trend in OC net income (constant 2013 dollars)**

Source: OVEDA

- A marked decline in the Bank's investment lending program between 1996 and 2003 (see Figure 4), which prompted a drive to increase the attractiveness of IDB lending through grant-funded TCs for upstream engagement, project origination, preparation, and implementation support.



**FIGURE 4:**  
**Investment lending approvals (3-year moving average)**

Note: Includes sovereign-guaranteed and non-sovereign guaranteed investment lending.  
Source: OVEDA

Together these factors stimulated considerations of the need to increase TC, of how to make it accessible to all borrowing member countries, and how to finance it, and led to the decision in 2005 to use OC resources to fund TC through SPs.

## B. THE SP RATIONALE AND FUNDING APPROACH

Only a very broad, general rationale underlies the establishment of the OC-funded SPs. In the documentation initiating OC SPs in 2005, the Board authorized the use of OC resources for SPs to fund technical cooperation “in support of specific

needs at the country and regional level.”<sup>7</sup> Also in 2005, the Board approved criteria for appraising program eligibility for OC/SP funding. These criteria specified that programs must:

- Be operations that affect and contribute to the social and economic development of the country or region;
- Respond to specific needs of borrowing member countries;
- Align with the Bank’s overall strategy for the country or region;
- Be open to all borrowing member countries;
- Have specified terms; and
- Demonstrate that financing from the OC Special Programs/Grants is requested only after funding from other sources of financing in the Bank, such as DTFs, have been studied.<sup>8</sup>

A reform of the Bank’s overall TC policy in 2008 reiterated these broad purposes, without introducing any more specific strategic objectives for the creation and funding of SPs. The policy stated that the “objective of the Bank’s technical cooperation (TC) is to facilitate the transfer of technical know-how and qualified experience with the purpose of complementing and strengthening national and regional technical capacities, thereby contributing to the primary purpose of the Bank: accelerating the process of economic and social development of borrowing member countries, individually and collectively.”<sup>9</sup> In addition, the policy made clear the expectation that the Bank’s grant funding of TC would leverage additional resources from the donor community.

Underlying the broad general rationale for the establishment of SPs, three corporate level goals can be discerned from early documentation and Board deliberations: to stem the decline in investment lending; leverage the Bank’s own money with donor funding expected to contribute to a significant share of SPs; and support the introduction of new areas of work.

Although initial Management proposals suggested funding TCs through the administrative budget, the Board instructed Management to devise an alternative.<sup>10</sup> The funding approach adopted entails Board review and approval of Management proposals for allocations of OC to individual SPs in the context of each year’s budget exercise.

## C. THE EXPANSION, FOCUS, AND TIMEFRAME OF THE SPs

Since 2005, when the Board approved OC allocations for an initial three SPs, additional programs have been created on a case-by-case basis almost every year. The growth in the number of SPs includes the 2011 transfer of four existing programs from FSO to OC funding in the context of the IDB's Ninth General Capital Increase (GCI-9). As a result, there are now 19 SPs (Table 1),<sup>11</sup> of which two or more fall into each of the Bank's four main sector departments: infrastructure and environment, social sectors, institutional capacity and finance, and integration and trade.

**TABLE 1: OC SPECIAL PROGRAMS BY ESTABLISHMENT YEAR**

2005	2006	2007	2008	2009	2011	2012	2013
PRODEV	Disaster Prevention**	Social Fund	Aquafund**	Gender and Diversity**	Action Plan for C&D Countries	Citizen Security**	Biodiversity**
Regional Public Goods	Emergency Assistance for Natural Disaster	Sustainable Energy and Climate Change**	Food Security		Small and Vulnerable States	Emerging and Sustainable Cities**	Broadband
FIRII**	Infra Fund				Social Entrepreneurship		
					CT/INTRA		

Notes: \*\*Indicates SPs with parallel MDTF that have received donor contributions. SPs listed in 2011 were initiatives previously funded by FSO.

Eight of today's SPs are also supported by active parallel MDTFs, consistent with Management's expectation that the earmarked programs could help mobilize additional external donor resources. Each of the MDTFs has a specific set of objectives that are consistent with those in the relevant SP and agreed trust fund conditions, which (unlike the OC/SP funding) may include funding for investment operations as well as TC.<sup>12</sup> (Annex I provides a list of the SPs and MDTFs, with their establishment dates).

For each SP, an establishment document approved by the Board sets out the program's objectives and broad purpose. For example, the AquaFund's objective is to finance a variety of interventions that support the Bank's Water and Sanitation Initiative and contribute to the fulfillment of the water MDGs; the Biodiversity Fund's is to create opportunities and use the Region's comparative advantage in biodiversity and ecosystems services for sustainable and inclusive development in LAC; the InfraFund's is to scale up infrastructure investment; PRODEV's is to strengthen governments' effectiveness in delivering results; and the Social Fund's is to enhance the relevance, quality, and volume of Bank lending in support of social sector priorities. The stated objectives of some SPs have evolved over time as the focus of the SP has shifted. In some of these cases (e.g., Food Security, Sustainable Energy and Climate Change, or SECCI), the Board approved the revisions in the context of program duration extensions. (Annex II summarizes the objectives and focal areas of each of the 19 SPs.)



While the nature and specificity of the SPs' objectives vary considerably, OVE finds that in terms of the programs' broad purposes, today's 19 SPs fall into four categories:

- Sector SPs that largely support expansion and implementation of the Bank's operational program in areas where the Bank is already active, primarily focusing on upstream engagement and project preparation and execution: the AquaFund, Biodiversity Fund, Disaster Prevention Fund, Fund for the Financing of Technical Cooperation for Initiatives for Regional Infrastructure Integration (FIRII), InfraFund, Social Fund, and the revised Food Security Fund.
- SPs designed to support the introduction and development of new areas of Bank and client programs: Broadband, Citizen Security Fund, Gender and Diversity Fund, PRODEV, SECCI, and Emerging and Sustainable Cities.
- Country-focused SPs transferred from FSO: Action Plan for C&D Countries, CT/Intra, Emergency Assistance for Natural Disasters, and Small and Vulnerable Countries.
- Others: RPG and the Social Entrepreneurship Program (SEP).

These categories of SPs are distinguished not only by the defining differences in their purposes, but by their management structures, resource allocation processes, and monitoring, evaluation, and reporting practices (discussed in Chapter IV).

For most SPs, their establishment documents also set out a duration for the program, in compliance with the criterion that each program should have "a specified term."<sup>13</sup> Yet, in practice, this criterion has been interpreted rather loosely. Notably, as Annex II shows, four SP establishment documents state that there is no defined duration (or it is to be "indefinite"). Another 12 have explicitly or implicitly stated "initial" periods of duration, most of which have by now been extended either formally or simply by virtue of continuing annual allocations. Only four were established (in 2012, 2013 or 2014) with clearly defined expiration dates—though the expiration date is stated as "unless the Board of Directors decides to allocate resources for later years." One program, PRODEV, was replaced by a new SP in 2014. As new programs have emerged but old ones have not closed, the question arises of how emerging needs are balanced against needs of existing programs.

## **D. EVOLUTION OF POLICIES AND PROCESSES**

In the context of the growing volume and variety of SPs and DTFs, Management has introduced policy and process changes to increase the efficiency and effectiveness of SP and TF support of TC. These reforms take as a given the approach of earmarking resources for sector/thematic focused programs, and make changes within that approach in response to weaknesses in resource allocation and management processes.

Notably, in 2008 the Bank adopted a new TC Policy and Framework<sup>14</sup> to provide greater flexibility and larger amounts of TC. The reforms were based largely on findings of weaknesses: a lack of alignment between TCs and borrowing country priorities; varied and cumbersome TC approval processes; slow execution of TC projects; the absence of a TC knowledge management system for capturing outcomes and results; and a lag of the TC reform process behind those of other multilateral development banks (MDBs).<sup>15</sup> While the policy set out principles for the long term, the framework sought to establish a “platform” that would be relevant and applicable over the medium term. Specifically, the new policy (like the SP criteria) specified that TC activities are to “be integrated with the Bank’s lending program, aligned with country and regional strategies, and focused on realizing development outcomes and results.”<sup>16</sup> To accompany the policy, the TC framework presented a “Bank-wide model of grant resource management” that was intended to strengthen the link between TC and the Bank’s lending portfolio, country strategies, and regional programming; simplify and standardize approval and execution procedures to allow greater flexibility and reduce transaction costs; improve the monitoring, evaluation, and reporting on development outcomes and impacts achieved with TC; and provide critical inputs for the mobilization of grant resources from official donors and other external sources. Along with establishing the Grants and Co-financing Management unit (GCM) as the management unit for grant resources, the framework included six key features (see Box 1). To implement the new policy and framework, Management issued new TC Operational Guidelines in 2011.

#### BOX 1. KEY FEATURES OF THE 2008 TC FRAMEWORK

1. *Strategic thematic focus.* To better align resources for TC with Bank strategic priorities and country and regional programming, MDTFs are to be sought and organized with OC resources as parallel funding streams for sector-/thematic-focused SPs (to be referred to as “strategic thematic funds”).
2. *Untied funding.* Going forward, TFs will entail untied grant contributions only.
3. *Single window for access to TC funding.* To reduce search costs for technical specialists, GCM will implement a single window for the identification of sources of TC financing.
4. *Standard, simplified procedures:* This is to include among other things, standard procedures for TC approval and standard reporting formats.
5. *Increased delegation:* an increase in the delegation authority for TC projects by the Board to the President and correspondingly to line management.
6. *Enhanced focus on monitoring, evaluation, and reporting:* including greater emphasis on in-depth information on the development effectiveness of each fund as well as an upgrading of TC and TF information management systems.





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In 2013 Management introduced measures to increase the flexibility of resource allocation. Management proposed these measures largely in response to Board concerns about the build-up of a substantial level of uncommitted balances—or carryovers—by almost all SPs (see Chapter IV for details).<sup>17</sup>

## **E. COMPARISON WITH OTHER MDBs**

The charters of most major MDBs include provision of TC as part of their mandate, but the earmarking of OC resources for TC grant funding through numerous sector/thematic-focused SPs is an approach distinct to the IDB. The charters of the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the International Development Association (IDA) all include provision of TC as part of these institutions' mandates (Box 2). These MDBs have used their own OC resources (in varying amounts) for grant-funded special programs/funds and, to a lesser extent, for ad hoc, special-purpose initiatives. OC financing of TC has, however, declined in each Bank in proportion to the increase in DTF financing, which has grown substantially over the past decade or so. Also, the Banks structure their TC funding process in various ways, all of which differ from the IDB's approach. The EBRD and ADB have main TC funds with evolving strategic priorities. The World Bank has supported specific “below-the-line” grant-making facilities as well as a few country-specific

trust funds and, like the others, has used its OC to launch certain special initiatives. The AfDB has gradually shifted from use of its own resources for special initiatives to virtually total reliance on DTF resources for support of TC, except for using net income to jump-start a “big idea” when the Bank can expect external funders to provide the financing once the initiative is up and running (one example being the newly proposed Africa 50 Fund, which is to be a large infrastructure fund set up as a separate structure outside the Bank). Box 3 summarizes the different processes the MDBs use to allocate net income to special programs or initiatives and to individual TC operations.

**BOX 2: THE CHARTERS OF MOST MAJOR MDBs INCLUDE TECHNICAL COOPERATION IN THEIR MANDATE**

<b>AfDB</b>	To implement its purpose, the Bank shall have the following functions: to provide such technical assistance as may be needed in Africa for the study, preparation, financing and execution of development projects or programmes.
<b>ADB</b>	To fulfill its purpose, the Bank shall have the following functions: to provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals.
<b>EBRD</b>	To fulfil on a long-term basis its purpose of fostering the transition of Central and Eastern European countries towards open market-oriented economies and the promotion of private and entrepreneurial initiative, the Bank shall assist the recipient member countries to implement structural and sectoral economic reforms, including demonopolization, decentralization and privatization, to help their economies become fully integrated into the international economy by measures: to provide technical assistance for the preparation, financing and implementation of relevant projects, whether individual or in the context of specific investment programmes.
<b>IDA</b>	In addition to the operations specified elsewhere in this Agreement, the Association may provide technical assistance and advisory services at the request of a member.
<b>IDB</b>	To implement its purpose, the Bank shall have the following functions: to provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals.

