

Corporate Evaluation

Results of the Realignment

The Realignment defined four key goals to respond to a perceived loss of Bank relevance and presence in LAC: sharpening sector focus and expertise, sharpening country focus, strengthening risk- and results-based management, and enhancing institutional efficiency. To achieve these goals, it proposed adjustments to the Bank's structure, processes, and human resources and incentives – which included, among other things, the introduction of a new matrix organization, the delegation of additional responsibilities to country offices and project team leaders, the updating of operational and corporate processes, and changes in staffing and HR policies.

This evaluation concludes that the Realignment's underlying direction toward a matrix structure and greater decentralization were appropriate, but it has not yet achieved all of its objectives.

There are several noteworthy trends on the positive side. The technical skills of Bank staff have improved, the capacity to generate and disseminate knowledge has increased, and more authority has been delegated to country representatives and team leaders, bringing IDB closer to the client. The collaboration between staff in the same sector in country offices and headquarters has increased, as has the continuity of project team membership over the project cycle.

However, the matrix is not yet functioning well. VPC has limited authority and few mechanisms to coordinate Bank inputs at the country level to ensure delivery of a coherent and efficient program. VPS and VPP have limited opportunity or incentive to bring their knowledge and influence to bear in country strategy and programming. Sector silos are tall and the pressures to lend and disburse greater than ever. As a result, the Bank and its borrowing countries are not reaping the full potential gains from cross-matrix coordination and collaboration in country strategy and program formulation, project design and implementation, and knowledge sharing.

Moreover, the evaluation did not find conclusive evidence of improved efficiency. Some processes (such as quality control at the project level) appear unnecessarily time-consuming and uncertain, and the lack of full cost accounting or binding budget constraints for task teams weakens incentives for the efficient use of resources.

The report offers five broad recommendations:

- To enhance country focus, further strengthen the country program management function in country offices.
- To enhance inter-VP coordination and country program coherence, strengthen the role of VPS and VPP in country strategy-setting and programming.
- To enhance development effectiveness, strengthen mechanisms for quality control of Bank operational products.
- To enhance efficiency, continue to strengthen budget processes and information systems to ensure full and accurate cost accounting.
- To promote effectiveness and efficiency, fill a significantly higher share of management positions through transparent competitive processes.

Under each recommendation the evaluation proposes specific measures Bank management should consider (among other options) to move in the directions recommended.

Evaluation of the

Results of the Realignment

OFFICE OF EVALUATION AND OVERSIGHT, OVE



Inter-American Development Bank

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ACRONYMS

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PROJECT CYCLE & FRAGMENTATION

COLLABORATION DYNAMICS

ACRONYMS

BRIK	Bank Repository of Institutional Knowledge
CAF	Latin American Development Bank
DEM	Development Effectiveness Matrix
HRD	Human Resources Department
IDB	Inter-American Development Bank
IDB-9	Ninth General Capital Increase
KNL	Knowledge and Learning Department
LAC	Latin America and the Caribbean
MDB	Multilateral development bank
OPC	Operational Policy Committee
OVE	Office of Evaluation and Oversight
QRR	Quality and Risk Review
R&D	Research and development
REA	Regional economic adviser
RES	Research Department
SNA	Social network analysis
SPD	Strategy and Planning Department
T&L	Time and Labor System
TC	Technical cooperation
VPC	Vice-Presidency for Countries
VPP	Vice-Presidency for the Private Sector and Non-Sovereign-Guaranteed Operations
VPS	Vice-Presidency for Sectors and Knowledge

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IDB's Realignment process, a reaction to a perceived loss of relevance of the IDB in a fast-changing Latin America and the Caribbean, was geared towards enhancing the development effectiveness of the Bank's work and increasing the Bank's relevance and presence in the Region.
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Executive Summary

The IDB Realignment was proposed in response to a perceived loss of Bank relevance and presence in Latin America and the Caribbean (LAC, or the Region). According to the Realignment document, this loss of relevance and presence resulted from the Bank's inability to adapt to LAC countries' growing access to alternative sources of financing, the appearance of new actors (such as subnational governments) that were taking responsibility for investment decisions, the heterogeneous nature of LAC countries, and increasing pressures for results.

The Realignment defined four key goals: sharpening sector focus and expertise, sharpening country focus, strengthening risk- and results-based management, and enhancing institutional efficiency—all geared ultimately toward enhancing the development effectiveness of the Bank's work and increasing the Bank's relevance and presence in LAC. To achieve these goals, it proposed adjustments to the Bank's structure, processes, and human resources and incentives. With regard to structure, the Realignment introduced a new matrix organization with vice-presidencies for countries (VPC), sectors and knowledge (VPS), private sector operations (VPP), and finance and administration (VPF) and delegated some additional responsibilities and authority to country offices and to project team leaders. On the process side, efforts were made to update numerous operational and corporate processes and corresponding information systems. Finally, the Realignment led to a major change in staffing—including many staff redundancies and retirements and the turnover of virtually the entire management team, new efforts to move more staff skills to country offices, and changes in the performance evaluation and compensation of staff.

In this evaluation the Office of Evaluation and Oversight (OVE) assesses the implementation of the Realignment, focusing on the three goals of sharper sector focus and expertise, sharper country focus, and enhanced institutional efficiency. It complements OVE's 2012 mid-term evaluation of the Ninth General Capital Increase (IDB9), which analyzed the Bank's work on risk- and results-based management.

This evaluation concludes that the Realignment has helped to deepen certain dimensions of sector and country focus but has not yet achieved all of its objectives. The evaluation's recommendations are meant to deepen the reforms already begun. The paper presents the key findings by objective.

A. SHARPENING SECTOR FOCUS AND EXPERTISE

To sharpen the Bank's sector focus and expertise, the Realignment sought to:

- renew staff skills and align them with the Bank's new institutional and operational priorities;
- reduce institutional fragmentation through the new matrix structure;
- sharpen the strategic selectivity of Bank engagement; and
- improve the Bank's capacity to generate and disseminate knowledge effectively.

Staff skills. The Realignment has led to a significant change in Bank staffing at both the technical and managerial levels. The evaluation found that technical staff hired since the Realignment have on average more education and technical skills, while those hired in country offices tend to have somewhat less experience in project implementation. The Bank's overall number of administrative staff has fallen, and the use of contractual employees has increased markedly. As before the Realignment, technical specialists who work in country offices or are hired in a country office tend to have lower grades than staff hired at or working in headquarters.

The Realignment led to an almost complete turnover in the Bank's managerial cadre, with about half of new management positions filled through competitive processes. Almost all division chiefs are now hired through competitive processes (a major change from pre-Realignment practice), while country and sector managers and country representatives are generally appointed – which is allowed under Board-approved Bank HR rules but is not necessarily in line with the goals and spirit of the Realignment. Though the technical skills of the managerial cadre are seen as having improved, most staff do not perceive an increase in managerial skills and continue to see managerial selection processes as less than fully transparent.

Fragmentation and collaboration. A major goal of the Realignment was to reduce fragmentation along many dimensions – between sector specialists working in various LAC sub-regions, between project design and implementation, between headquarters and country offices, and between sectors. The Realignment removed regional silos and significantly increased team continuity and headquarters-country office collaboration within divisions along the project cycle. Placing sector specialists in the field and having more field-based team leaders helped in this regard, as did the decision to have team leaders continue through project implementation.

In contrast with these advances in headquarters-country office collaboration within sectors, collaboration across sectors and between the public and private windows has not improved. Sector silos remain very high, and the incentives for cross-VP or cross-sector collaboration are very weak in the Bank—indeed, weaker than before the Realignment. “Double-booking”—that is, allowing two or more divisions to “claim” a project they work on jointly—has been introduced to encourage cross-sector collaboration, but it faces strong counterincentives. Collaboration between the Research Department (RES) and the Bank’s operational staff remains at pre-Realignment levels.

Strategic selectivity. The Realignment does not seem to have had a major impact on the substantive strategic directions of Bank lending. The portfolio changed little and continues essentially to reflect client demand.

Knowledge. Overall the Bank has improved its capacity to generate and disseminate knowledge, particularly in VPS, as a result of the new skills and incentives introduced by the Realignment. The alignment of knowledge products of the “Operational Support” type with lending has increased, though many of VPS’s research and development products do not seem to be aligned with operational needs. There has also been an improvement in the mechanisms for knowledge capture and dissemination, though their use is limited to date. The presence of specialists in the field is helping to increase the dissemination of Bank knowledge. RES outputs continue to have a tenuous relationship with the Bank’s operational and programmatic work.

B. SHARPENING COUNTRY FOCUS

To help the Bank get closer to the countries it serves, the Realignment sought to:

- strengthen the role of country offices so they could become a “single window” to lead the strategy and programming dialogue between the Bank and the countries; and
- strengthen the Bank’s ability to design and deliver high-quality projects tailored to specific country needs, using a programmatic approach and applying appropriate risk- and results-based management.

According to the Realignment document, sharpening country focus in these ways would imply, among other things, delegating increased authority to country offices, enhancing their technical capacities, increasing their financial and human resources, increasing collaboration between headquarters and country offices and between project design and execution, and increasing staff mobility.