*Source:* International Development Association Articles of Agreement, Section 5.v; Agreement Establishing the African Development Bank, Article 2.1.e; Agreement Establishing the Asian Development Bank, Article 2.iv; Agreement Establishing the European Bank for Reconstruction and Development, Article 2.iv; Agreement Establishing the Inter-American Development Bank, Article 1, Section 2.v



### Box 3. VARYING PROCESSES FOR ALLOCATING OC RESOURCES

The **ADB Technical Assistance Special Fund** has two sources of funds: (i) an agreed share of donor replenishment contributions to the Bank's concessional window (the Asian Development Fund), which can be used only for ADF countries; and (ii) Board-endorsed allocations of OC net income for which all borrowing member countries are eligible and which are approved by the Board of Governors. The fund operates within certain broad geographic and thematic allocation rules/criteria that are intended to evolve with changing circumstances. Management indicates a broad allocation of TA resources through an annual work program and budget framework, using a three-year forward-looking plan, and some 80% of the resources are allocated to the Bank's five regional departments for decisions on the funding of specific TC projects.

For the **EBRD's Shareholder Special Fund**, allocation amounts and the time period for allocations are not pre-set. Rather, requests for new allocations are made as needed, "driven by demand for TC," according to staff, and not necessarily on an annual basis. Like the ADB's Technical Assistance Special Fund, the Shareholder Special Fund operates within certain broad geographic and thematic allocation rules/criteria that are intended to evolve with changing circumstances. TA project funding is allocated on the basis of an annual work plan that distributes a share of resources for the year to some seven or eight areas that are key to the Bank's operational program, and to three priority regional areas. While Management has the authority to reallocate at midyear, staff report that this does not happen often.

In the **World Bank**, the process for allocating net income has differed for each of the five main grant-making facilities—Consultative Group on International Agriculture Research, Institutional Development Fund, Development Grant Facility, State- and Peacebuilding Fund, and Global Partnership for Social Accountability—and funding is allocated separately to each of them, not as part of an overall business planning and budgeting process. Three Vice Presidencies within the World Bank have managed the five grant-making facilities, including handling budget requests and reporting. The facilities have different internal administration arrangements and operating procedures. Two support external partnerships, and the other three are directed and managed by the World Bank.

All four of these MDBs are now rethinking or revising their arrangements, in part as a result of issues that have arisen across institutions regarding weak strategic frameworks, process inefficiencies, limited integration with country programs and institutional lending programs, and opportunity costs in a changing international donor environment. The biggest change is likely to be the World Bank's plan to phase out the funding for all five "below-the-line" grant-making facilities over designated periods of time as part of its broad effort to better focus its resources on high-value activities.

## F. SUMMARY

Several overarching themes emerge from this brief review of the origins and evolution of OC-funded SPs. First, a particular financial context and business rationale drove the creation and growth of OC-funded SPs, and that context and rationale may be less relevant today, considering both the Bank's tighter financial situation and the stronger demand for Bank lending. Second, SPs have been created individually, without an overarching strategy, making it increasingly difficult for the Bank to balance the financing needs of existing programs with the needs for new initiatives as development/institutional priorities evolve. Third, TC allocation and management processes have been modified to address emerging issues, but whether they can ensure efficiency in resource allocation and use is a major question, given the growth and rigorous earmarking of the system (see chapter IV).







# 3 Portfolio Overview

## A. PROGRAM-LEVEL ALLOCATIONS

Since 2005 the Board has allocated a total of US\$766.2 million to fund SPs. Before 2011, SPs were generally established with a multiyear allocation for a defined time period, ranging from a high initial allocation of US\$60 million for 2007-2010 for the Social Fund to US\$10 million for 2009-2011 for the Gender and Diversity SP. The yearly distribution of these resource allocations was determined through the annual budget exercise. Most country-focused programs that were shifted from FSO to OC funding contain a fixed or maximum annual allocation for indefinite periods; and programs established since 2013 have not been granted a multiyear allocation in their establishment document. Overall, annual OC allocations grew from US\$21.5 million for three SPs in 2005 to US\$100 million for 17 SPs in 2012 and have remained at US\$100 million for 19 SPs in 2013 and 2014 (see Figure 5).

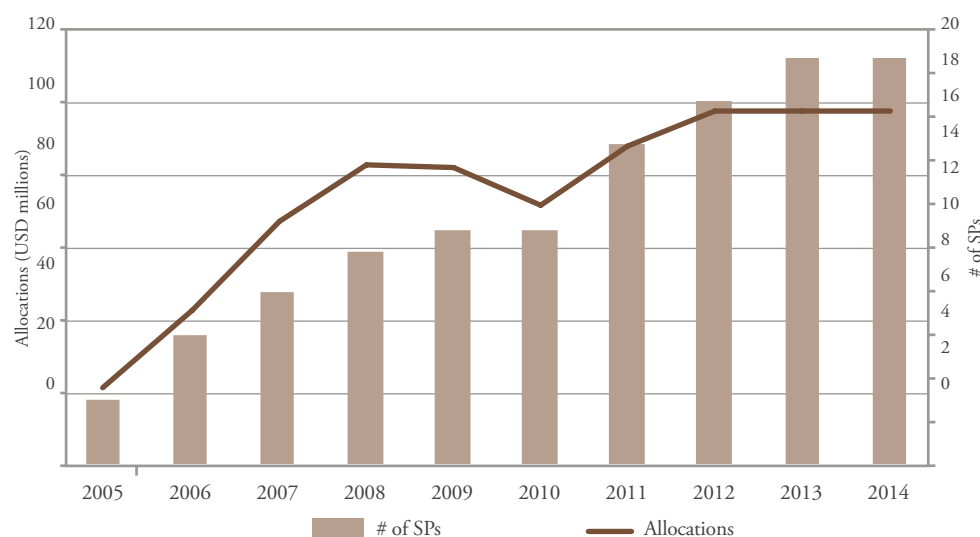


FIGURE 5:  
OC allocations and number  
of SPs

Source: OVE SP database

## B. TC-LEVEL ALLOCATIONS

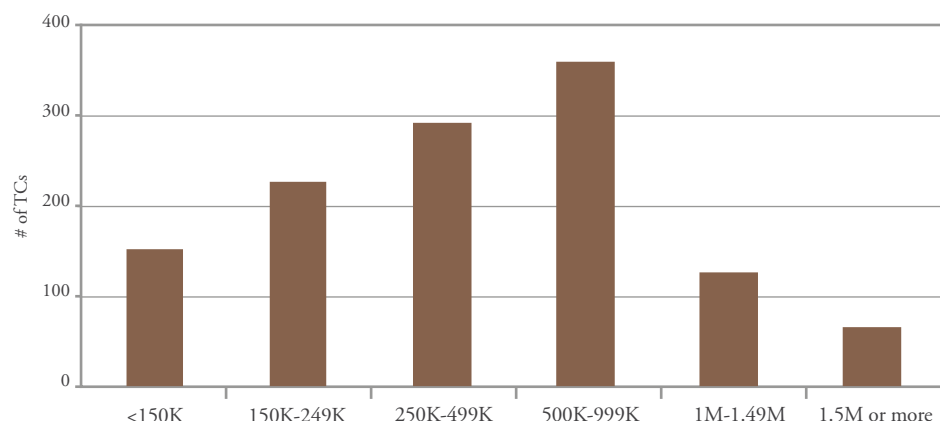
Between 2005 and 2013, OC resources funded a total of 1201 unique TC projects,<sup>18</sup> of which 519 had closed as of end-2013. During the same period, the eight MDTFs associated with various SPs funded 125 TCs for a total of US\$83.28 million (see Annex I). The rising number of SPs—from three in 2005 to 19 in 2013—has naturally brought with it a sharp rise in the numbers and amount of annual OC-funded TC approvals: from 12 TCs for just under US\$12 million in 2005 to 308 TCs for US\$147.3 million in 2013 (see Annex I). For many of the older SPs there was a slowdown in approvals in 2009-11, but there was a marked uptick across the board in 2013, driven by efforts to reduce the uncommitted balance of OC funding at year-end (see Annex I). Not surprisingly, the older SPs have approved the largest number of TCs: SECCI, InfraFund, and Social Fund have approved 139, 130, and 113 TCs, respectively.

Of the four SP categories described in Chapter II, SPs focusing on supporting the Bank's operational program in existing areas of work account for the highest amount of approvals (US\$296.5 million or 44% of total approvals). SPs supporting the introduction of new areas of work accounted for US\$209.3 million (31%) in approvals, US\$60.6 million (15%) went to country-focused SPs, and US\$100 million (15%) went to others (RPG and SEP) (see Annex I).

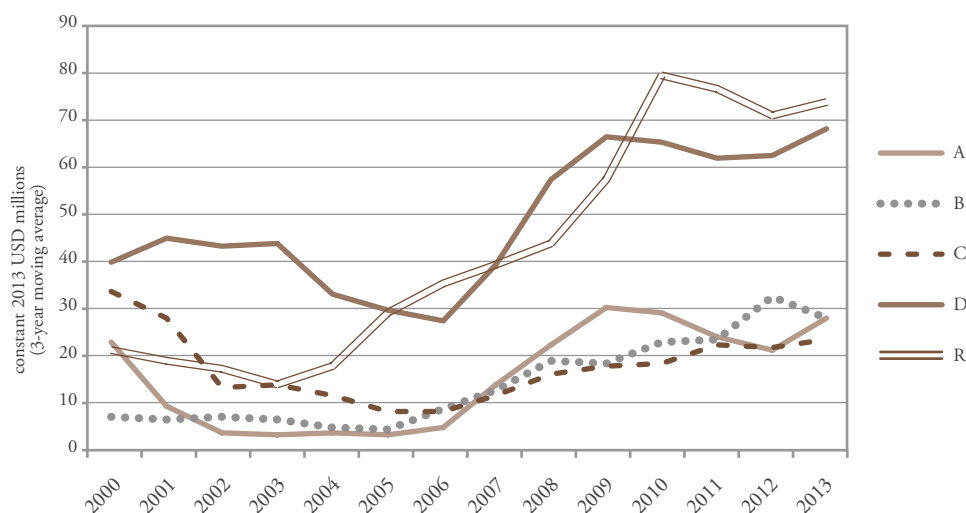
The size of individual TCs has varied greatly, ranging from just US\$3,000 for some TCs under CT/INTRA to US\$3.5 million for a SECCI project in Brazil. Some projects were supported by multiple OC TC operations, such as a US\$5.25 million research project supported by the Social Fund to evaluate the effects of teacher quality on learning outcomes in Ecuador. The largest number of approved TC projects fall between \$500,000 and US\$1 million (see Figure 6). The InfraFund, Social Fund, and PRODEV have all approved ten or more TCs for US\$1.5 million or above<sup>19</sup> (see Annex I).

**FIGURE 6:**  
**Size distribution of**  
**approved TCs, 2005-2013**

*Source:* OVE SP database



Following the TC funding shift from FSO to OC, there was an increase in the amounts and shares of the Bank's overall TC funding going to higher-middle-income countries concentrated in groups A and B (see Figure 7 and Annex I). Between 2005 and 2013, US\$107 million of OC went to TCs in group A countries, US\$74 million to group B countries, and US\$84 million and US\$194 million to group C and D countries, respectively. Brazil (US\$48 million), Colombia (US\$32 million), Mexico (US\$29 million), Peru (US\$28 million), Argentina (US\$25 million), and Ecuador (US\$25 million) have been the recipients of the largest amounts of OC-funded TCs (see Annex I).



**FIGURE 7:**  
**Evolution of Total TC Funding by Country Group**

Source: OVE SP database

Somewhat over 30% (US\$207 million) of OC TC resources have gone to fund regional TCs. These resources have funded a total of 276 TCs, of which 92 (amounting to US\$75 million) are funded by RPG and the other 184 (US\$132 million) by two categories of SPs—those supporting the Bank's operational program in existing areas of work and those supporting new initiatives or areas of work. Looking at the 184 non-RPG regional projects by geographic scope, by far the largest number (151) have been multi-country—that is, projects whose activities take place in two or more countries but whose outcomes do not depend on interaction among those countries—and 33 have been transnational projects, whose outcomes are dependent on the cooperative actions of two or more countries.

Among the SPs, SECCI has supported the largest number of regional TCs (54); AquaFund, FIRII, and Citizens Security have funded 20 or more; and the other SPs have funded 2-18 each. The portfolio share of regional projects is higher among SPs supporting new Bank business lines/initiatives (e.g., SECCI, Broadband, Citizen Security) than among SPs supporting established work areas; this reflects





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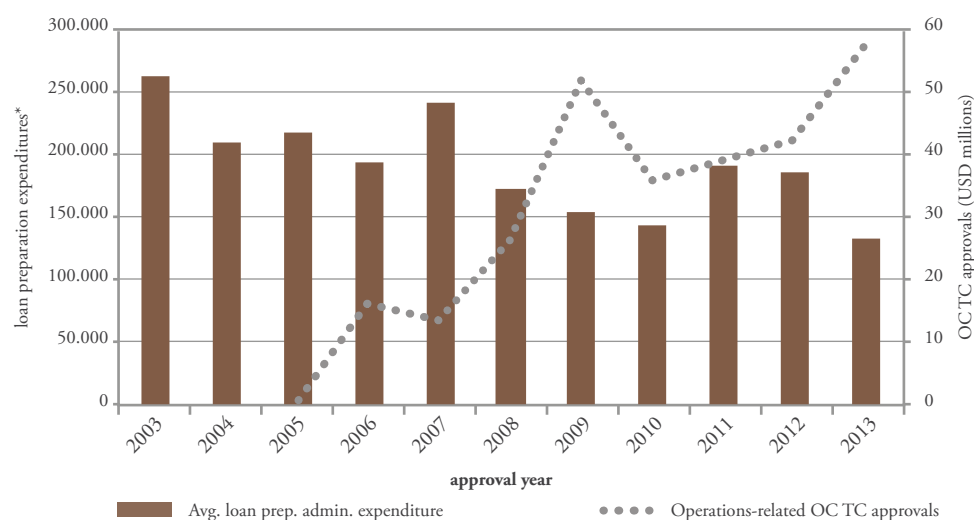
efforts to generate and share knowledge in new areas where the Bank is trying to engage. The largest share (41%) of regional TCs focuses on knowledge, advocacy, and networking or a combination of knowledge generation/sharing and capacity building (21%); regional TCs focusing on country-level policy advice, capacity building, and project preparation and implementation support accounted for 9-14% of the portfolio each; and 7% were focused on SP management support.

The RPG portfolio is dispersed across many sectors, partly because of the competitive process for selecting TCs. OVE's evaluation of transnational projects<sup>20</sup> found that about one-quarter of the proposals and approvals were in environment, particularly conservation and biodiversity, water resources, and climate change. Another 15% of the proposals and approvals have been concentrated in reform and modernization of the state. In health, most of the proposals were concerned with setting up surveillance systems and data collection. In education and knowledge, projects promoted education quality, academic and science networks, and accreditation. Finally, agriculture projects have been devoted to information systems.

The portfolio review shows that among country-specific TCs, the main focus has been fairly equally distributed between project preparation, country-specific upstream engagement, and capacity building, with 20-25% of TCs falling into each of these categories. Country-specific TCs that focus primarily on project implementation support accounted for about 13%, and those focusing primarily on knowledge generation accounted for about 6%.<sup>21</sup> SPs designed to support the

Bank's operational program, such as AquaFund, Food Security, and InfraFund, have the largest share of their country-specific TC portfolio concentrated on project preparation. To judge from TC profiles and plans of operation, the Social Fund has the largest share of its country-specific TCs concentrated in upstream work. However, field assessments, interviews, and analysis of eligibility decision minutes suggest that in reality, a substantial share of these TCs are used to either prepare or support implementation of loans, particularly policy-based loans, and that the TC is often presented as upstream work to comply with Social Fund guidelines. SPs designed to support the introduction of a new Bank business line—for example, SECCI, Citizen Security, or Gender and Diversity—typically focus on knowledge generation (often through multicountry TCs) and upstream engagement to introduce and advance the new focal area, and secondarily on support for capacity building and project implementation.<sup>22</sup>

Amounts allocated to country-specific upstream work, project preparation, and implementation support increased as the administrative budget allocated to project preparation dropped (Figure 8). This raises the question whether TC funding for upstream, preparation, and implementation support is partly substituting for administrative resources to help fund delivery of the Bank's operational program. Interviews with Bank staff and managers confirm that OC TC funding is important to their being able to deliver the operational program.



**FIGURE 8:**  
**Administrative budget for loan preparation and TC allocation for upstream work, project preparation, and implementation support 2003-2013**

*Notes:* \*Loan preparation expenditures measured as total annual administrative expenditures on loan preparation divided by loan approvals in a given year. Operations-related TCs include TCs classified as upstream work, preparation, and implementation support during the portfolio review. Includes all SPs except RPG, SER, Action Plan C+D, Emergency Response after Natural Disasters and CT/INTRA.

*Source:* OVEDA and OVE Portfolio Review

The share of Bank-administered OC TCs has risen from less than 10% of approvals in 2006 to over 70% in 2013, mirroring a general trend of rising shares of Bank-executed TCs (Annex I). The share of Bank-executed TCs is as high among SPs supporting the introduction of new Bank work areas as it is among SPs supporting the implementation of the Bank's program in existing areas of work. Over 90% of Social Fund TCs, 80% of Food Security TCs, and 60% of InfraFund-financed TCs approved in 2013 are Bank-executed.



The sharp increase in Bank-executed OC TCs may have been motivated by an attempt to speed up TC processing and execution as approvals increased. Internal processing of recipient-executed TCs from the time the TC enters the pipeline until the TC is approved takes almost twice as long as that of Bank-executed TCs (190 days vs. 83 days). Similarly, once approved, recipient-executed TCs take more than twice as long as Bank-executed TCs to start disbursing (366 days vs. 169 days), and 30% longer to be completed (1,356 days vs. 1,036 days).<sup>23</sup> Regression analysis suggests that even after controlling for SP, country group, and TC size, Bank execution is a determining factor in reaching the approval and the disbursement stage more rapidly. Thus, as the Bank has increased TC approvals in an attempt to annually exhaust the OC allocation to SPs, it has assumed execution responsibility for a growing share of TCs. However, this change has cost implications for the Bank, as the management of a Bank-executed TC is substantially more expensive than that of a recipient-executed TC (cost differential of over US\$3,800 per US\$100,000 disbursed)<sup>24</sup>.

The TC portfolio of individual SPs is often concentrated in a certain sector department or division. Counting approvals in 2012-2013, 95% of AquaFund TCs were managed by the Water and Sanitation Division, 93% of Social Fund TCs were managed by one of the three divisions of the Social Sector department, 91% of PRODEV TCs were managed within the Institutions for Development Department (primarily in the Institutional Capacity of the State and the Fiscal and Municipal Management divisions), and 84% of InfraFund projects were managed within the Infrastructure and Environment Department (see Table 2).

TABLE 2. ASSOCIATION BETWEEN CLUSTERED SPs AND SPECIFIC DIVISIONS/SECTORS (2012-13 APPROVALS)

Special Program	Associated division/department	% of TCs in associated division/department	% of \$ in associated division/department
AquaFund	WSA/INE	95/97	97/98
Social Fund	SCL	93	84
PRODEV	IFD	91	93
InfraFund	INE	84	85
Citizen Security	ICS/IFD	75/82	72/85
Biodiversity	RND/INE	70/70	73/73
Disaster Prevention	RND/INE	67/83	76/92
SECCI	CCS/INE	64/83	72/87
Food Security	RND/INE	64/73	64/72
FIRII	INE	64	68
Gender and Diversity	GDI/SCL	57/67	62/74
Broadband	ICS/IFD	44/78	51/83

Source: OVE OC database

## C. SUMMARY

Between 2005 and 2013, OC resources have funded over 1,200 unique TC projects across 19 SPs. The shift from FSO to OC funding for TCs has led to an increase in the shares and amounts of TCs going to A and B countries, thus responding to the Board's desire (expressed at the time it approved the use of OC for SPs) that all countries be given access to OC TC resources. The share of Bank-executed OC TCs has risen sharply from below 10% of approvals in 2006 to over 70% in 2013. This has had a positive effect on processing and execution times, but it also has cost implications for the Bank. The drop in project preparation funding through the administrative budget has been mirrored by an increase in the amount of OC TC funding allocated to upstream work, project preparation, and implementation support. Interviews with staff and managers suggest that SP-funded TCs are an important ingredient in the delivery of the Bank's operational program.







# 4 Special Program Management and Accountability

As the numbers of SPs, TC proposals, and OC allocations have increased over time, Management has made efforts to introduce more formalized structures and processes to manage and administer SPs. However, in practice, there is no strategic oversight of the SP portfolio as a whole, and there is considerable variation across SPs in how the organizational set-ups and processes operate. Notably, categories of SPs differ in program direction and oversight, resource allocations to TCs, and monitoring, evaluation, and reporting, and in some regards actual practice diverges considerably from established requirements.

## A. PROGRAM DIRECTION AND OVERSIGHT

The Bank has no systemic process for setting the overall strategic direction of its SP portfolio other than the process of determining the annual OC SP allocation and its distribution across programs. This evaluation finds that under the current SP set-up, the fiduciary management of OC allocations has improved and become more transparent, but there is no clear strategic direction-setting for the SP portfolio as a whole, a point frequently raised during interviews with Bank managers. The absence of such a strategy or process makes it difficult for the Bank to strategically determine how best to balance the funding needs of existing programs against resource needs for evolving Bank priorities and new program initiatives.

At the program level, management and administration are arranged differently for different categories of SPs: (i) the 13 SPs closely linked with sectors, including both the SPs that support the Bank's existing areas of work and those that support the development of new work areas; (ii) the four country-focused SPs; and (iii) the two other SPs, RPG and SEP.

Since 2012, all of the 13 sector-linked SP have had Eligibility and Strategy Committees (ESCs) to guide their funding of TCs.<sup>25</sup> Guidelines indicate that the ESCs are to ensure the strategic coherence of TC proposals financed by the SPs, apply eligibility criteria aligned with the strategic focus of the program, and provide



Citizen Security Program  
CT/Intra Program  
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technical comments in any quality reviews. Information on decisions taken by the ESCs is to be made public on the Bank's intranet to enhance transparency in the allocation of resources. The ESC guide further indicates that at the beginning of each year, each ESC should convene a meeting on strategic outlook, status of fund approvals, work plan (including interaction with donors), and resource mobilization, among other issues.

Yet there is considerable divergence from this prescribed ESC role. Only the ESCs of three SPs, all in IFD, meet at least annually to take stock of the program's portfolio and discuss priorities and directions for the future. Priority-setting for other SPs takes place outside of the ESCs. For some programs, it occurs through annual sector retreats that identify department priorities overall (not specific to the SP), with funding priority given to TCs linked to operations in the department's lending pipeline A. In other cases, TC priorities are identified by the annual work program of a broad initiative, agreed among the sector's management team, or defined by the relevant division chief.

A Technical Secretary for each of the 13 SPs – responsible for providing support to the ESC, coordinating and reporting on the work of the SP, and communicating with GCM on the priorities for program TC funding--ensures the link of these



SPs to their host sectors. For each of these 13 sector-linked SPs, a technical secretary is responsible for providing support to the ESC and, with variations among programs, communicating with GCM on TC priorities for funding, promoting the program and coordinating its work, and preparing reports. In the Infrastructure Sector, the technical secretary for all the SPs in the sector is a front office advisor to the sector manager; in IFD there is a technical secretary for each SP, who is at the division level; in the Social Sector, the technical secretary for one SP is a front office specialist and for a second SP the relevant division chief; and the cross-sectoral Emerging and Sustainable Cities SP is managed overall by a coordinating group, with the head of the initiative also serving as the program's ESC technical secretary.