Strengthening the role of country offices. The evaluation found that the Realignment has resulted in only a modest increase in country office capacity and authority to lead the strategy and programming dialogue. This increase resulted from the delegation of

these responsibilities to country representatives, combined with some decentralization of technical staff and stronger collaboration among headquarters and field-based employees within individual sectors. Yet this capacity and authority remain limited by Bank structure, policies and processes, and incentives—most notably the confusion between the roles of general managers for the country departments (country managers) and country representatives; the limited authority actually delegated to the country representative in practice; and the very limited engagement of VPS or VPP staff in this dialogue. There is no evidence that the Realignment has led to better long-term strategic planning or programming for each particular country, and short-term pressures for loan approval and disbursement appear greater than ever.

Project design and implementation. On the project side, the Realignment appears to have led to some increase in the ability of the Bank in general, and of country offices in particular, to design better projects, but not necessarily to implement them. In the view of most people interviewed for this evaluation, the decentralization of technical staff, the strengthening of the quality control function of the Strategy and Planning Department (SPD), and the greater continuity in project team membership across the entire project cycle have all contributed to better project design.

The overall quality control function is still problematic. SPD lacks adequate capacity, neither the Quality and Risk Review (QRR) nor the review by the Operational Policy Committee (OPC) is seen by staff as particularly effective, and informal quality control mechanisms are uncertain and costly. Project implementation has been positively affected by the Realignment's delegation of some authority to team leaders and members, but it has been negatively affected by the reduced experience of country office staff and by the same cross-matrix coordination problems that affect the policy dialogue.

C. INCREASING INSTITUTIONAL EFFICIENCY

A key goal of the Realignment was to enhance the Bank's institutional efficiency, with the high short-term costs — most notably of staff renewal and decentralization — intended to generate long-term savings. Some expected sources of enhanced efficiencies were:

- the simplification of the Bank's organization through the new matrix structure,
- the consolidation of organizational units to create synergies and eliminate institutional fragmentation,
- the revision of project procedures, and
- the reform of operational support and shared service functions (budgets, administration, human resources, information technology, and legal advice).

To assess to what extent this objective has been achieved, OVE gathered data on the direct and indirect costs of the Realignment and a number of efficiency indicators. Considering all of the evidence analyzed by OVE, it is difficult to make a clear case that the Realignment has improved institutional efficiency overall. Some positive indicators on project-specific disbursement rates and Bank response times are offset by a number of neutral or negative indicators: the high costs of the realignment itself—including both the well-known direct costs and the indirect costs of decentralization, information systems, and early retirement, as well as the loss of institutional memory from redundancies—and the lack of any reductions in project preparation time, project implementation costs, or overall Bank costs per million dollars lent. Cost accounting is improving but continues to be imprecise, and internal transactions are not subject to price signals and therefore cannot internalize the true costs of activities.

D. CONCLUSIONS AND RECOMMENDATIONS

In sum, this evaluation concludes that the Realignment has not yet fully achieved its objectives. On the positive side, the technical skills of Bank staff have improved, the capacity to generate and disseminate knowledge (though not always operationally relevant knowledge) has increased, and more authority has been delegated to country representatives and team leaders, bringing IDB closer to the client. The collaboration between staff in the same sector in country offices and headquarters has also increased, as has the continuity of project team membership over the project cycle.

On the negative side, however, VPC has limited authority and few mechanisms to coordinate Bank inputs at the country level to ensure delivery of a coherent and efficient program. VPS and VPP have limited opportunity or incentive to bring their knowledge and influence to bear in the country strategy and programming process, and to coherently integrate their day-to-day technical dialogue. The sector silos are tall and the pressures to lend and disburse greater than ever. As a result, the Bank and its borrowing countries are not yet fully reaping the potential gains from cross-VP and cross-sector collaboration on country strategy and program formulation, project design and implementation, and knowledge sharing.

Moreover, the evaluation found no conclusive evidence of improved efficiency, and in many areas it appears that bureaucratic costs may have increased. Processes (such as quality control at the project level) are time-consuming and uncertain, and the weaknesses in cost accounting and budget constraints for task teams undermine incentives for the efficient use of resources at the task level. Although implementation of some aspects of the Realignment is still ongoing, it is unclear that these issues can be addressed without some significant systemic changes.

Though the key objectives of the Realignment have yet to be fully achieved, OVE's analysis suggests that the Realignment's underlying directions toward a matrix structure and decentralization were appropriate. A well-designed matrix structure

helps an organization balance competing goals—in this case country focus, lending volume, sector excellence, and development effectiveness—and benefit from, rather than stifle, the creative tension among them. Decentralization is essential to fully understand and serve borrowing countries in LAC’s increasingly competitive lending environment; indeed, one of the major findings of this evaluation is that decentralization of personnel and some delegation of authority to team members have led to many of the positive results of the Realignment. But the key attributes needed for a matrix to function effectively — clear and appropriate roles and responsibilities, easy flow of information, strong incentives for collaboration — are not yet in place in the Bank. And decentralization of real authority has been limited to date, with key control over decision-making remaining where most country and sector managers and division chiefs are still based — in headquarters.

The challenge the Bank faces now is to deepen the reforms to reap their full benefits and to enhance IDB’s effectiveness and efficiency. To this end, OVE offers five recommendations to Management.

1. To enhance country focus, further strengthen the country program management function in country offices.

To that end, the Bank should consider, among other options:

- decentralizing the country management function by (i) increasing the number of country managers (to facilitate their deeper engagement in individual countries), (ii) locating them in country offices (to bring authority closer to the client), and (iii) maintaining country representatives only in countries without a manager (to reduce managerial layers); and
- strengthening the ability of country departments to allocate and monitor budgets used to deliver operational programs.

Locating managers of country departments in the field would enhance the decision-making authority in country offices, and increasing the number of country departments would allow the managers to take a more hands-on role in country management. A country representative would arguably not be needed where there is a resident manager (thereby offsetting costs). Managers of departments with two or more countries would reside in one of the countries (perhaps rotating among countries over time) and would supervise the country representatives in the other countries under their purview, as happens today but with a clearer definition of roles and responsibilities. This change would go a long way toward decentralizing real authority, clarifying responsibilities over policy dialogue and country strategy and programming, and removing excessive bureaucratic layers.

Current Bank policy formally assigns the transactional budget to VPC, and VPC transfers the resources to VPS once a country program is approved. However, in practice VPC's managers and country representatives appear to have little real influence or leverage over budget allocations for country program design and delivery. Strengthening this influence and leverage could help increase the coherence and effectiveness of country programs. VPS could continue receiving a separate R&D budget as needed to generate cutting-edge research to advance the knowledge agenda outside of specific country programs, but the bulk of knowledge resources would be allocated, together with lending and other operational products, to ensure coherence in the overall country program.

2. To enhance inter-VP coordination and country program coherence, strengthen the role of VPS and VPP in country strategy-setting and programming.

To that end, the Bank should consider, among other options:

- assigning senior VPS and VPP specialists, along with regional economic advisors (REAs), to country strategy and programming teams, to ensure close collaboration with VPC management; and
- situating these VPS and VPP specialists and REAs in country offices, to co-locate them with country managers to the extent possible.

The Bank has no formal structure or mechanism to ensure VPC-VPS-VPP collaboration in country strategy-setting and program delivery. This could be remedied by the creation of country teams, led by the VPC country manager and joined by senior VPS and VPP specialists and REAs, co-located in the field to the extent possible. These country teams would be expected to collaborate on a day-to-day basis on all aspects of country program dialogue and management, thereby deepening cross-matrix collaboration and coherence. The senior VPS and VPP specialists would have a better view of the broader country program than they now have, and they would be able to bring this broader view to bear in working with their VPS and VPP managers to design and deliver the operational work of their sectors in the countries they work on. VPS would coordinate the work of sector technical specialists and promote collaboration between economists and sector staff and greater synergies in VPS's analytic work. One responsibility of the team (led by the REA with VPS and VPP input) would be to prepare integrated country studies to identify development constraints and opportunities and support the preparation of country strategies and programming. If needed to ensure effective collaboration, both the senior specialists and the REAs could have a formal dual reporting to their VPS/VPP managers and the relevant VPC country manager.

3. To enhance development effectiveness, strengthen mechanisms for quality control of Bank operational products.

To that end, the Bank should consider, among other options:

- having managers of country departments chair QRRs for VPS and VPP operational products, to ensure meaningful and high-level substantive review and promote the QRR as a one-stop review mechanism; and
- providing SPD with more, and more operationally-experienced, staff; enlarging SPD's responsibility to cover VPP as well as VPS operational products; and strengthening SPD's capacity to oversee all Bank sectors.

By having managers of country departments chair QRRs, both sides of the matrix would have a role in ensuring the quality and appropriateness of operational projects, further enhancing meaningful cross-matrix collaboration. The country manager would be expected to bring the country perspective to bear, and VPS or VPP management would continue to be responsible for ensuring sector expertise and quality. Elevating the role and importance of the QRR could help reduce uncertainty and delay, with OPC review being reserved for exceptional circumstances. The upgrading of SPD's capacity is needed for it to perform its important independent quality control function effectively.

4. To enhance efficiency, continue to strengthen budget processes and information systems to ensure full and accurate cost accounting.

In addition, the Bank should consider having division chiefs allocate fixed annual budgets to team leaders that cover all costs (staff, consultants, travel, etc.) for product design and/or implementation, with some flexibility to reallocate over the course of the year if needed.

Fully utilizing accurate cost accounting in task management would allow the Bank to identify the real costs of various products and define budget coefficients more accurately. This, in turn, would help the Bank plan and manage resources more efficiently and would enhance accountability. Having division chiefs assign fixed budgets for product delivery to team leaders (ideally including staff as well as variable costs) would give each one greater certainty about the availability of resources while providing an incentive for efficiency. This would not mean reducing overall responsibility of division chiefs and managers for their budgets. Indeed, given that staff costs must be covered, managers rather than team leaders must have the ultimate authority to allocate staff resources among teams. They would also retain the ability to reassign resources among tasks throughout the year as needed, but the procedures for reallocation should be clear and predictable.