The country-focused SPs do not have ESCs and there is no program-wide oversight other than GCM's monitoring of resource allocation and use. For the Small and Vulnerable Countries and the Action Plan C+D SPs, resources are allocated on a per-country basis, and the decision on how to use them rests with the country representative and the general manager. TCs funded by the Small and Vulnerable Countries program can be used for any purpose consistent with the TC policy and are subject to general TC guidelines and procedures. Action Plan C+D resources are meant for flexible use as needed, and they finance individual activities rather than entire TC projects; once TCs and/or activities to be funded have been identified, they become part of the relevant unit's work program and are managed as such. Country offices report back to GCM on the use of C+D resources at the end of the year. Decisions on CT/INTRA and Emergency Response TCs are made on a case by case basis by the Country Representative or General Manager following a country request.

Each of the other two SPs--RPG and SEP--has its own management and administrative arrangement.

- RPG is managed by an RPG coordinating group in the Integration and Trade Sector (INT), which organizes the competitive TC selection process and provides oversight. An ESC composed of representatives of VPC, VPP, VPS, and RES (but not ORP/GCM), with INT as secretary and coordinator, selects the TCs to be funded. Once the Board approves the list of proposals to be financed, the preparation, ensuing approval and supervision becomes the responsibility of relevant sector units.
- The Multilateral Investment Fund (MIF) manages the entire project formulation and funding cycle of the SEP. The MIF unit in charge of SEP activities monitors the performance of the overall SEP loan portfolio and associated TCs. The MIF issues semiannual reports to Bank Management regarding approvals, portfolio situation, recoveries, and progress in achieving program objectives.

ORP/GCM—in its role as the management unit for all Bank and donor-financed grants and co-financing—performs five administrative/fiduciary functions for most SPs (see Box 4). Through these activities ORP/GCM works to make the overall administration of OC/SP funding more systematic and transparent, though the increased transparency is tempered by the actual way that TCs are identified for SP funding (discussed in the next section).

#### Box 4: ORP/GCM's MAIN SP FUNCTIONS

- Drafts the annual SP allocation proposal for upper management approval and submission to the Board;
- Verifies possible SP or donor TF funding sources for proposed TCs (since 2010 this has occurred through the use of a single window mechanism that meets weekly to review proposals against potential funding opportunities);
- Tracks the TC pipeline and monitors how much money is available through the various funding sources over the course of the year;
- Monitors the portfolio of TCs deemed eligible for funding and provides alerts on TCs not progressing through the project cycle as planned;
- Maintains the ORP reports portal and provides inputs to various corporate reports; and
- Manages day-to-day relationships with MDTF donors and prepares annual reports for donors, based on input from relevant fund managers in sector departments.

## B. THE RESOURCE ALLOCATION PROCESS

OC resources are allocated to SPs and their TC operations through a two-tiered process. OC allocations to individual programs are approved annually by the Board in the context of the IDB's annual budget discussions, and the resources of the individual SPs are allocated over the course of a year to TCs approved for SP funding. Since the introduction of SPs in 2005, Management has revised the processes at both the program and TC levels to enhance efficiency in matching resource supply to TC demand.

### Program-level allocations

Over time, the process of developing the annual OC SP allocation proposal for Board approval has been made more data-driven. Since the IDB Realignment, first SPD and then ORP became responsible for drafting the annual allocation proposal. ORP now drafts the proposal, which is finalized by Management's Programming Committee for submission to the Board.<sup>26</sup> In addition, Sector and VPC country managers or their delegates are invited to comment on ORP's proposal virtually.

ORP used several criteria in developing the draft proposals for 2013 and 2014. In both years the criteria, developed in consultation with upper management, focused primarily on SPs' resource use, in terms of average, annual approval amount, amounts of unused resources/carryovers, and disbursements. In 2014, two additional criteria were included: giving "high priority" to programs that support the preparation and execution of loans, and attention to total allocation per thematic cluster. According to ORP, applying the criteria and providing programs with greater flexibility in allocating resources are necessary steps to ensure efficient, effective, and strategic use of OC SP resources.

OVE finds that the criteria suggest limited strategic reflection on where the Bank wants to go through these programs. For the most part, the criteria are financial, reflecting usage trends, rather than indicating such considerations as trade-offs among SPs based on their purposes or programs' progress toward their stated objectives. The criterion to put more emphasis on project preparation and execution is in line with Board priorities, and it was clearly reflected in a Board decision to give an extra US\$1.5 million to the Social Fund in 2014 to be used for that purpose. Looking at the actual 2014 program allocations, however, it appears that in reality the strongest emphasis overall is on reducing carryovers—leaving for the near future (when carryovers are down) the strategic issue of how to give funding priority to a particular purpose while meeting rising levels of demand for TCs across the 19 programs.

Carryovers, highlighted as one of the allocation criteria, have been an issue virtually from the start, and they point to a major constraint in the rigid earmarking of the OC resources. The stock of carryovers rose markedly in 2007-2008 and remained high through 2012, as Figure 9 shows. These high carryovers were due to the fact that through 2012, most SPs were unable to approve TCs in the full amount of the OC resources they were allocated each year. Indeed, in 2012 seven SPs carried over 50% or more of their annual allocations.<sup>27</sup>



**FIGURE 9:**  
**The stock of carryovers,**  
**2005-2013**

Source: OVE SP database

Beginning in 2011, Management introduced a series of measures aimed at reducing the carryovers. The allocation period for all SPs was changed from multiannual to annual, to discourage programs that were uncertain about future levels of allocations



from deliberately maintaining unused resources for future years. Then in 2013, Management introduced measures to provide a degree of flexibility to the allocation of resources across programs:

- The grouping of 15 sector SP programs into four clusters according to thematic focus (annex 1).
- Authorization for Management to transfer resources among programs within the same cluster during the course of the fiscal year.
- The allocation of US\$5 million of OC resources as part of the annual SP budget allocation for “Flex Resources,” which Management could transfer across clusters to programs that have depleted their resources for eligible TCs.

In addition, Management obtained Board approval to transfer 30% of the stock of carryovers at the end of 2013 to the pool of Flex Resources for use in 2014, as part of a medium-term plan to reduce the stock of carryovers to a benchmark of 15% of annual allocations.<sup>28</sup>

In the first year of the implementation of the “flexibilization” measures, there was one intra-cluster transfer of resources (from the Gender and Diversity Fund to the Social Fund), and TCs from four programs<sup>29</sup> were granted access to the US\$8.98 million pool of Flex Resources available at the start of 2014.<sup>30</sup> Two seemingly related changes have occurred: the annual average of total approved TCs went up by 67% between 2011 and 2013, and the stock of carryovers declined to 23% of total allocations in 2013 (see Figure 9).

Notwithstanding these effects, the flexibilization measures have fallen short of effectively responding to the inefficiencies in the earmarked OC SP allocation process. Rather, the measures create perverse incentives to speed up the pace of TC design and approval, thus potentially raising concerns about quality assurance. As reported by staff, there are great efforts to ensure that funds of individual SPs are committed by midyear so that no SP will need to share its allocated funds with another program.

This finding--that earmarking causes incentives problems and budget under-execution--is neither new nor exceptional. In fact, there is a long-literature in public management that calls for avoiding earmarking of funds on those grounds.<sup>31</sup>

### **TC-level allocations**

For 13 SPs (those funding new areas of Bank work and those funding established areas of work), TC proposals are routed through the single window mechanism administered by GCM to be matched with a funding source, and then sent to the

appropriate ESC for a decision on whether the TC will be funded. The single window process was meant to shift the burden of identifying TC funding from the team leaders to GCM. Interviews with staff and managers suggest, however, that many team leaders already know which funding source they are targeting before they send a TC proposal to GCM—either because this has been informally agreed beforehand or because of the communication by an SP’s technical secretary to GCM of a priority list of TCs to be funded by the particular SP (see Box 5 for more detail on team leaders’ views of their experience with the single window).

**BOX 5. TEAM LEADERS EXPERIENCE LITTLE CHANGE WITH GCM’S SINGLE WINDOW**

OVE interviewed 24 randomly selected team leaders from 197 staff with one or more SP-financed TCs approved in 2013. Key findings are as follows:

- 20 of the 24 team leaders interviewed knew they would seek financing from a specific SP before or at the time they submitted their TC proposals to GCM’s single window. Of the four that did not, three reported seeking to pre-identify the likely source of funding for other TC proposals submitted within the past 18 months. Some indicated that they had “learned” from past experience.
- The main reasons for pre-identifying the source of funding before sending a TC proposal to the single window were
  - to increase the chances of approval;
  - to tailor the TC abstract to the specific requirements of each SP;
  - to avoid doing the work without some indication that the proposal will receive financing;
  - to manage client expectations.
- Eleven of the 16 team leaders who had prepared TCs before and after GCM introduced the single window reported no change in the way they sought funding for a TC. They indicated “still having to shop around.”
- 2 team leaders thought the process was worse with the single window because it was “slower and more bureaucratic.”
- 3 team leaders considered that the process had changed for the better because “it was more transparent, reduced the discretion in the allocation of funds, and eliminated the need for team leaders to maintain information on all SPs and donors.”
- All TC proposals prepared by the team leaders interviewed had been cleared at least by the division chief. In some divisions, TC proposals also went through a multitiered internal review process.

Thus, in reality, both the Single Window and the ESCs play a limited role in the decision of what TCs a given SP will fund. This is particularly true for the SPs that are operated essentially as funding vehicles closely tied to sector work programs. Most often, the priority list of TCs for SP funding is established ahead of any ESC

decision-making, with informal discussion between the ESC chair or his/her delegate (VPS technical secretary) and GCM on the priority of TCs for OC funding. This informal process largely explains why there is a very low rejection rate of TCs by ESCs, and probably also why those rejected mostly come from outside the sector chairing the ESC. Examination of the decisions of the eligibility committees reveals that of 638 proposals presented to the ESCs from the SPs, 592 were granted eligibility and sent on for funding approval—a success level of roughly 93%.<sup>32</sup> Not surprisingly given the actual TC vetting process, the vast majority of the proposals (75%) came from the sector that chairs the ESC. Moreover, proposals submitted from other sectors have a higher rejection rate (13%) than proposals submitted by the ESC chair's sector (5%).

According to GCM, the number of TC projects denied by ESCs and never funded would have been higher if bilateral trust funds had not picked up a substantial number of the TCs denied eligibility for funding.<sup>33</sup> While this outcome is beneficial for the overall funding of TCs, the practice suggests that OC resources are not seen as a funding source of last resort, as was originally intended by the Board decision allowing use of OC for TC.

Resource allocation to the six other SPs—the four country-specific SPs, RPG, and SEP—all follow different processes:

- Resource allocation within the four country-specific SPs is the responsibility of the country representative in consultation with the general manager with some variations across the four programs.<sup>34</sup>
- TC-level allocations from the RPG SP are made through a competitive process. The RPG team in INT calls for proposals once a year. An RPG-specific ESC selects the winning proposals and submits them to the Board for approval. Recent revisions to the selection process appear to have improved the alignment of RPG TCs with country programs, though country ownership still needs to be strengthened further and portfolio dispersion remains a concern. (see Annex III).
- The selection of SEP's reimbursable operations and associated TCs is managed by MIF. Selection is based on program-specific procedures and selection criteria established by MIF management.

Management has introduced procedural reforms at the TC level designed to clean up the SPs' portfolios and increase resource use efficiency. The impact of these "portfolio optimization" measures (since mid-2012) has been as follows:

- Tightening of approval times to six months for TCs that support operations and four months for all other TCs; as a result, the average time a TC takes from entering the pipeline until it is approved has fallen by 145 days between 2008-2010 and 2011-13. As Chapter III pointed out, however, part of this reduction was driven by a rapid increase in the share of TCs executed by the Bank.



- Stricter controls on the number and length of extensions, resulting in a drop in the share of TCs that were granted a closing date extension—from a high of 92% in 2010-11 to 68% in 2013, about the same level as in 2007-08. The data also suggest a continuous drop in the length of extensions, from a high of over 1,000 days in 2007 to just under 300 days in 2013. However, 2013 figures need to be interpreted with caution, as it is not known how many projects granted a first extension in 2013 may be granted further extensions in the future, thus potentially increasing the average length of the extension.
- Increasing cancellations of poorly performing TCs, with resources returned to the programs to use in financing other TCs. As a result of these efforts, about US\$11 million in unused TC funds were cancelled per year in 2011 and 2012 and US\$7 million in 2013, following zero cancellations between 2005 and 2009 and less than US\$3 million in 2010. These efforts also led to a reduction in the time between a TC's last disbursement and its closure, from 156 days in 2009 to 67 days in 2013, suggesting that efforts have been made to close TCs that have either completed their work or are not disbursing for a considerable amount of time.

### C. MONITORING, EVALUATION, AND REPORTING

On the whole, there is no systematic program-level monitoring, evaluation, and reporting of progress in advancing a program's strategic objectives or of the continuing relevance of its strategic direction. For most SPs there is some monitoring at the portfolio level, often as part of a division- or department-wide monitoring of the TC portfolio. However, this monitoring is largely limited to process milestones, resource allocation, and disbursements. ORP/GCM provides overall monitoring on financial and key process milestones.

The lack of monitoring of SP progress in achieving program objectives falls far short of policy and process requirements. From the start, the criteria for program eligibility for OC funding emphasized the need for program monitoring by indicating specifically that monitoring and evaluation (M&E) plans should be clearly specified in SP establishment proposals. The 2008 Framework added the further requirement that all SPs and related MDTFs were to have results frameworks as platforms for improved monitoring, evaluation, and reporting on the development outcomes of TC. However, these requirements have not been met in ways that allow for meaningful program-level monitoring and reporting, as few SPs have results frameworks that allow for the measurement of progress toward program objectives; few program progress reports and evaluations actually address a program's progress toward its objectives; and TCs themselves have little monitoring, evaluation, and reporting that would feed into the limited analysis of SP performance at the program level, despite explicit requirements set out in the TC policy and operational guidelines (Box 6).<sup>35</sup>

#### BOX 6: SHORTCOMINGS OF SP AND TC MONITORING, EVALUATION AND REPORTING

##### **Design and use of Program Results Frameworks**

- Only nine SPs have results frameworks that were created at the establishment of the program or within the program's first year, thereby allowing for continuous monitoring over the program's lifetime. Another five SPs created frameworks more than a year into the program, and four of those programs changed the frameworks without having changed their objectives.
- Only two results frameworks include outcome indicators that allow for the measurement of progress toward meeting program objectives.
- None of the frameworks are used to regularly report on outcomes/progress towards meeting program objectives.

##### **Reporting on progress toward meeting program objectives**

- SP updates provided in the context of the annual OC request to the Board focus primarily on the use of the program's resources (mainly in terms of approvals and disbursements), and some report on outputs.
- Five SPs have provided fuller progress reports, but these reports do not report systematically on progress toward achieving program objectives.
- Only three SPs have been formally evaluated (though eight were supposed to have been evaluated), and all three evaluations raised issues with the program's systems of evaluation.
- While the eight SPs with active parallel MDTFs prepare annual reports for donors that sometimes include discussions of outcomes, challenges and issues going forward, the reports primarily discuss use of resources and do not typically report on progress in relation to program objectives.

##### **Monitoring of TC results**

- The Bank reported on implementation progress and at least outputs for only 19 of the 134 TCs evaluated in the field, the existence of a results framework at approval was not a determining factor in whether or not project monitoring reports were produced.
- Of the 604s TCs covered by the portfolio review, 37 had produced at least one project monitoring report, and nine of the 181 closed TCs had produced a completion report.
- Salesforce—an online tool that GCM piloted in 2012 and is extending to all other SPs—monitors and reports on TC-level products and results, but has several limitations that prevent it from serving as a single system for systematically monitoring and reporting on TC progress (e.g., information is compiled manually from TL reports completed at the end of each year; each update deletes all historical information; and output and outcome indicators often do not match TC plans of operation).

Notable efforts have been made over the last few years to ensure that SP-funded TCs present a results framework when they are approved. The portfolio review found that the share of TCs with a results framework in their plan of operations rose from around 60% in 2005-10 to 85% in 2013, though there are significant

variations across SPs. The portfolio review also found that the majority (70%) of the results frameworks would be adequate to monitor progress toward TC objectives, if they were adequately applied. However, a vast majority of the TCs do not make use of their results frameworks to regularly monitor and report on outcomes and progress toward achieving project objectives. Box 6 details findings on these program and TC level monitoring, evaluation, and reporting weaknesses.

Management's 2013 *Action Plan for Ordinary Capital Special Programs/Grants* emphasizes the importance of M&E and identifies this as an area needing work—including developing a comprehensive results framework for SPs, getting the resource allocations needed for selective TC evaluations, and eventually being able to move to the use of Optima as the single reporting system (which has been discussed for several years now, without much progress).

A notable exception with respect to the low level of project-level monitoring and reporting is the SEP, which uses MIF's project reporting tool, the Project Status Report. Of the SEP projects that were desk-reviewed, 78% had a results framework and 70% had semiannual progress reports accessible through the MIF intranet, which adequately monitored progress toward results.<sup>36</sup> SEP produces a semiannual progress report that provides a snapshot of the program's status. It also produces an annual report on projects completed in that year. Neither of these reports tracks indicators from the SEP Results Framework; however, the annual report provides information for each of the three strategic lines on project design and execution, whether the projects met their indicator targets, value-added of projects, impact on the beneficiaries, and lessons learned. The report also provides general conclusions and recommendations on SEP performance.

#### **D. COSTS OF SPECIAL PROGRAMS**

Resources devoted to SPs and other grants must be paid for one way or another—through higher loan charges, reductions in capital and thus lending, or offsetting reductions in administrative expenses.<sup>37</sup> The Bank's Long-Term Financial Plan and Income Management Model (both introduced under GCI-9) establish clear links among lending levels, loan charges, administrative and other expenses (including grants for SPs), and accumulation of capital to sustain the Bank's programs and protect its credit rating. Rough estimates suggest that covering the US\$100 million annual allocation to SPs solely through loan charges would translate to an increase of about 15 basis points in the interest rates charged for Bank loans under the current lending scenario. Alternatively, funding US\$100 million in SPs through reductions in capital could translate to a decline in lending of at least US\$300 million (assuming average risk levels), or, under the proposed new capital adequacy policy, a significantly slower build-up in the capital buffer needed for countercyclical lending. Considering the US\$766 million allocated to SPs since 2005, this would translate into a reduced lending capacity of well over US\$2 billion. These estimates are not meant to be precise

but rather to provide a general sense of the “opportunity cost” of SPs to borrowers. In practice, given that revenue, expenditure, lending, and capital variables are co-determined through the Long-Term Financial Plan and the Income Management Model, the trade-offs are not always so clear. Thus, while a US\$100 million transfer to SPs accounts for a relatively small share of the Bank’s net income, it still carries a significant opportunity cost in terms of capital that needs to be factored into the Bank’s financial planning.

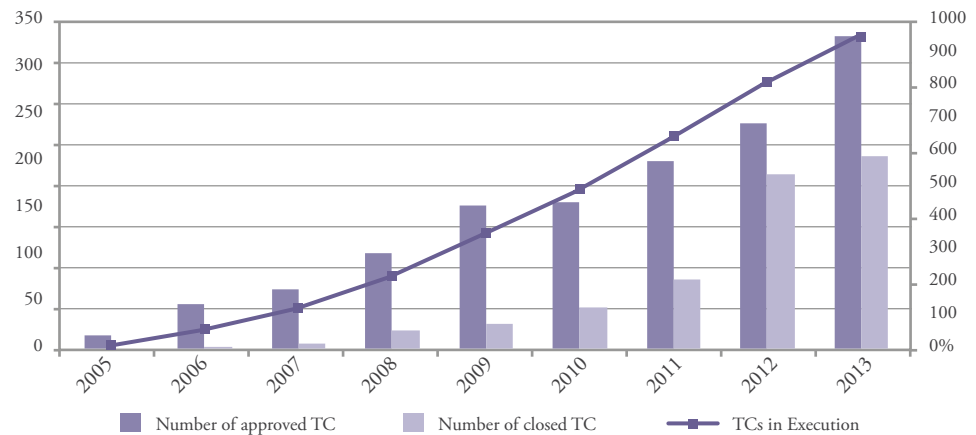
**FIGURE 10:**  
**Total cost of administering  
Special Program TCs (US\$  
million)**

*Note:* Figure 10 includes preparation and execution costs charged to specific operation numbers.



**FIGURE 11:**  
**SPs portfolio evolution  
(number of operations)**

*Note:* Figure 11 shows the number of unique projects. “TCs in execution” considers TCs active during the specific year, thus not necessarily active at the end of the year.



The growing number of SPs and the concomitant increase in the number of TCs has led to a marked rise in the administrative costs of managing them (see Figures 10 and 11). Using the costs for preparation and execution charged to the specific TC codes, OVE estimated that the overall administrative cost of managing OC SPs operations in 2013 was approximately US\$11 million<sup>38</sup>—11% of the current annual OC allocation to SPs and almost 40% of the total 2013 administrative budget for TC management. However, the absolute amount is a substantial underestimation, as the cost accounting system for TCs has severe limitations. Field assessments found that only about half the team leaders for the evaluated TCs reported charging most of their time spent working on the TC to a TC-specific code. In addition, the Bank does not quantify other costs directly linked to SP, such as the administrative costs of the ESCs and GCM associated with managing



SP TCs. The growing number of SPs and the sharp increase in TC approvals over the last two years suggest that the total costs associated with administering the OC SPs will continue to rise in the coming years.

Preparation unit costs have consistently decreased over time, while execution costs have remained stable. The preparation cost (per US\$100,000 approved) of SP TCs was US\$1,826 during 2005-2013, with substantial variation across programs. CT/INTRA, Disaster Prevention, and PRODEV all had above-average preparation costs (Figure 10 and Table 3). Execution costs (per US\$100,000 approved) have hovered around US\$10,440 during 2005-2013. While the execution costs of some of the oldest SPs (e.g., FIRII, PRODEV, InfraFund) have decreased over time (Annex I), new programs, which tend to have higher costs in the initial years, have come on board. Other programs with important execution costs (but established before 2012) are CT/INTRA and Gender and Diversity. The high preparation and execution costs of CT/INTRA are explained by the high amount of staff time needed to prepare and execute these TCs in relation to the small financial resources involved. The evolution and levels of recorded OC TC preparation and execution costs are comparable to those of other TCs (see Annex I).

## E. SUMMARY

As OC allocation amounts, numbers of SPs, and numbers of TC proposals have increased, Management has introduced more formalized structures and processes to manage and administer SPs and allocate OC resources. However, OVE's findings suggest that these structures and processes are not working as envisioned to provide strategic direction and efficiency in the allocation and use of the OC SP resources. There is no strategy or process for the overall direction-setting and oversight of the Bank's SP portfolio. The vast majority of SPs are not managed as specific programs in pursuit of program-level objectives—as demonstrated by the absence of program-level direction-setting and regular monitoring, reporting, and stock-taking of achievement of SPs objectives. Rather, they are used as a funding source to advance the work programs of particular sector units. While a degree of flexibility has been introduced into the allocation of OC resources, the allocation process at the program level has not effectively escaped the fundamental efficiency constraints of earmarking. Moreover, at the TC level, the new single window and ESC processes play a limited role, since in reality much is decided by sector units about the priority for SP funding before TC proposals reach these two mechanisms. Monitoring and evaluation of SPs does not meet the requirements agreed when they were established. And SPs carry significant costs: Allocating OC net income to fund SPs comes at the cost of higher loan charges and/or reduced ability to build up capital to support higher lending volumes, and day-to-day administrative costs of managing TCs are significant.