5. To promote effectiveness and efficiency, fill a significantly higher share of management positions through transparent competitive processes.

To this end, the Bank should consider requiring thorough 360° evaluations for candidates for management positions.

As a premier development institution, IDB strives for quality, professionalism, and credibility in its staff and management cadre. To this end, OVE would suggest that the Bank's hiring practices be reviewed to ensure that competitive systems are in place and routinely used to fill both staff and management positions to the maximum extent possible—a goal clearly recognized in the Realignment document. This should arguably include positions for sector and country managers and country representatives as well as division chiefs and other executive positions. The implementation of 360° evaluations for internal candidates for managerial positions should be an important part of the information-gathering process for the selection of managers.

IDB's MANAGEMENT RESPONSE TO THIS EVALUATION

You can also find it at www.iadb.org/evaluation

Reunião Anual das Assessorias de Governadores BID CII 2006



BELO HORIZONTE
MINAS GERAIS
B R A S I L



2006 Annual Meeting of the Inter-American Development Bank in Belo Horizonte, Brazil. The Board of Governors agreed to an institutional reform process proposed by President Moreno, the "Realignment".
© IDB, 2006

1 Introduction

At the 2006 Annual Meetings of the Inter-American Bank (IDB, or the Bank) in Belo Horizonte, Brazil, the Board of Governors agreed to an institutional reform process proposed by President Moreno, the “Realignment” (IDB, 2006a). In December 2006 the Board of Directors approved the Realignment document (IDB, 2006b). In April of the following year, Management presented the Board with the Realignment implementation plan (IDB, 2007a), which defined four phases of implementation and established the timeframes for each one.¹

The IDB Realignment was proposed in response to a perceived loss of Bank relevance and presence in Latin America and the Caribbean (LAC, or the Region), evidenced by a decreasing Bank financing role in the Region, an annual lending program below lendable resources, and an increase in early loan repayments (IDB 2006b, paragraph 2.4). According to the Realignment document, the loss of relevance and presence resulted from the Bank’s inability to adapt to (i) the growing access of LAC countries to alternative sources of financing, (ii) the appearance of new actors, such as subnational governments, with responsibility for investment decisions, (iii) the heterogeneity of LAC countries, and (iv) pressures for quicker results stemming from the Region’s economic and social gaps (IDB 2006b, paragraphs 2.1-2.6). The Realignment proposed a number of fundamental changes in IDB to enhance the institution’s development effectiveness and increase its organizational efficiency, thereby enabling it to consolidate its relevance and presence in LAC.

A. DESCRIPTION OF THE REALIGNMENT

1. Goals

The Realignment document (IDB, 2006b) was more strategic than tactical in nature. It defined the goals to be achieved and set out general guidelines on how to achieve them, but it did not provide details on what would be done, by whom, when, and how.

Four intermediate goals were defined to achieve the Realignment's ultimate objectives of increased relevance and presence:

- sharpening IDB's focus on and knowledge of individual borrowing countries ("country focus");
- improving and deepening its strategic focus and its expertise in particular sectors ("sector focus and expertise");
- strengthening its risk management and results orientation; and
- increasing its institutional efficiency.

The aim was to enhance development effectiveness and organizational efficiency through stronger technical excellence, deeper knowledge of the actual situation in each country, greater strategic selectivity, closer proximity to the countries themselves, greater use of program-based approaches, and movement away from an overemphasis on loan approvals and disbursements.²

2. Reforms

Some proposed reforms were described in detail, others were described briefly, and others were simply stated.³ Proposed changes were scattered in various documents, including the Realignment document, the Realignment implementation plan (IDB, 2007a), and the various documents produced by Management on the progress and implementation of the Realignment.⁴ These various documents classified the reforms in different ways.⁵ For the purposes of this evaluation, the Office of Evaluation and Oversight (OVE) has organized the reforms in three categories: structure, processes, and human resources and incentives.⁶

Structure. The Realignment established three basic organizational groupings— the strategic core, country services, and institutional support services. It set up a matrix organization for the delivery of country services, with a flat structure and fewer hierarchical levels. Although Chapter VI of the Realignment document broadly defined the responsibilities of each department, it did not establish a clear or precise distribution of authority; instead, lines of authority have been worked out as the process has moved along. Finally, the Realignment intended to delegate and decentralize authority to the Bank's country offices, empowering them to become the "single window" for leading the dialogue between the Bank and the country, defining the country strategy and program, and delivering the products. However, it did not specifically define the extent of delegation of authority or the roles, responsibilities, and authority of country offices and their staff.

The matrix organization⁷ sought to balance the natural tensions arising between two objectives that are typical in multilateral development banks (MDBs):⁸ a sharper country focus and a sharper sector focus. It also sought to eliminate problems associated

with the Bank's more vertical, hierarchical, and regionalized type of organization and facilitate cross-sector collaboration. By eliminating "Regions" (different operational units for sub-regions within LAC), gathering all experts together in a single Vice-Presidency for Sectors (VPS), and giving that Vice-Presidency the training and research functions previously assigned to the Human Resources (KNL) and Research (RES) Departments, the Bank would create a critical mass of experts to facilitate the generation and dissemination of specialized knowledge and the design of Bank operations.

Processes. The Realignment document stated that operational and corporate processes should be updated to make them clearer, simpler, more efficient, and more coherent,⁹ but it did not provide further detail. In recent years Management has approved guidelines for certain processes,¹⁰ but the Bank still lacks manuals that clearly define all corporate and operational processes and the responsibilities of particular units or persons involved.¹¹ Under project OPTIMA, the Bank is undertaking a major review of its processes.

Human resources and incentives. The Realignment document proposed giving the Human Resources Department (HRD) a wider and more strategic role than the one it had previously played, and called for a review of the Bank's human resources strategy.¹² The Realignment document furthermore established that the human resources policy should be based on the principles of meritocracy, accountability, teamwork, cost discipline, staff training and development, and leadership building, and that it should be aligned with the Bank's strategic goals.¹³ According to the Realignment implementation plan, the strategy should have been completely implemented by 2008, but it was finalized only in mid-2011 and its implementation is still ongoing. Likewise, the Realignment stated the need to allocate greater human resources to the country offices and to develop new safeguards, governance structures, and systems for the recruitment of staff and managerial positions to prevent the process from being "commandeered."¹⁴ Since the Realignment the Bank has introduced the Performance Management Framework (2009), the Career Management Framework (2010), the Total Rewards Framework (2011), the Knowledge and Learning Strategies for 2008-2010 and 2012-2015, and the New Human Resources Strategy (2011) and has overhauled the conflict resolution system.

Two essential elements in transforming the human resources aspects of the organization were the renewal of the management team and of staff. With regard to the management team, by end-2007 38 appointments had resulted from competitive processes, and 29 direct appointments had been made by the President. Of those appointed, 85% were internal candidates. Only 14 managerial positions were unaffected by the Realignment process (IDB, 2010d). With regard to staff turnover, management adopted two measures, the staff transition plan and the special employment termination program. The first measure aimed to ensure that the distribution of personnel in the new structure would match skills with positions.

This involved estimating the human resources needed, mapping existing abilities, and harmonizing existing supply with identified demand. The special employment termination program, rolled out in two phases between September 2007 and June 2009, led to the redundancies of 314 employees (17.4% of the 2007 workforce), of which 12 were in executive positions, 211 were professional staff, and 91 were administrative personnel (IDB, 2010d).

The Realignment document provided only general guidelines on incentives. The document recognized that appropriate incentives, aligned with the corporate plan, would be essential for the optimal operation of the new organization. For incentives to work properly, the document recognized that decision-making and accountability needed to be based on results instead of on processes, and that monetary incentives needed to be allocated in accordance with merit and performance in relation to individual and team responsibilities. At the more micro level, the Realignment document proposed that incentives be designed to promote the mobility of specialists between headquarters and country offices, as well as between functions and sectors. Specific rules on monetary and nonmonetary incentives have been issued in the years following the Realignment as part of human resources regulations, as further explained below.

Table 1.1 summarizes the elements of structure, processes, and human resources and incentives that the Realignment set out to reform.

TABLE 1.1. REFORMS PROPOSED BY THE REALIGNMENT

Bank structure and organization ^a	Processes ^b	Human resources and incentives ^c
Introduce a new organizational structure and a matrix organization, redistribute authority and responsibilities, delegate authority and empower the country offices and project teams.	Update and improve operational and corporate processes and corresponding information systems.	Renew and decentralize staff skills, and establish a human resources management and incentive system that supports the reforms.
a, b and c See documents GA-232 and GA-232-28.		

3. Implementation

According to the Realignment documents, implementation of the reforms should have been concluded by 2009. However, it has continued over the past seven years, and some reforms are yet to be implemented. The delays have resulted in large part from inadequate planning and lack of specificity in design. Though not all details can necessarily be defined before initiating a reform process as far-reaching as the Realignment, the success of any reform, however comprehensive, depends largely on the quality of its planning.¹⁵

The Realignment plan was not grounded in a deep vertical and horizontal logic or a strong empirical framework. The diagnosis of the problem to be addressed was relatively weak. Neither the Realignment document nor the diagnostic that accompanied its design¹⁶ put forward a clear definition or estimation of the magnitude of the problems to be resolved, nor did they clearly identify or assess the causes of the problems or offer an analysis of different alternatives available to address them. The links between the proposed reforms and the problems they were seeking to remedy were not clear, and no evidence was offered, empirical or otherwise, for the possible effectiveness of the proposed solutions.