# 5 Results

The absence of program-level outcome monitoring means that the Bank has no reliable source of information on how well individual SPs are meeting their program objectives. Given the large number of SP TCs, OVE was unable to review each one in depth for this evaluation. Rather OVE undertook a desk review of a statistically representative sample of 604 TCs to assess alignment with SP objectives and TC design and an in-depth field review of 134 TCs that closed in 2011-2013 in nine borrower countries to shed light on results. While the field assessed TCs are not a statistically representative sample of the entire SP TC portfolio, they include virtually all country-specific SP TCs and regional FIRII TCs that closed in 2011-2013 in these nine countries.<sup>39</sup> A full assessment of the results of all 1201 TCs and hence the achievement of each SP's objective is beyond the scope of the evaluation. Field assessments were supplemented by interviews with team leaders of 34 regional TCs that closed in 2010-2013.<sup>40</sup>

## A. TC RESULTS

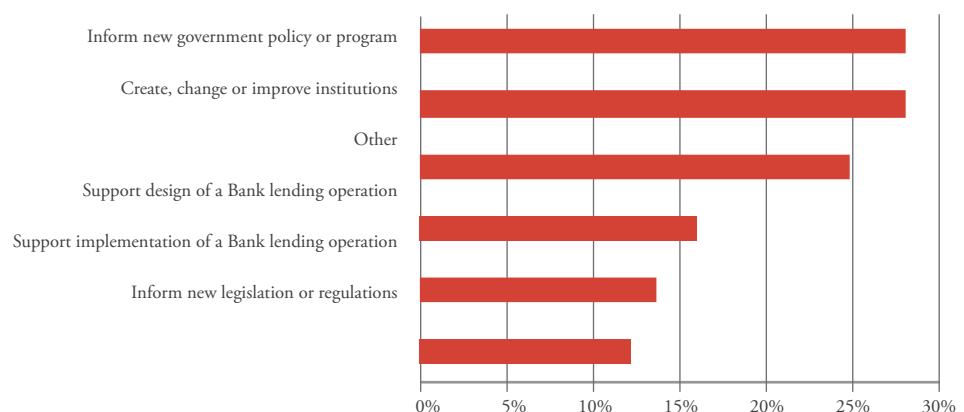
The vast majority of TCs are well aligned with the objectives of the SP from which they are funded. The portfolio review found that a good 90% of TCs are well aligned with the SP objectives and the activities and components set out in the SPs' establishment or extension documents, though there is variation across SPs: somewhat over 60% of Gender and Diversity Fund TCs are fully aligned with that SP's objective, while 100% of PRODEV and Emerging and Sustainable Cities TCs are aligned (see Annex 1). It must be recognized, however, that SP objectives are usually drawn very broadly. The portfolio review also suggests that the design of the vast majority of TCs (87%) is well aligned with the TC's objective and this finding was confirmed by the field assessments. Where this is not the case, the TC objective is generally too ambitious for the TC's design—an issue that is particularly prevalent among PRODEV and Citizen Security TCs.

Effective integration of TCs with the rest of the Bank's program was a challenge among field-assessed TCs. The vast majority of the TCs (86%) assessed in the field addressed issues broadly identified as development constraints in the Country Strategy and in the government's program, but over 30% were not well integrated with the rest of the Bank's sector program in the country. Integration of TCs into the country program remains an even bigger challenge for regional TCs. OVE's evaluation of transnational projects and interviews with country representatives found that regional TCs and RPGs are significantly less well aligned with the Bank's country program than country-specific TCs. Country ownership in RPGs, though significantly higher than that of other regional TCs, was also found to be lower than that of national TCs.<sup>41</sup> Recent changes in the selection criteria for RPGs aim to increase alignment of RPG TCs with country priorities. However, the continued increase in Bank-executed regional TCs—from 13% of TCs in 2006 to 86% in 2013—risks weakening the TCs' link with countries' priorities.

Most TCs evaluated in the field delivered the outputs they were designed to deliver; however, beneficiary agencies did not use a substantial share of these outputs. Almost 70% of the field-evaluated TCs fully or mostly delivered the outputs they were designed to deliver; this share reaches almost 80% when TCs for which 90% or more of the resources were cancelled are excluded. Beneficiary agencies used all or most of the delivered outputs in 64% of the evaluated TCs (excluding TCs with cancellation above 90%). TC products were most frequently used to help inform new government policy or programs outside Bank lending operations, and least often to support institutional development (see Figure 13). Use of TC outputs by the intended beneficiaries is lower for regional TCs. Interviews with team leaders of closed regional TC projects, which are frequently Bank-executed, suggest that the intended beneficiaries used the outputs in only about half of the cases. Over three-quarters of field assessed TCs generated some new data or evidence that could serve as a basis for analysis and decision making if it were consistently used, but there is no systematic way to capture and make use of such knowledge beyond the individual TC.

**FIGURE 13:**  
**How TC outputs were used**

Source: OVE field assessments





Outputs of field assessed TCs designed to prepare lending operations were often not used, and a substantial share of the loans supported by preparation TCs were not approved. Among field assessed TCs designed to support the preparation of Bank lending operations, outputs were at least partly used as inputs to the design of the associated operation in just over half of the cases. Furthermore, in less than 60% of the cases in which the TC was for loan preparation did the loan end up being approved. These findings suggest that the pairing of TCs with the lending program could have been improved. When TCs were effectively paired with lending operations, they often made an important contribution towards advancing the Bank's operational program (Box 7).

**Box 7: TCs THAT HELPED BUILD CAPACITY IN THE RECIPIENT COUNTRY  
AND ADVANCE THE BANK'S PROGRAM**

The evaluation assessed 134 TCs that closed in the last three years in nine countries. Though the overall record of achievement documented in the evaluation is mixed, some TCs have delivered high value-added to IDB borrowing countries and effectively helped advance Bank operations, as illustrated by the following four examples:

A Disaster Prevention Fund TC in Panama financed vulnerability assessments and other studies to inform the design and implementation of a PBL in support of the Government's program to reduce vulnerability to natural disasters and climate change. The TC also helped generate data to support the National Plan for Disaster Risk Management.

In Honduras resources from Action Plan C+D were instrumental in helping to advance the preparation of Bank supported citizen security and the roads programs and to improve the Bono 10,000 program. They also provided for a government advisor to help with negotiating and moving along a new Stand-by agreement with the IMF.

A Social Fund TC in Argentina supported a pilot and impact evaluation to improve learning in math and natural sciences in primary education. It implemented and evaluated innovative teaching models with 4th grade students in two provinces. The impact evaluation concluded that the new pedagogical models tested were effective in increasing the students' involvement and learning at school and the success of the pilot led to the scaling up of the program in 3,400 primary schools nationwide supported by a subsequent Bank operation. While the loan would have been approved irrespective of the TC pilot, the results of the TC were able to influence an important quality component of the education loan in a country where the Bank has traditionally only supported education access (infrastructure).

A SECCI TC supported a Colombian bank to develop new financial products focused on climate change. The TC helped carry out studies on energy efficiency in hotels and hospitals and on sustainable transport that the bank used to introduce new credit lines for climate change mitigation investments supported by the Bank through the Clean Technology Fund.

About half of the TCs evaluated in the field achieved their stated objectives, and about one quarter had a catalytic effect. The share of evaluated TCs achieving their objectives rises to 61% if TCs that had 90% or more of their resources cancelled are excluded. TC objectives varied widely: some focused entirely on outputs (e.g., produce a feasibility study) and others on ambitious outcomes (e.g., strengthen a government's capacity to manage by results). Had output-focused objectives gone a step further to set out the outcomes those outputs would be used to achieve, the share of TCs achieving their objectives may have been lower, given OVE findings noted above on the limited use of outputs. Among SPs that could be expected to have a catalytic effect,<sup>42</sup> 10% of evaluated TCs had a financial catalytic effect (meaning that they led to additional funding from the Bank or other sources not already in the Bank's pipeline at the time of TC approval), 10% had an operational catalytic effect (such as introducing an innovation that was subsequently replicated elsewhere or scaled up) and 5% percent had both.

#### BOX 8 PROGRAM SPECIFIC FINDINGS FROM TC FIELD EVALUATIONS

OVE evaluated 134 TCs that closed in 2011-13 in nine countries. This box summarizes the findings of these evaluations for programs from which ten or more TCs were evaluated.

InfraFund TCs that closed during 2011-13 in the nine field assessment countries made modest contributions toward the program objective of scaling up infrastructure. Field assessments found that InfraFund TCs are generally well integrated into the Bank's country sector program. However, for 19 of the 25 TCs some funds were cancelled, and for five of them over 90% of the approved amount was cancelled. Of the 20 TCs that disbursed 10% or more, 16 mostly delivered the outputs identified at approval, and 14 achieved their stated objective. 15 TCs were for project preparation but the associated loan was only approved for seven of these TCs and only five of these TCs effectively contributed to project preparation. In several cases the TC produced the outputs well after the loan had been approved, in some cases supporting implementation. None of the seven TCs that focused on project origination resulted in an infrastructure investment loan, though one led to an institutional strengthening project. Three led to infrastructure projects financed by others. In sum, fewer than half of the evaluated TCs were found to have contributed toward the InfraFund's objective.

Seven of the ten field-assessed TCs contributed towards FIRII's objective of supporting the preparation of strategic regional infrastructure and they also met their TC-specific objective. However, in terms of resulting in actual investments in such infrastructure projects, the results have been limited. Six TCs supported the preparation of four Bank loan projects, and two of these loans were eventually approved. Four other TCs supported pre-investment work, though to date none of these TCs has led to a specific Bank loan. Even when the assessed TCs did not result in a Bank loan, about half contributed indirectly toward the goal of increasing investments in strategic infrastructure projects by strengthening the regulatory, institutional, or policy environment to promote such investments.

Of the 17 AquaFund TCs assessed, 11 contributed toward the Aquafund SP's objective of supporting the implementation of the Water and Sanitation Initiative. Of the 17 TCs assessed in the field, three were fully and two partially cancelled after approval. Eleven TCs delivered the expected outputs and then fully or mostly achieved their TC objective.

Five of the 16 evaluated Social Fund TCs contributed toward the Social Fund's objective of enhancing the relevance, quality, and volume of Bank lending in the social sectors. Thirteen of the 16 evaluated TCs mostly delivered the expected outputs, but only in five cases were most of the outputs used by the beneficiary agency, and five TCs achieved their stated objectives. Supplementary interviews with 25 team leaders of closed SF TCs suggest that Social Fund TCs can help the Bank continue the dialogue process with governments in countries where the Bank has a significant lending portfolio, particularly when supporting preparation and implementation of policy-based loans, but that they rarely help progress towards the Social Fund's overall program objective in countries where there is little lending.

Eleven of 19 evaluated SECCI TCs achieved their TC objective and also contributed toward the SECCI SP objective. It must be noted that some of the individual TC objectives were entirely output-focused. Advancement toward the program objective was mostly through providing studies and information that were indeed used by the beneficiary agency.

Half of PRODEV's 18 field-assessed TCs contributed toward the program objective of strengthening beneficiary countries' capacity to manage for results. TCs were found to have raised awareness of results-based management, contributed to country-level knowledge through diagnostic work, and strengthened national and subnational governments' capacity to manage for results—but only to a limited extent. Of the 18 assessed TCs, ten mostly or fully delivered the planned outputs, though in only one-third did the beneficiary agency use all outputs. Only three of the 18 evaluated TCs mostly or fully achieved the objectives sought at the project's inception. TCs tended to be too sweeping in design, and objectives were too ambitious for one single TC to achieve.

About half of the TCs evaluated in the field made a contribution toward their respective SPs' objectives. Excluding TCs for which at least 90% of resources were cancelled, the share contributing toward program objectives rises to 57%. Here again it must be noted that SP objectives vary widely, in some cases being merely to contribute to the preparation of projects (FIRII) or to support the implementation of a larger initiative (AquaFund) (Box 8).

The sustainability of results of TCs evaluated in the field is uncertain. Of the field-reviewed TCs whose results were expected to be sustained, 49% were judged as being likely to be sustainable. Lack of sustainability was due to beneficiary agencies not having integrated new processes into their work routine, not having adopted the policies or measures to ensure results were sustainable, TCs not having provided support for long enough to help ensure sustainability or beneficiaries not having made full use of TC outputs to ensure sustainability.

## B. CORPORATE-LEVEL RESULTS

As has been noted, the overall rationale for allocating OC to fund TCs through SPs was broad, but three corporate-level goals can be discerned: to stem the decline in investment lending, to leverage the Bank's own money with donor funding, and to support the introduction of new areas of work.