This weak logical and empirical grounding compromised the Realignment's preparedness and may have hindered implementation and the attainment of its goals.¹⁷ The Realignment document did convey certain strategic aspirations, highlighting the urgent need to modernize processes, align incentives, and reform the human resources policy. It also provided a preliminary definition of the new structure and functions of the new departments. However, it provided no details about the reforms it proposed to undertake. The Realignment implementation plan offered slightly more detail but was still incomplete. The details of the reforms associated with the Realignment have appeared with the passage of time. Some reforms are still under way, or implementation is pending (e.g., information systems, definition of processes and authority, delegation and decentralization of authority and responsibilities, and mobility policies),¹⁸ while others have already been changed several times (e.g., the project cycle, preparation and management of technical cooperation operations, strategy design, and management of the transactional budget). The employees interviewed for this evaluation broadly agreed that this approach created a sense of uncertainty and improvisation.

4. The Realignment and the Ninth General Capital Increase (IDB-9)

In 2010 the Bank's Governors approved two formal agreements—the Cancun Declaration (IDB, 2010a) and the Report on the Inter-American Development Bank's Ninth Capital Increase (IDB, 2010b), which led to the Ninth General Capital Increase (IDB-9). These agreements linked the IDB-9 to a series of reforms termed the “Agenda for a Better Bank,” intended to sharpen the Bank's strategic focus, development effectiveness, and efficiency, and to help it continue to be relevant and competitive in future years.¹⁹

The objectives of IDB-9 and the Agenda for a Better Bank were essentially the same as those of the Realignment. In fact, they provided continuity to the Realignment's goals and a stimulus for the reforms that the Realignment had initiated. These agreements mandated some of the reforms already included in the Realignment—many of which were under way or about to be implemented—as well as some new ones (see Annex A).

In 2012 OVE carried out a midterm evaluation of the reforms mandated in IDB-9 (IDB, 2012b); thus it has already evaluated some Realignment reforms, such as the Development Effectiveness Framework, risk management, results-based budgeting, and broad targets on staff decentralization and gender diversity.²⁰ This evaluation does not consider these areas again but focuses on the many other reforms that the Realignment set in motion: the new matrix structure, the efforts to deepen country focus and sector expertise, and human resource management.

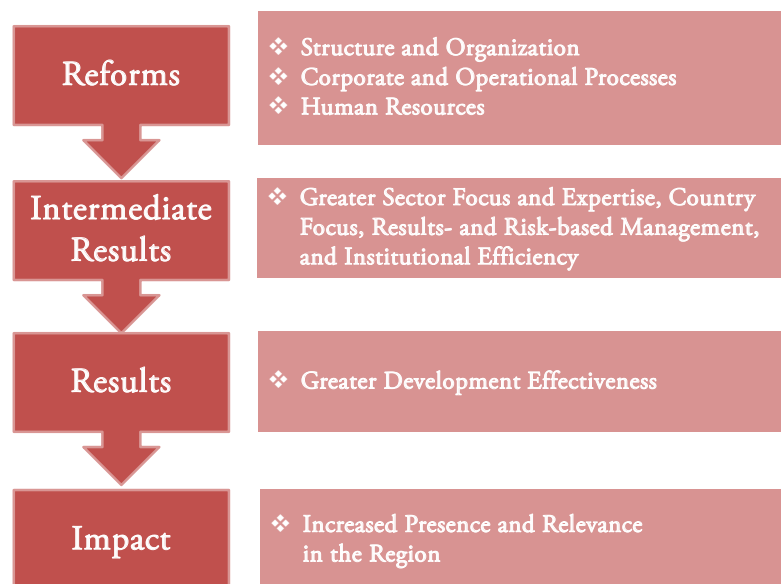
B. THE EVALUATION

1. Conceptual framework

The objective of this evaluation is to assess the Realignment's effectiveness in achieving its stated goals. For the purposes of this evaluation, OVE follows the logic described above and summarized in Figure 1.1.²¹ First, the evaluation analyzes to what extent the reforms associated with the Realignment have contributed to the achievement of three expected intermediate results—greater sector focus and expertise, greater country focus, and institutional efficiency. (The fourth intermediate result, better risk- and results-based management, was evaluated earlier as part of OVE's midterm evaluation of the IDB-9 commitments, as noted above.) In evaluating the achievement of these intermediate results, OVE uses the goals provided by Management for each intermediate objective (see Table 1.2).

FIGURE 1.1.
The Realignment's Logic of Intervention

*As per OVE's interpretation



The achievement of these intermediate objectives depends on the combined action of the reforms; it is difficult to separate the effect that each reform has on each one of its targets.²² Thus the evaluation analyzes the combined impact of the selected Realignment reforms on their intermediate objectives, considering their individualized impact only when it can be reasonably well identified.

TABLE 1.2. GOALS FOR COUNTRY AND SECTOR FOCUS AND INSTITUTIONAL EFFICIENCY

Sector focus and expertise	
1.	Skills of technical staff renewed and aligned with the Bank's institutional priorities and operational needs. ^a
2.	Greater flexibility and less institutional fragmentation and duplication, and closer cross-sector collaboration (i.e., VPS units) and collaboration among VPC, VPS, and VPP in generating Bank products (operations, knowledge, strategies, and programs). ^b
3.	Sharper strategic focus. ^c
4.	Greater capacity to generate, capture, and disseminate knowledge to be used effectively. ^d
Country focus	
5.	Country offices have become a "single window" for leading the Bank's dialogue with countries, defining the strategy and the programs, delivering the products, and meeting the specific needs of each country with a programmatic focus. ^e
Institutional efficiency	
6.	Greater institutional efficiency in terms of costs and times. ^f

a, b, c, d, e and f: See documents GA-232 and GA-232-28.

This evaluation does not attempt to analyze the Realignment's effect on the Bank's overall development effectiveness. Doing so would require, among other things, being able to measure the Bank's development effectiveness before and after the Realignment. The "before" measurement does not exist, and would now be very difficult and costly to obtain, whereas the "after" measurement would require waiting for several more years until the approved post-Realignment projects have produced outcomes.²³

The Bank's presence in the Region in terms of market share is a consequence of many factors that are outside its control, including the Region's macroeconomic performance; the evolution of prices for raw materials; countries' level of financial, institutional, and technical sophistication; conditions in world capital markets; and the economic situation in other countries with links to the Region. In OVE's view it would not be possible to isolate the Realignment's potential impact on market share, though Chapter V does note how the Bank's market share has varied *vis-à-vis* that of other MDBs. With regard to the Bank's relevance, this evaluation draws on the views gathered for this report as well as those obtained from member country representatives as part of OVE's earlier evaluation of the Bank's work in higher-middle-income countries (IDB, 2012f).

2. Evaluation questions

The main question underlying this evaluation is: **To what extent have the reforms associated with the Realignment regarding structure and organization, operational and corporate processes, and human resource policies and incentives helped to strengthen sector focus and expertise, sharpen country focus, and improve the Bank's efficiency?**

The specific questions are the following:

- a. To what extent have the Realignment reforms helped to sharpen sector focus and expertise?
 - i. To what extent have the skills of the Bank's technical staff been renewed in line with the Bank's institutional priorities and operational needs?
 - ii. To what extent has the matrix organization helped to increase flexibility, reduce institutional fragmentation and duplication, and enhance cross-sector collaboration in generating Bank products (operations, knowledge, strategies, and programs)?
 - iii. To what extent has the Bank achieved greater strategic focus?
 - iv. To what extent does the Bank now possess greater capacity to generate, capture, and disseminate knowledge (tacit, explicit, and cumulative) so it can be used most effectively?
- b. To what extent have the Realignment reforms helped to sharpen country focus?
 - i. To what degree has country offices' capacity to lead the country strategy and programming dialogue increased?
 - ii. To what extent has the ability of the Bank in general, and of country offices in particular, to design and implement operations tailored to each country's needs increased?
- c. To what extent have the Realignment reforms contributed to improving the Bank's efficiency?
 - i. What have been the financial costs of the Realignment?
 - ii. To what extent has the matrix organization encouraged greater institutional efficiency in terms of time and costs?

3. Methodology

Evaluating the Realignment is a sizable methodological challenge. The evaluation questions cannot be answered with causal inference methods. The low evaluability of the intervention and the vagueness with which the goals were defined make the task of finding valid, reliable, and precise indicators extremely difficult. Also, the Bank's information systems do not provide the necessary information to assess many of the desired dimensions. In fact, many aspects of the Realignment cannot be measured or can be measured only partially and imperfectly. Moreover, many other internal and external changes have occurred concurrently with the Realignment, making it difficult to isolate effects. Therefore, this evaluation makes use of a variety of sources of evidence, both quantitative and qualitative (see Table 1.3).

In general, this report uses a “before and after” evaluation approach. Although “before and after” comparisons are not ideal ways to measure intervention impacts, in OVE’s view they provide useful evidence in this case. First, the Realignment was a large-scale reform process, intended to profoundly alter the institution’s internal operation. Second, many of the indicators used in the evaluation followed consistent trends in the years leading up to the Realignment, and substantial deviations could reasonably be attributed to the Realignment. Finally, the evaluation triangulates to the extent possible across various information sources, including empirical data; perceptions on the Realignment’s impact collected via surveys, structured interviews and focus groups; and documentary evidence, such as the Bank’s official documents and management literature. (Annex B contains details on the methodology used in this evaluation). OVE has drawn on the indicators agreed previously between OVE and Management (IDB, 2010e) and has also developed new indicators as needed.²⁴

To help identify the possible causes of successes and failures, OVE analyzed the consistency among the Bank’s strategy, structure, processes, and human resources policies and incentives. In any organization, especially one with a matrix structure, effectiveness and efficiency depends on the extent of coherence among these elements. When these elements are not aligned with one another, an organization’s effectiveness and efficiency suffer (Chandler 1962; Peters and Waterman 2006; and Galbraith 2009).

TABLE 1.3. SOURCES OF INFORMATION

	Sources
Quantitative	Internal <ul style="list-style-type: none"> Enterprise Data Warehouse, IDB Group Resources Dynamics, SISCOR, IDBDocs, etc.; budget information, data from DEM project ratings.
	External <ul style="list-style-type: none"> The Latin American Development Bank (CAF) and the World Bank (WB).
Qualitative	Staff and counterpart feedback <p>This study analyzes the perception of a total of 531 persons on the impact of the Realignment:</p> <ul style="list-style-type: none"> <i>Structured interviews:</i> 60 employees from the same universe as the survey (random sample), plus country representatives and operations heads from 10 of the Bank’s country offices (Annex E). <i>Focus groups:</i> 48 focus groups comprising 139 employees and consultants from the country offices, and 32 representatives of governments, executing agencies, and civil society in 10 countries (Annex F). <i>Non-structured interviews:</i> 73 interviews with members of the Board of Directors, with current executive staff, and with those that were part of the executive team during the design and implementation of Realignment. <i>Survey:</i> The survey was answered by 157 employees from VPC, VPP, and VPS (67% participation rate) who had more than 8 years of experience as of December 31, 2012, and are in grades between 2 and 5 (Annex D). Case studies <p>10 country case studies: Argentina, Belize, Brazil, Colombia, El Salvador, Guyana, Mexico, Nicaragua, Paraguay, and the Dominican Republic.</p> Bibliography review <p>Bank papers relating to the Realignment, OVE evaluations, theoretical and empirical bibliography on the relevant themes (see Bibliography).</p>



A series of actions were taken to improve the quality of the Bank's interventions and to make it a focal point for technical expertise. Among others, the management team was overhauled, a special program for terminating employment was introduced, a new human resources strategy was drafted, and a new performance evaluation system was implemented. In the picture, IDB staff training in Ashburn, Virginia.

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2 Sharpening Sector Focus and Expertise

A first key objective of the Realignment was to improve the quality of the Bank's interventions and to make it a focal point for technical expertise on the Region. In particular, the Bank wanted to renew staff skills and align them with its new institutional and operational priorities; reduce institutional fragmentation— particularly between the design and execution of projects, between headquarters and country offices, and between sectors and countries—and encourage cross- sector collaboration in generating Bank products; and improve its capacity to generate and disseminate knowledge effectively.

To this end the management team was overhauled, a special program for terminating employment was introduced, a new human resources strategy was drafted, and a new performance evaluation system was implemented. All technical personnel were grouped together in one Vice Presidency for Sectors and Knowledge (VPS), and the Research (RES) and Knowledge and Learning (KNL) Departments were also brought into VPS. Five strategic areas were identified in which the Bank would develop and deepen its expertise and technical capacities.²⁵

A. STAFF SKILLS

As a result of the Realignment, the Bank's cadre of staff has become more technical and less administrative. One of the major human resource goals of the Realignment was to decrease the ratio of administrative to operational staff in the Bank, and this ratio fell from 22% in 2006 to 14% in 2012.²⁶ The share of technical specialists—employees with position titles of “specialist,” “chief,” “advisor,” or “technical leader” in the professional, technical, or managerial tracks—increased from 41% of total staff in 2006 to 56% in 2012. In the same period the share of technical specialists increased from 40% to 54% in headquarters and from 45% to 60% in country offices.

The growing proportion of technical staff was accompanied by a significant increase in the use of contractual employees. The number of full-time equivalent contractual employees²⁷ at the Bank increased from 833 in 2008 to 1,498 in 2012. During this period, the ratio of technical staff to full-time equivalent contractual employees fell from 90% to 74%.²⁸

New Bank hires are more educated and, in country offices, slightly younger. The number of new hires with a master's degree or equivalent in the technical track increased from 54% to 59% after the realignment. Among all the newly hired technical specialists, the percentage with doctoral degrees increased from 13% to 23% in the same period. In headquarters this proportion increased from 18% to 27%, while in country offices it rose from 7% to 18%. The average age of new Bank hires decreased by 1.7 years. The decrease in age at hire was most pronounced for operational staff in country offices at 4.1 years. At both headquarters and country offices, the average age of all technical specialists showed a small decrease of 1.1 and 1.4 years respectively. That said, the age distribution of technical specialists has not significantly changed. These findings support comments made in the structured interviews that new hires are better educated but have somewhat less experience.

OVE's analysis suggests that the overall experience of new hires in the Bank has increased but the operational experience of new hires in country offices has decreased. Using the methodology described in Box 2.1, OVE analyzed the prior experience of new Bank staff in policy dialogue, project design, project execution, research, and finance. On the aggregate level, the relevant experience of new hires has increased compared to that of new hires before the Realignment, especially in the areas of project design and research (Figure 2.1). New country office employees showed increased experience in research but less experience in project design (from 4.0 to 3.1 years) and execution (from 6.3 to 4.1 years). Although the differences were not statistically significant, perhaps because of the small sample size, these trends were corroborated by evidence from interviews and focus groups.²⁹

Today, as before the Realignment, technical specialists who work in or are hired into country offices tend to have lower grades than staff hired into or working in headquarters. OVE analysis found that an international technical specialist originally hired into and currently working in a country office is about 6% less likely to have achieved a Grade 3 than one with the same years of Bank employment but currently working in headquarters. If that same specialist is working in a country office as a local hire, her/his likelihood of achieving Grade 3 decreases by a further 5%. An international technical specialist originally hired at headquarters but now working in a country office is almost twice as likely to have achieved Grade 3 as one originally hired in a country office. At headquarters, staffs who were originally hired in country offices are 10% less likely to have achieved a Grade 3 than those originally hired at headquarters (Annex H).

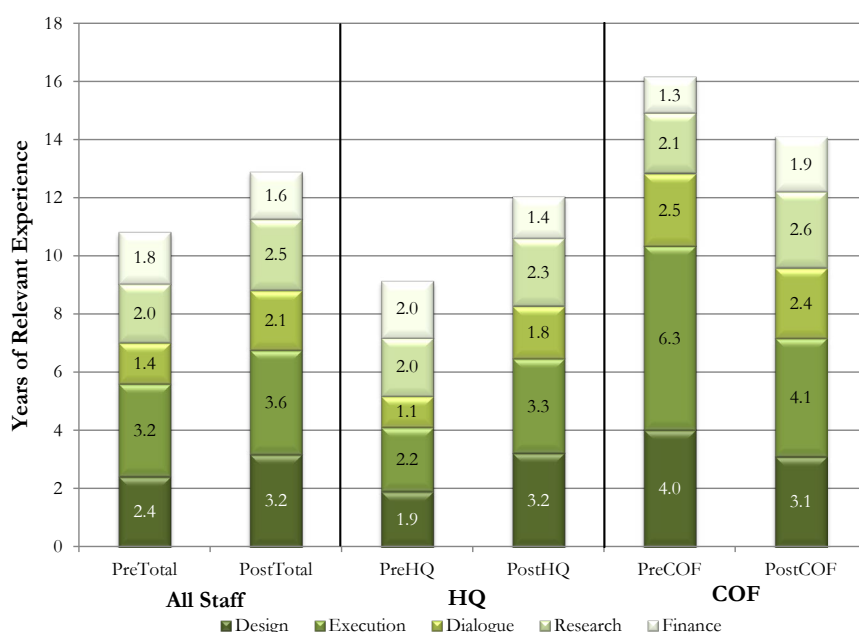


FIGURE 2.1
Years of Relevant Experience at Hire

Source: OVE CV analysis.

BOX 2.1: ANALYZING NEW HIRES AT THE IDB

The Realignment called for a renewed “skill mix” of staff but did not define the term or provide indicators to measure success. To create a proxy for skill sets, OVE reviewed a random sample of 120 curricula vitae (CVs) of incoming employees from 2003 to 2012 (excluding 2007) in the executive, management, professional, and technical tracks and rated their years of relevant experience in the Bank’s major work areas. These work areas were defined as follows:

- *Project design.* Technical input for the creation of projects or advising in the technical aspects of ongoing projects when redesign is required.
- *Project execution.* Direct implementation or supervision of projects—contract management, acquisitions management, etc.
- *Policy dialogue.* Direct engagement in the creation (rather than administration) of public policy, whether as a government, private sector or civil society actor. This can include diagnosing a problem, setting the agenda, drafting policy, shepherding policy through the approval process, or choosing among different policy options on the basis of their perceived impact.
- *Research.* The systematic investigation into and study of materials and sources to answer scientifically posed questions. Can be conducted in an academic institution, think tank, or other organization.
- *Financial services.* Work in private or public sector banks, hedge funds, etc.—institutions that provide financial services rather than set economic policy (in most cases this excludes treasury departments). Financial services can be supplied in nonfinancial organizations (for example, in the finance department of a corporation).