Investment lending levels have recovered since the early 2000s, though it is not clear how much of a contribution OC TCs have made to this recovery. Fewer than 10% of TCs assessed in the field (11 out of 134) led to a loan that had not been in the pipeline at the time of TC approval. Among the universe of field assessed TCs that supported loan preparation, the associated loan was approved in less than 60% of the cases. Interviews with team leaders suggest that TCs not directly used for loan preparation, such as those supporting upstream analytical work, can help advance the dialogue with a given counterpart agency, or can help the Bank build its own country knowledge necessary to support such dialogue for later potential loan origination, and this may have been more difficult to pick up fully during field assessments. Interviews with division chiefs and managers further suggest that for many operational units, SP TC funding is an important supplement to the administrative budget to deliver the unit's work program. Field assessments and staff interviews also suggest that often small amounts of quickly accessible resources from Action Plan C+D make an important contribution to advancing the Bank's work program by helping to remove preparation and implementation bottlenecks that might not otherwise have been resolved, thus ensuring that a particular lending operation moves forward. However, such funding is largely interchangeable with country offices' rapid response funds under the administrative budget; thus the question arises why the two types of funds are not integrated.

The SPs have leveraged only modest amounts of donor funding. While eight SPs have mobilized some donor funding into MDTFs, these contributions have amounted to only 16% of OC SP allocations between 2005 and mid-2014 and to 6% of total trust fund commitments since 2007 (the first year an MDTF was credited with donor contributions). An attempt to link the allocation of OC to amounts raised through the MDTF for one SP was abandoned when raising donor funding for the MDTF proved difficult. Interviews with eight donors who contributed to two or more MDTFs indicate that the Bank's financial contribution to a certain SP is rarely the driving force behind the donor's decision to contribute to an MDTF.<sup>43</sup> Rather, the decision to contribute is primarily driven by strong donor interest in a particular thematic area and a desire to strengthen relations with the Bank and the region in that area, as well as to encourage the Bank to be actively engaged. Five of the donors interviewed indicated that if the Bank were to phase out its OC contribution to an SP, that decision would not necessarily lead to a halt in their own contribution to the associated MDTF—if the program had demonstrate satisfactory performance and the Bank remained committed to the issue through its regular operational work and



to the management of the MDTF. While the other three had no definite answer, two expressly supported sunset clauses to accommodate evolving priorities. Moreover, two donors questioned the effectiveness of having SPs in as many as 19 areas, and one noted that “there doesn’t ever seem to be strategic discussion within the Board on how the SPs are linked to the Bank’s strategic priorities and what really is the justification for the 19 SPs.”

Evidence on how successful SPs have been in helping develop new areas of work is still limited, because of both the lack of program-level monitoring and the fact that a substantial number of these SPs are still relatively young. Field assessments show that these SPs can play an important role in helping countries and the Bank build a knowledge base to advance new areas of work. Among the older SPs established for this purpose, PRODEV helped develop the knowledge base through country diagnostics and put the dialogue on results-based management on the map, but it is less obvious that its program-level objectives were achieved and that its activities have been mainstreamed into the Bank’s operational work (see annex IV). SECCI has contributed to the Bank’s growing knowledge and technical capacity on climate change and has supported efforts to mainstream climate change considerations into the Bank’s operational work. Partly as a result of SECCI-supported internal capacity building and knowledge generation, the Bank has been able to increase the number of investments in climate change mitigation and adaptation.

## C. SUMMARY

The lack of program-wide results monitoring prevents the Bank from knowing whether the OC resources it allocates to SPs are achieving the desired program-level objectives. The portfolio review and field assessments conducted by OVE show that the majority of SP TCs are well aligned with SP objectives. The majority of TCs evaluated in the field produced the expected outputs, but in over one third of cases most of the outputs were not used by the beneficiary agency. Over half the evaluated TCs achieved their objectives, and a similar share contributed toward program objectives. Sustainability of results was a considerable concern, with the results of less than half the TCs that were expected to be sustained deemed likely to be sustainable. In terms of corporate goals, investment lending has recovered but it is not clear how much TCs have contributed to this recovery. The contribution of field-assessed TCs to new lending was mixed. SPs’ ability to leverage donor funding through MDTFs has been relatively modest. Evidence on the extent to which SPs have been able to advance new work areas for the Bank is scant due to the lack of program-level monitoring, but there are some indications that the older SPs established for that purpose, such as PRODEV and SECCI, have helped put new topics on the map, generate knowledge, and build capacity inside the Bank.



6



# 6 Conclusions and Recommendations

The Board approved use of OC funding for Special Programs in a context of record high Bank net income, concerns about low investment lending, a desire to provide higher-middle-income countries with increased access to Bank funded TCs, and a vision to spur donor co-funding for such programs. In the decade since the Board decided to allocate OC for SPs, the circumstances have changed. Investment lending has recovered. SP funding for TCs has helped provide countries (particularly higher-income countries, which did not receive much TC funding under the FSO) with increased access to TCs and the Bank's External Feedback System shows that countries value this support.<sup>44</sup> It must, however, be remembered that these funds come from the Bank's net income and are thus not a free resource to borrowing member countries. In the context of developing a new capital adequacy policy, the Bank will need to consider what the opportunity cost of allocating OC for grant funding is, and whether and how much it will want to continue to allocate for this purpose.

## A. MANAGEMENT

This evaluation finds that there is little overall strategic thinking on what the Bank wants to achieve through the use of OC for SPs, other than to provide a funding stream for TCs. Since SPs were created case-by-case without any overarching strategy, there is no clear basis on which the Bank can make allocations among competing programs.

As OC allocation amounts, numbers of SPs, and numbers of TC proposals have increased, Management has introduced more formalized structures and processes to manage and administer SPs and allocate the OC resources—an approach that has introduced a greater level of transparency and made resource allocation more data-driven. This evaluation finds, however, that these structures and processes are not working as envisioned to provide strategic direction and efficiency in the allocation and use of the OC SP resources. There is no systemic process for the strategic direction-setting and oversight of the Bank's overall SP portfolio. At the program level, SPs for the most part are not managed as specific programs in pursuit of program-level



objectives—as demonstrated by the absence of program-level direction-setting and of regular monitoring, reporting, and stock-taking of the achievement of SPs’ objectives. Rather, they are used as a funding source to advance the work programs of particular sector units. Indeed, interviews with team leaders and managers suggest that SP resources are an important supplement to the administrative budget to ensure delivery of a unit’s work program, yet they fall outside the administrative budget.

## **B. RESOURCE ALLOCATION**

The existence of 19 separate programs with earmarked contributions has not been able to escape problems of earmarked funding that are well documented in the literature (lack of trade-offs, inability of funds to flow to best uses, and so on), even though a degree of flexibility has been introduced into the allocation of OC resources. Specifically, the earmarking has led to suboptimal resource allocation and perverse incentives, as demonstrated until recently by substantial carryovers and since 2013 the rush by individual programs to approve large numbers of TCs to avoid having to give up resources to other programs, potentially at the cost of the relevance and quality of the TCs. At the same time, Bank funds have leveraged only modest donor contributions to MDTFs, a major justification advanced by Management to keep earmarked funds. None of the other MDBs earmarks funding to such a large number of TC programs.

## **C. PERFORMANCE**

In the absence of adequate M&E systems at the program level, it is not possible for the Bank to know whether the objectives it intended to achieve through each SP are being met. Similarly, there is no systematic monitoring and evaluation at the TC level that would allow the Bank to know whether SP TCs are achieving their objectives and contributing to the funding SP’s program objectives.

At the TC level, this evaluation finds that the vast majority of TCs are well aligned with their funding SP’s objectives and components. The majority of the TCs evaluated in the field by OVE produced the expected outputs, but how frequently these outputs were used by the intended beneficiaries varied considerably. Somewhat over half of the evaluated TCs were found to have met their stated objectives, although these objectives often stopped at the output level. A similar share was found to have made a contribution towards the funding SP’s objectives. Fewer than half of the TCs whose results were expected to be sustained were deemed sustainable.

Of the evaluated TCs focused on project preparation and origination, the direct contribution to Bank lending was mixed. A significant share of such TCs produced outputs that were not actually used as inputs to project design, and over 40% of loans whose preparation was supported by a TC were never approved. This suggests that the

process of pairing TCs with lending operations was suboptimal. In contrast, interviews with team leaders suggest that TCs not directly used for loan preparation, such as those supporting upstream work, can help advance dialogue with a given counterpart agency and build the Bank's country knowledge necessary for possible later lending. The question arises, however, whether such upstream work is not a necessary part of the Bank's work and should be funded from the administrative budget.

The evaluation finds, moreover, that the majority of evaluated TCs created new knowledge that could serve as a basis for analysis and decision-making by country policymakers and the Bank if it were consistently used. However, there is no systematic way to capture and make use of this knowledge.

Evidence on the extent to which SPs designed to advance new work areas for the Bank have succeeded in doing so is scant because of the lack of program-level monitoring. There are indications that some of the older SPs established for that purpose, such as PRODEV and SECCI, have indeed helped put new topics on the map, generated knowledge useful to advance in their areas, and also helped build some capacity inside the Bank that has helped advance its work in a particular area.

## **D. RECOMMENDATIONS**

Discussions around a new capital adequacy policy and the possible reorganization of the Bank's private sector windows are bringing financial tradeoffs to the fore and highlighting the "opportunity cost" of scarce capital. Specifically, allocating OC net income to fund SPs comes at the cost of higher loan charges and/or reduced ability to build up capital to support higher lending volumes. Moreover, moves toward results-based budgeting in the Bank are emphasizing the importance of transparent and accountable budget management. While allocating some Ordinary Capital to fund a limited number of truly special initiatives or client-led activities (whether to support project preparation or capacity-building) may be justifiable, using Special Programs to fund the Bank's day-to-day operational work obfuscates the true administrative cost of Bank products and makes it more difficult to manage internal Bank resources efficiently.

Based on these findings and the changing context since the Board decided to allocate OC to fund Special Programs, OVE makes the following recommendations to the Bank's Board and Bank management:

1. In the context of the new capital adequacy policy and related financial planning, decide (beginning for FY2015) how much Ordinary Capital should be allocated for grant funding for Special Programs, clearly weighing the trade-offs. If a decision is taken to continue to allocate OC funding, clearly define the desired corporate objectives of such funding and prepare a results framework that explains how those objectives are to be achieved.

2. Limit such funding to three purposes:

- a) Seed funding to support the introduction of new business areas: Providing seed money for the development of capacity and knowledge to introduce new business areas relevant to the Bank and its borrowing members can serve the countries and the Bank well. Citizen Security and Emerging and Sustainable Cities are examples of this type of program.
  - **Time-bound:** Consistent with the infant industry argument, *grant funding for any such program should be time-bound (e.g. up to five years) and guided by clear outcome-focused program objectives whose achievement is regularly monitored.* Each initiative should have a clear closing date that is enforced, after which the initiative will either be mainstreamed into the Bank's regular work program, continue with donor funding only, or cease operations. Funding would be approved for the duration of the initiative with a requirement to regularly report on progress towards achievement of program objectives.
  - **Limited in number:** Given resource constraints, *such initiatives should be limited in number so that they can be adequately funded* (e.g. on the order of 3-5 ongoing at any one time).
- b) Transnational work: As discussed in OVE's 2012 evaluation of Transnational Programs, transnational work is important to the Bank's mission and to development in LAC, but is unlikely to be pursued at an optimal level in the absence of subsidies. For this reason allocating grant funding to a program such as Regional Public Goods is justified, provided the program continues to show evidence of positive results through regular monitoring, reporting, and evaluation.
- c) Client activities needed for project preparation, implementation, and capacity-building: Any decision to support client activities in established areas through OC-funded grants should be taken after weighing the associated financial trade-offs. Two areas of potential support are (i) project preparation and implementation activities that are clearly the borrower's responsibility (e.g. feasibility studies, environmental impact assessments, engineering designs, technical assistance during implementation) and (ii) free-standing advisory and capacity building services.
  - **Managed through one fund:** *OVE proposes that any such grant funding for client activities in established areas be managed through one overarching fund rather than the many funds existing today.* Such a fund would absorb existing programs that support Bank work in established areas, such as, for



example, the Infrafund, the Social Fund, and the Aquafund. OC allocations to such fund would be made as needed and based on availability of resources, not necessarily every year.