To minimize the effect of inconsistencies in CV formats, all dates were considered on an annual basis with the year beginning in January and ending in December, and CVs without years were counted as missing. Because time at the same job may have included work in more than one category, years of “relevant” experience may in some cases exceed years of actual experience. A more detailed description of the methodology can be found in Annex B.

Bank-provided training has not been an adequate substitute for experience. Although KNL and HRD have strengthened their efforts to improve induction and training courses, interviews suggest that attendance at these courses is limited in part by a lack of time or priority in the organization.

The overwhelming majority of staff do not report an improvement in the managerial skills of managers as a result of the Realignment. Eight in 10 staff surveyed believe that the management team's ability to manage human resources did not change as a result of the Realignment; 78% believe the same about managers' administrative and resource planning skills, 73% about their knowledge of project execution, 72% about their capacity for teamwork, and 64% about their knowledge of project design. Some increase was noted in the technical skills of division chiefs (see Annex G).

The selection processes for leadership positions remain less than fully transparent. Since the Realignment, 55% of selections for the positions of country representative, division chief and manager have been made through competitive processes.³⁰ This is in line with formal HR rules but not necessarily with the goals and spirit of the Realignment, which noted that “the recruitment and selection process... for management positions [did] not provide the necessary safeguards for preventing [it] from being commandeered” and called for “the establishment of a transparent recruitment process for the new management positions” (see IDB, 2006b, paragraph 9.12). On average staff do not see the transparency of managerial selection as having improved significantly (see Annex G, paragraph 2.5), though it should be recognized that some positions — most notably division chiefs — are now filled competitively when they were not before the Realignment. Increasing the transparency and competitiveness of the hiring process for most if not all management positions would help strengthen the management team's capacity and credibility with staff (Ellis, 2013).³¹

B. INSTITUTIONAL FRAGMENTATION

The Realignment identified institutional fragmentation as one of the principal factors affecting Bank project implementation and effectiveness.

1. Discontinuity between design and execution

One type of fragmentation is discontinuity between project design and implementation. Before the Realignment, most projects were designed by headquarters staff with scant participation by country office or fiduciary staff. Once such projects were approved, responsibility for their implementation was transferred to country office staff, who had participated very little in the project design. In effect, once the project was approved it became “someone else's problem”—an approach that was thought to weaken project design, implementation, and success.³²

The Realignment significantly increased team continuity across the project cycle. The share of project team members working on both project design and execution increased from less than half before the Realignment to two-thirds after the Realignment. Likewise, the percentage of operations in which the majority of the team worked throughout the project cycle rose from one-third before 2007 to two-thirds after the Realignment (Box 2.2 and Figure 2.2).

BOX 2.2. TEAM COMPOSITION AND CONTINUITY

Some of the Realignment reforms, such as the matrix structure, the new project cycle, and the decentralization of personnel, attempted to end the fragmentation between design and execution of programs and projects. To address the extent to which the Realignment affected such fragmentation, OVE reconstructed the composition of teams during the project cycle for all loan operations approved in 2003 and 2004, and from mid-2009 through mid-2010, based on the self-reported data gathered in the Time and Labor System (T&L). The analysis was restricted to the composition of teams from 1.5 years before to 2 years after the approval date, to try to isolate the effects of the Realignment on staff rotation and turnover during a project's post-approval stage. This time period includes on average almost 80% of the total time allocated to a loan operation. In addition, OVE considered only employees who had contributed 10% or more of the total time spent on either design or execution within the 42 - month time period. (For further methodological information, see Background paper OVE, 2013a).

The involvement of country office staff in the design process doubled after the Realignment. Before 2007, country office staff participating in project design reported an average of 62 hours per capita before project approval; after the Realignment, the number of reported hours for the same stage was 148. This increase was accompanied by a decline in the average number of hours reported by headquarters staff in the project design stage, from 354 to 237.

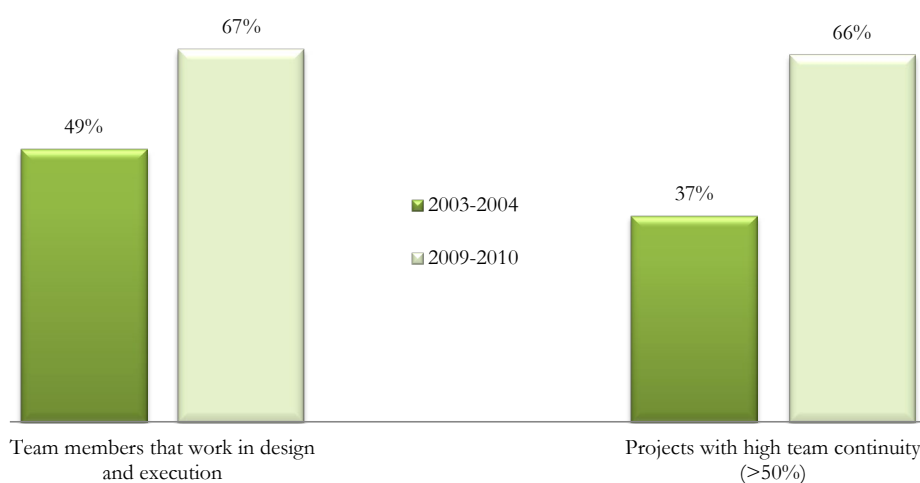


FIGURE 2.2.
Changes in Team Continuity
(1.5 years before approval, and
2 years after approval)

Source: OVE, based on T&L and
Personnel Roster

Team continuity between design and implementation was enhanced by the placement of sector specialists in the field. According to OVE's analysis, design is still led primarily by headquarters staff, but team members located in country offices have become much more involved. Of the projects approved in 2009 and 2010, 40% had two or more members in the field during preparation, compared with only 4% of those approved in 2003 and 2004. Since the Realignment a team member is 20 percentage points more likely to work on both design and execution, but if located in the field, his or her odds are 30 points higher than before.

Team leaders are increasingly located in the field. In 2003-2004, fewer than 1 in 10 of all approved projects had a team leader in the field, but the proportion increased to 4 in 10 in 2009-2010.

More generally, there has been a notable increase in the size and breadth of project teams since the Realignment. The average number of operational staff involved in the design of projects increased from three to four, excluding consultants and administrative and legal personnel. The same increase occurred to teams during the implementation stage. Evidence points to greater, though still not full, participation by fiduciary specialists during the design stage. This coordination tends to happen most naturally when the project team leader is located in the field.

2. Other types of fragmentation

The Realignment document also identified three other types of fragmentation: within headquarters, where the existence of three regional departments hindered staff from working in countries outside their own LAC sub region; between headquarters and country offices, where collaboration was weak even outside the project preparation cycle; and across sectors, where the lack of collaboration prevented the development of synergies and hindered the development of a true "knowledge Bank." OVE carried out a social network analysis (SNA) to study these three types fragmentation at the IDB (Box 2.3 and OVE 2013b).

Regional silos disappeared in the new matrix structure. The percentage of operational staff who worked in projects in different LAC sub-regions increased sharply between 2004 and 2012, with a clear discontinuity after 2007. Whereas less than 1.5% of the operational staff worked across sub-regions in 2006, the share increased to 16% in 2008 and to 24% in 2010 (Background paper OVE, 2013b).

In contrast with the findings at the regional level, the Realignment did not promote growing collaboration between the Bank's principal operational sectors. None of the indicators for measuring collaboration using SNA improved significantly, which indicates that each sector continues to work mainly within its own area and that a high degree of fragmentation between sectors persists. Likewise, there has been practically no expansion in multisector projects (Box 2.3 and OVE 2013b).

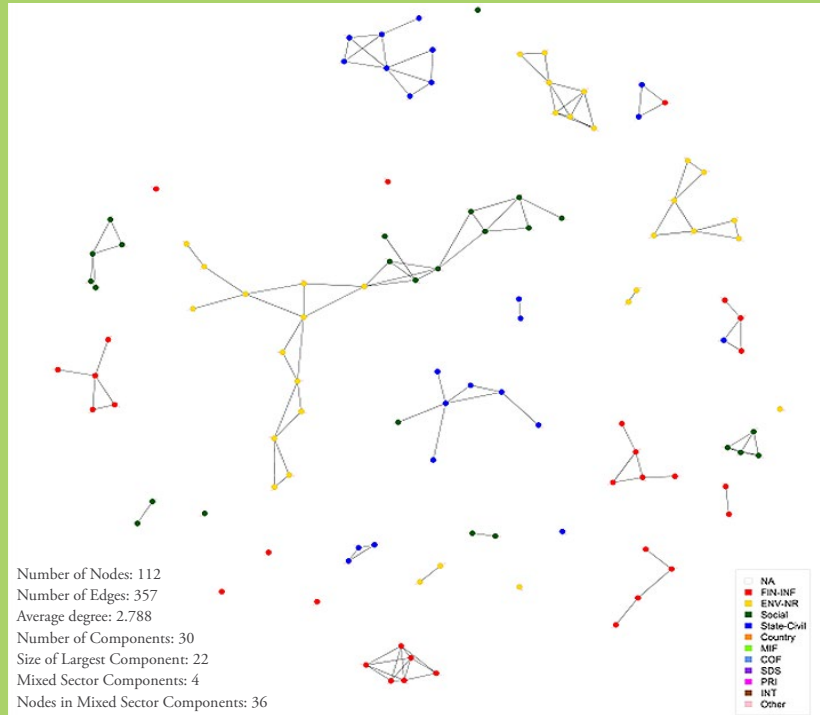
BOX 2.3. COLLABORATION BETWEEN SECTORS AT THE IDB

To study changes in collaboration among employees, OVE applied social network analysis (SNA) (Knoke & Yang, 2008) to data on team membership for loan operations—arguably the most explicit form of *formal* collaboration. OVE relied on T&L data and the Personnel Roster for the periods 2004-2006 and 2008-2012, and considered as members of a team employees who had contributed 10% or more of the total time that the team allocated to the design of a project. Yearly networks were constructed, each composed of “nodes”—each representing an individual IDB employee—and “components.”—each representing a project team. Components or teams are made up of interconnected nodes. For example, three interconnected nodes that are not connected with other nodes represent a team of three that in that year worked only on the design of one operation. (For further details, see Background paper OVE 2013b.)

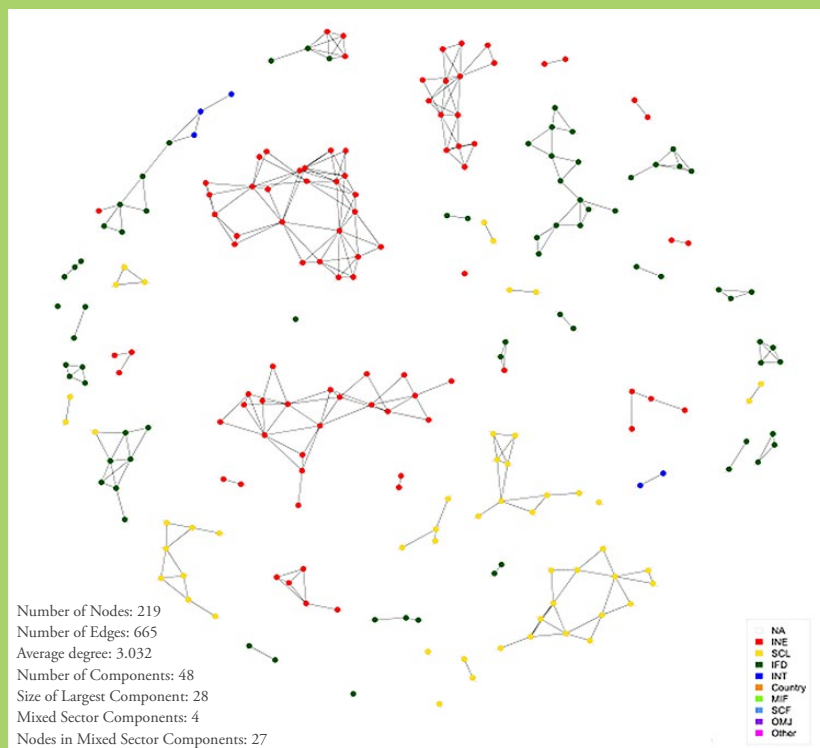
To analyze collaboration between sectors, sub-networks were constructed with nodes—individual staff—from Finance and Infrastructure, Environment and Natural Resources, Social, and State-Civil for 2004-2006; and nodes from Infrastructure and Environment, Institutions for Development, and Social for 2008-2012. In the figures below, nodes are colored according to their sector. They show that despite the increase of the number of staff of the same sector working in the same project—, there is no increase of connectivity *between* sectors. In fact, no clear trend can be identified over time, and high levels of fragmentation between sectors persist. This is reflected in the indexes constructed by two indicators. There is no evidence of the emergence of a stable and bigger principal component, which would have been expected if the connectivity had strongly increased. The number of components hosting nodes from multiple sectors shows high inter annual variation, both before and after the Realignment. The average number of connections between employees of different sectors increased slightly, although the change was not significant. These results are consistent with the views of many interviewees that the Bank's structure and incentives are reinforcing sector-specific projects instead of fostering cross-sector collaboration and integrated approaches.

Box 2.3. COLLABORATION BETWEEN SECTORS AT THE IDB

2006 IDB's Operations Network – Main Sectors



2012 IDB's Operations Network –Main Sectors



The evidence fails to suggest growing formal collaboration between RES and the Bank's operational sectors.³³ In terms of operational design, only one of the more than 200 projects approved between 2004 and 2006 included a person from RES as a formal team member, and the figures are virtually the same for the period 2008-2012.

The lack of collaboration between specialists from the Vice Presidency for Private Sector and Non-Sovereign-Guaranteed Operations (VPP) and VPS is persistent. The Realignment created VPP to coordinate support for the private sector, but the IDB-9 OVE evaluation found little evidence of collaboration between the public and private parts of the Bank, or between separate windows of the private sector. The solutions proposed to improve public/private coordination, such as the Private Sector Development Strategy,³⁴ have proven insufficient. Most interviewees corroborated the lack of coordination between VPS and VPP, as well as between VPP and the Vice-Presidency for Countries (VPC), which manages country dialogue. A large majority also said that the groups' working dynamics and incentives differ and suggested that VPP coordination with either technical counterparts in VPS or country representatives in VPC could lead to delays in private sector projects that would be negatively viewed by clients.

The Bank's incentives do not promote cross-sector collaboration. Though the Realignment intended to set up structure (VPS and VPP) with a critical mass of technical expertise and stronger incentives for cross-sector collaboration, lending pressures and budgetary incentives continue to impede cross-sector collaboration. Despite increased rhetoric on development effectiveness and collaboration, sector divisions have strong incentives to generate their own portfolio and avoid collaboration with other sectors.³⁵ Personal recognition tends to be strongly associated with project task management and approvals, and the budget of sector divisions is largely defined by the number of operations. Moreover, formal incentives such as merit pay favor individual work above teamwork.³⁶ Recently the Bank has begun to offer financial rewards for collaboration, but it is too soon to evaluate their effectiveness.

VPC's lack of effective budget authority reduces its ability to elicit collaboration either from or between VPS and VPP. Current Bank policy formally assigns the transactional budget to VPC, and VPC transfers the resources to VPS once a country program is approved. However, in practice VPC's managers and country representatives appear to have little real influence or leverage over budget allocations for country program design and delivery.

"Double booking" appears to have had limited impact in increasing collaboration across sectors, though there has been an increase in double-booked operations recently. Double booking permits each of two or more sector divisions to register any operation as its own when its employees participate in project team. However, 85% of the operational budget for the project is allocated to one sector division, and the other division has little incentive to "lend" employees. Almost all interviewees reported that

their supervisors, under pressure to approve projects, tend to discourage cross-sector work. Nevertheless, during 2013 the Bank approved a total of 34 multiple-booked operations for a total of US\$4.1 billion, a 111% increase from US\$1.9 billion in 22 operations in 2012.

C. THE BANK'S STRATEGIC SELECTIVITY

The Realignment defined five priority areas—boosting investment in infrastructure, promoting private sector development, implementing effective social policies, building opportunities for the majority, and supporting development of science and technology—to provide a new reference point for selectivity and “positive” targeting of Bank's operations.

The alignment of the portfolio with the strategic areas remains similar to pre-Realignment levels. OVE's analysis found that between 2004 and 2006, half of the project portfolio (both in number and in volume) was aligned with at least one of these five strategic areas, and from 2008 to 2012 the proportion remained essentially the same (56% in number and 52% in volume of operations; see Table 2.1). Only the percentage of loans aligned with “boosting investment in infrastructure” increased significantly, driven mainly by countries from Group A and from the Southern Cone region. The percentage of projects aligned with the strategic areas did increase significantly both in the Caribbean and in Group D countries, from 33% to 63% and 46% to 58%, respectively.³⁷

TABLE 2.1. ALIGNMENT OF THE BANK'S LOAN PORTFOLIO WITH STRATEGIC AREAS

		Approved loans			
		Pre-Realignment		Post-Realignment	
		%	No.	%	No.
Not aligned with strategic areas		50.2	123	44.3	279
Aligned	Infrastructure	17.6	43	23.8	150
	Private sector development	15.5	38	14.3	90
	Social agenda	12.7	31	12.2	77
	Opportunities for the majority	1.6	4	2.1	13
	Science and technology	2.5	6	3.3	21
Total		100	245	100	630

Source: OVE, based on the OPUS database and own classification.

Changes in the distribution of the loan portfolio among sectors since the Realignment have been significant in some cases. Between the periods 2004-2006 and 2008-2012, there has been an increase in the relative importance of loans in energy (4% to 9%), water and sanitation (6% to 11%), and financial markets (1% to 6%)—three sectors that directly or indirectly underpin two of the Realignment priorities (infrastructure

and the private sector). In terms of loan volume, the shares of the total portfolio devoted to loans in water and sanitation and financial markets have increased from 4% to 13% and 6% to 12%, respectively. Although reform and modernization of the state and social investment continue to be two of the most important sectors in the Bank's portfolio, their relative weights in the total portfolio have declined from 39% to 25% in number of approvals and from 53% to 24% in loan volumes.

The alignment of technical cooperation projects (TCs) has not changed significantly. As with loans, reform and modernization of the state and social investment have the highest number of approved TCs, though those in the latter area have diminished significantly from 29% to 14%. In contrast, TCs in the areas of science and technology and private firms and SME development gained significance after the Realignment (from 1% to 8% and from 4% to 6%, respectively), and both are related to strategic priorities identified in 2007.

Only two of the five strategic areas (boosting infrastructure and social agenda) are clearly aligned with the priorities defined under IDB-9 in 2010.³⁸ Like the Realignment, IDB-9 did not lead to major changes in the distribution of the loan portfolio: 52% of the loans approved between 2004 and 2010 were already aligned with the five IDB-9 priorities, and the percentage increased to 55 by 2012.