- **Annually programmed:** *Resources could then be allocated from the fund to individual TC operations through the Bank's annual programming exercise, based on clearly established strategic priorities and allocative criteria.* This would facilitate integration into the country program, timely availability of funds for project preparation, and strategic prioritization. At the completion of a particular operation, team leaders should be responsible for reporting on what outputs were produced, how they were used by the beneficiary agency, and what outcomes were achieved.
- **Client-executed:** *To the extent possible, it should be expected that activities financed by this single fund be client-implemented.* This would distinguish them from upstream work and project-related activities that are the Bank's responsibility and would help to reinforce client ownership.

This revised approach assumes continued efforts to mobilize donor funding for all three purposes and would significantly streamline the management and administration of OC-funded grants. The complex management structures and processes of today's earmarked TC programs would no longer be necessary, as each time-bound special initiative (and any parallel MDTFs) would be run as a program rather than a set of individual TCs, and resources from the single fund for support of client project preparation, implementation, and capacity building activities would be allocated during the Bank's normal programming process. A transition to this model would be facilitated by the fact that a number of existing Special Programs have already reached or will reach their end-dates in the near future.

3. Adjust the administrative budget as needed to fund Bank upstream work and other activities that are the Bank's responsibility and currently funded by OC Special Programs. The narrowing of the scope for Special Programs recommended above may require an adjustment to the administrative budget to cover the full cost of doing business. Similarly, funding currently allocated under the Action Plan C+D program should be absorbed into the administrative budget, with due adjustments to that budget to ensure there are sufficient resources at the country office level to respond quickly and effectively to specific emerging needs. In the interests of IDB effectiveness and good governance, it is important not only that administrative budgets be adequate to get the work done but also that budget processes govern the use of all resources in support of the Bank's work program and that the cost of doing business be fully reflected in the budget.



- <sup>1</sup> The 19 SPs include four programs that were transferred from FSO funding to OC funding in the context of the IDB's Ninth General Capital Increase.
- <sup>2</sup> The Social Entrepreneurship SP also finances small loans. The criteria for appraising eligibility for OC/SPs also allow for contingent recovery in special circumstances, and the establishment documents for InfraFund and AquaFund allow for this possibility.
- <sup>3</sup> The desk review sample of 604 SP TCs was drawn from the universe of SP TCs approved between 2005-2013 (excluding Action Plan C+D, Emergency Recovery, CT/INTRA and RPG SPs). The sample was drawn randomly from each SP to be statistically representative of each SP's portfolio with an 80% statistical significance level and margin of error of plus/minus 5 percent.
- <sup>4</sup> To take advantage of synergies in OVE's work program, seven of the countries chosen for field visits were those for which OVE is also preparing Country Program Evaluations in 2014: Chile, Colombia, Costa Rica, El Salvador, Honduras, Jamaica, and Panama. In addition, the team made field visits to assess SP TCs in Argentina and Brazil, which have large numbers of TCs. All country specific OC TCs and regional FIRII TCs that closed in 2011-13 in these nine countries were assessed, except for TCs in the Regional Public Goods program (RPG) (for which OVE recently completed an in-depth evaluation), CT/INTRA (which is a general-purpose SP), and the Gender and Diversity Fund, which had only one completed TC. OVE used a uniform evaluation template to ensure consistency in evaluation across TCs. Field assessments included interviews with task team leaders and beneficiary agencies to gain an in-depth understanding of the nature and achievements of each TC.
- <sup>5</sup> Agreement establishing the Inter-American Development Bank, 1959. p. 19.
- <sup>6</sup> See Annex I for TC funding by source from 2005-2013.
- <sup>7</sup> *Funding of 2005 Special Programs/Grants* (GA-220-4), March 2008, and *Program and Budget Proposal* (GA-220-2), 2005.
- <sup>8</sup> *Discussion Paper on Criteria for Appraising Bank Programs' Eligibility for Funding from the Special Programs/Grants of OC Resources* (GA-220-12), August 2005.
- <sup>9</sup> *Proposal for a New Bank Policy on Technical Cooperation, Revised version* (GN-2470-2), March 25, 2008.
- <sup>10</sup> GA-220-4. BFA/04/
- <sup>11</sup> In 2014 a new program, Special Program for Institutional Development, was created as a successor to PRODEV, thus leaving the total of SPs at 19.
- <sup>12</sup> Ten MDTFs have been established, but two (Food Security and Broadband) have not received any donor contributions to date.
- <sup>13</sup> GA 220-4; also, discussion of the first draft of the document (GA-220-1) and minutes BFA A/05/14.
- <sup>14</sup> *Proposal for a New Bank Policy on Technical Cooperation, Revised version* (GN-2470-2), March 25, 2008, and *Proposal for a New Framework for Technical Cooperation, Revised version* (GN-2469-2), March 25, 2008.
- <sup>15</sup> These contextual factors identified in various Bank assessments were outlined in the 2008 framework, pp. 9-10.
- <sup>16</sup> Policy, p. 3.
- <sup>17</sup> *Operational Guidelines for Technical Cooperation Products* (GN-2629-1), August 4, 2011.
- <sup>18</sup> A unique TC project is defined as a TC project that may have received one or more OC TC allocations under the same project number.
- <sup>19</sup> The InfraFund and FIRII have a cumulative limit of US\$1.5 million per unique TC project. CT/INTRA limits the amount per TC to US\$ 20,000.
- <sup>20</sup> Evaluation of *Transnational Projects* (RE-415, 2012)

- <sup>21</sup> Analysis of the main focal areas excludes Action Plan C+D, CT/INTRA, Emergency Response, RPG, and SEP, which have a very specific focus. Action Plan C+D resources are allocated to C+D countries to respond flexibly and quickly to emerging short-term needs. They finance a variety of small consultancies and events at the discretion of the country office. CT/INTRA finances training trips of government officials. Emergency Response finances humanitarian aid following a natural disaster, and SEP is a MIF-financed program that finances loans and associated TCs to promote productive enterprises and service provision for segments of society that are generally not otherwise bankable.
- <sup>22</sup> Many TCs focus on more than one area—for example, knowledge generation and capacity building. OVE's portfolio review classified each TC into a single category based on its main focus.
- <sup>23</sup> Comparisons exclude TCs from Emergency Response after Natural Disasters, Action Plan C+D, and CT/INTRA SPs.
- <sup>24</sup> On average, SP TCs executed by the Bank have higher reported execution cost per US\$100,000 disbursed (US\$12,881) than recipient executed TCs (US\$9,023). These figures were calculated by dividing the total reported execution costs of relevant TCs by the total disbursed amount of these TCs (normalized to US\$100,000) during the 2005-2013 period (excludes Social Entrepreneurship (SEP). Data from OVEDA.
- <sup>25</sup> How the ESCs are meant to work is laid out in the 2011 TC Operational Guidelines and in a subsequent guide for the operation of the ESCs. The ESC guide indicates that that the ESCs are to be made up of the manager of the sector toward which the funding is geared, as chair; country representatives, regional managers/division chiefs as applicable; a representative from VPP; and ORP/GCM, and ORP/PTR delegates.
- <sup>26</sup> The members of the Programming Committee are the President, the EVP, and senior management of VPC, VPS, VPP, VPF, LEG, SPD, SEC, PCY, and PRE.
- <sup>27</sup> These seven SPs are the AquaFund, CT/INTRA, the Disaster Prevention Fund, FIRII, the Food Security Fund, the Gender and Diversity Fund, and the InfraFund.
- <sup>28</sup> The 15% benchmark was set as a standard that would allow the Bank to attend to anticipated and unforeseen demand as well as to respond to the “seasonality” of the project cycle.
- <sup>29</sup> These programs were Broadband, PRODEV, Social Fund, and Citizen Security.
- <sup>30</sup> This amount of Flex Resources available in 2014 includes the US\$5 million of OC resources allocated for Flex Resources plus a US\$3.98 million transfer of 30% of the accumulated carryover resources available as of December 31, 2013, in the SPs (excluding RPG). 2014 *Approved Program and Budget Book* (GA-257-11), March 5, 2014.
- <sup>31</sup> There is a long literature in public management that calls for avoiding earmarking of revenue and expenditures on those grounds. The “underexecution” of SPs relative to allocations echoes the findings in that literature. See Barry H. Potter and Jack Diamond, “Guidelines for Public Expenditure Management,” International Monetary Fund, Washington, DC, 1999, and Ehtisham Ahmad and Giorgio Brosio, “Political Economy of Multi-level Tax Assignments in Latin American Countries: Earmarked Revenue Versus Tax Autonomy,” IMF Working Paper, March 2008.
- <sup>32</sup> The rejected proposals included 39 denials and seven proposals deemed eligible but sent back for revision.
- <sup>33</sup> Inter-American Development Bank, Grants and Co-Financing Unit, “Funding Trends for Ordinary Capital Special Programs, August 2013”, p.10



- <sup>34</sup> Resources from the **Small and Vulnerable Countries SP** are allocated annually in equal amounts to each of the six qualifying countries. Their use is then mutually agreed on between the Bank's principal counterpart in the government and the country representative through a process that is generally initiated at the time of annual programming. The programming-based allocation of these resources has typically resulted in relatively low carryovers in this SP. Resources of the **Action Plan C+D SP** are allocated each year to the country office of each of the 19 C+D countries according to a formula established when funding for this SP was shifted from FSO to OC. They are then allocated to a variety of purposes (broadly set out in the establishment document) by the country representative, similar to the rapid response funds covered by the administrative budget. For **CT/INTRA**, a minimum of US\$30,000 is notionally allocated to each country, with the rest being available on a first-come, first-served basis up to an annual maximum of US\$60,000 per country. Country requests are reviewed and approved by the country representatives, with GCM certifying availability of resources within the fixed parameters. Demand for these resources has been limited, partly as a result of the high transaction costs for Bank staff charged with their implementation. Resources for the **Emergency Response to Natural Disasters SP** are approved by the VPC country manager, after the country representative reviews the government's request and GCM certifies the availability of resources.
- <sup>35</sup> According to the 2008 TC Policy, all TCs are to include a plan for M&E of outputs and outcomes. In addition the 2011 Operational Guidelines specified that: 1) there will be a single system for systematically reporting on TC progress; 2) TCs are required to produce completion reports; and 3) selective TC evaluations will be conducted at program, country and sector levels, with a sample of TCs selected for evaluation from within each fund (including SPs, MDTFs, and single donors TFs).
- <sup>36</sup> None of the OC-funded SEP projects had been completed at the time of the portfolio review, and hence the existence of completion reports could not be verified.
- <sup>37</sup> This is true whether the SPs are paid out of OC or out of administrative expenses. The main practical difference between the two is the process used to allocate, manage, and monitor the spending—notably, whether the spending is subject to the same governance, monitoring, and reporting requirements that apply to the regular administrative budget.
- <sup>38</sup> The approved budget allocation for operation, preparation and execution of TCs in 2013 was US\$29.6 million.
- <sup>39</sup> Field assessments excluded CT/INTRA TCs, RPG, and Gender and Diversity TCs, since there was only one closed GDI TC in the nine countries
- <sup>40</sup> OVE interviewed 22 team leaders of 34 regional TCs from SPs other than RPG that closed in 2010-2013, out of a universe of 27 TLs for 39 regional TCs that closed during that period. Those not interviewed either had left the Bank and could no longer be contacted or did not respond to OVE's requests for interviews.
- <sup>41</sup> Evaluation of Transnational Programs at the IDB (RE-415), 2012.
- <sup>42</sup> Includes Aquafund, Disaster Prevention Fund, FIRII, Food Security Fund, InfraFund, PRODEV, SECCI, Social Fund.
- <sup>43</sup> OVE interviewed all donors who contributed to two or more MDTFs, for a total of eight MDTF donors.
- <sup>44</sup> IDB, Office of Strategic Planning and Development Effectiveness, External Feedback System (EFS), 2012, 2013, 2014.



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