Country demand continues to be the main determinant of Bank work. According to the nearly unanimous opinion of those interviewed, the Bank's programming—particularly in the Region's major borrowing countries—continues to be determined by the demands of the borrowing country rather than by Bank strategies or changes in the supply of Bank knowledge. The pressures on both VPC and VPS to generate a high volume of loans continue to dominate incentives to generate results or to encourage development effectiveness, which a sharper strategic focus might seem to call for. In fact, 76% of those surveyed maintained that the pressures to approve operations have actually increased since the Realignment.

D. KNOWLEDGE PRODUCTION

The Bank's capacity for knowledge generation has increased since the Realignment. According to the vast majority of those interviewed, the Bank is now giving greater priority to knowledge production, especially by sector specialists, than before the Realignment. This effort has been helped by grouping together specialists under VPS and recruiting staff with more experience in academic research, and by VPS management's willingness to give priority to knowledge generation.

The perception of the quality of the Bank's knowledge products also seems to have improved. Both staff and representatives of civil society organizations and academic institutions say that the Bank produces higher-quality products now than before 2007.³⁹

The role of sector divisions in knowledge production has increased since the Realignment and is better linked to projects. The majority of specialists at headquarters and in country offices say that knowledge production under the “Operational Support” mode serves as an input for the operations they design and execute.

However, it also appears that many research and development (R&D) knowledge products generated by VPS are highly academic and not particularly relevant as programmatic or operational inputs (Annex G). This opinion was voiced by the majority of sector specialists, government representatives, and executing agencies that were interviewed. Civil servants are not usually aware of the more academic products, preferring instead more strategic products that are relevant to their country’s needs.

RES outputs continue to have little relationship with the Bank’s operational and programmatic work. The Realignment document (paragraph 5.13) noted limited incorporation of RES’s knowledge inside the Bank and in borrowing countries. This situation appears to remain unchanged.⁴⁰ For example, in terms of knowledge production, of the total number of RES publications that figure in the Bank Repository of Institutional Knowledge (BRIK), only a very small percentage have had joint authorship between RES and another Bank department, both before and after 2007.⁴¹ Most staff interviewed for this evaluation did not find RES research very useful for their work. Around 30% said they never use it, and just above 50% said they use it only sometimes (see Annex G). Government officials also said they rarely use RES knowledge products.

The Bank’s R&D knowledge products appear to have little input from countries or VPC. The opinion of the majority of sector specialists, country representatives, chief of operations, and VPC personnel is that the R&D knowledge agenda is mainly dictated by VPS’s own priorities and, therefore, the majority of the analytical products are not used to identify an innovative agenda for the future. Although a part of knowledge production has recently begun to be incorporated into programming, its operational relevance is limited because of the lack of coordination between VPS and VPC and country needs.

The Bank’s capacity to disseminate knowledge appears to have improved after the Realignment, but more efforts are required. The Realignment was responsible for the creation of the KNL department, which has made extensive efforts to capture and disseminate the knowledge generated both inside and outside the Bank. Through its Knowledge Management Division and the Felipe Herrera Library, KNL has developed mechanisms that are improving the collection and dissemination of knowledge both inside and outside the Bank.⁴² Most interviewees claim that it is still difficult to find desired knowledge products, and it appears that specialists lack incentives to dedicate time to enter their products into these mechanisms. In addition, the general feeling among counterparts in governments, academic centers,

and nongovernmental organizations is that the Bank makes little effort to disseminate its knowledge externally. The World Bank continues to be the reference point for these actors when it comes to specific research matters.

The decentralization of staff has increased the transfer of technical knowledge. The availability of sector specialists in the field to have ongoing technical dialogue and project supervision with counterparts should also be considered an important avenue of knowledge exchange. Government and executing agency officials often cited this exchange as a positive result of the Realignment.

E. SUMMARY

The Realignment led to a significant change in Bank staffing at both the technical and managerial levels. On average, technical staff hired since the Realignment have more education and technical skills, but those hired in country offices tend to have somewhat less operational experience. The Realignment led to an almost complete turnover in the Bank's managerial cadre, with about half of new country representative, manager and division chief positions hired through competitive processes. Most staff do not perceive an increase in managerial skills and continue to see managerial selection processes as less than fully transparent.

A major goal of the realignment was to reduce fragmentation along many dimensions—between people working in various LAC sub-regions, between project design and implementation, between headquarters and country offices, and between sectors. The Realignment removed regional silos and increased team continuity and headquarters-country office collaboration throughout the project cycle, but collaboration across sectors and between the public and private sector windows has not improved. Sector silos remain very high and the incentives for cross-VP or cross-sector collaboration very weak in the Bank. The Realignment does not seem to have had a major impact on the substantive strategic directions of Bank lending, which continue essentially to reflect client demand.

Overall the Bank has improved its capacity to generate and disseminate knowledge, although many of its knowledge products are still perceived as poorly aligned with operational needs. There has been an increase in the alignment of knowledge products of the “Operational Support” type, though many of VPS's R&D products are not seen as aligned with operational needs. There has also been an improvement in the mechanisms for knowledge capture and dissemination, though their use remains limited. The presence of specialists in the field is helping to increase the dissemination of Bank knowledge.

To help the IDB get closer to the countries it serves, the Realignment proposed that country offices become a “single window” to lead the dialogue between the Bank and the countries, define the strategy and the program, deliver the Bank’s products, and attend to the specific needs of each country using a programmatic approach with appropriate risk- and results-based management.

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3 Sharpening Country Focus

One of the strategic objectives of the Realignment was to enhance the Bank’s relevance and development effectiveness by sharpening its ability to tailor its support to individual countries’ needs. This concept of country focus is a long-standing MDB ambition, arising in reaction to a perception that MDBs operated according to a set recipe book without taking into account the special needs of each particular country. The Realignment provided a fresh impulse to this aspiration,⁴³ although it did so in a generic and unspecific way.

To help the Bank get closer to the countries it serves, the Realignment proposed that country offices become a “single window” to lead the dialogue between the Bank and the countries, define the strategy and the program, deliver the Bank’s products, and attend to the specific needs of each country using a programmatic approach with appropriate risk- and results-based management. According to the Realignment document, this implied, among other things, delegating authority to country offices, enhancing their technical capacities, increasing their financial and human resources, increasing collaboration between headquarters and country offices and between project design and execution, and increasing staff mobility.⁴⁴

A. COUNTRY OFFICE CAPACITY

In general terms, there appears to have been an increase in the capacity of country offices to lead the country strategy and programming process,⁴⁵ although this increased capacity has not yet necessarily translated into more strategic and longer-term programming for each particular country. Three factors have contributed to this improvement. First, country representatives are now formally responsible for leading the dialogue, a function that was entrusted to the country division chiefs in headquarters before the Realignment.⁴⁶ Second, country offices have more technical staff than before the Realignment. And third, there has been a noticeable increase in collaboration between headquarters and country office staff of the same sector divisions, as discussed in Chapter 2.

BOX 3.1. EVIDENCE FROM CASE STUDIES

OVE conducted case studies in 10 countries: Argentina, Belize, Brazil, Colombia, the Dominican Republic, El Salvador, Guyana, Mexico, Nicaragua and Paraguay. As part of these case studies, OVE designed seven different types of focus groups — four for internal and three for external stakeholders — to address different dimensions of the evaluation (for example, the policy dialogue, programming, project design and execution, resource management, and knowledge products; see Annex F for questionnaires). The composition of the focus groups was defined in consultation with country representatives and chiefs of operations in each country, with an effort to include a range of perspectives, knowledge and experience. For the external focus groups, OVE sought representatives of governments, executive agencies, and civil society who have interacted with the Bank for a minimum of eight years, both before and after the Realignment. In total, OVE conducted 48 focus groups with 139 employees and consultants from country offices and 32 representatives of governments, executive agencies and civil society.

The table below shows a number of key findings of this evaluation on which there were relatively high levels of agreement among both internal and external stakeholders.

Finding	% Agreement	
	Internal	External
Skills		
Increased sector knowledge of country office specialists	67	86
Weaker project implementation skills of country office specialists	89	86
Collaboration		
Increased HQ/COF collaboration within same division	67	n.a.
Continued coordination weaknesses across sectors and vice-presidencies	100	100
Roles		
Confusion of roles between country representative and manager	89	86
Limited authority of country representative over country program delivery	100	71
Limited involvement of country representative in technical dialogue carried on by VPS and VPP staff	67	71
Processes		
Increased burden of operational processes	100	71
Enhanced capacity to design and implement operations due to proximity to implementing agency	100	86
Increased pressures to approve and disburse loans	100	100
Weak quality control mechanisms	89	n.a.
Career Development		
Limitations of PMR as a project management tool	89	n.a.
More limited career development opportunities of country office staff as compared to headquarters staff	89	n.a.

However, certain structural and process-related elements tend to limit country representatives' authority and ability to make use of the technical resources in the field. First, the responsibilities of country representatives *vis-à-vis* regional managers are not well defined. According to those interviewed, in some countries the strategic and planning dialogue is led in the field by the country representative,⁴⁷ while in others it is led by the regional manager in headquarters. Based on interviews with staff and government representatives, the general impression is that the distribution of responsibilities is very much personality-driven. Many government counterparts interviewed for this evaluation reported that they would prefer that the authority to prepare, approve and implement the country programming be in the field (see Box 3.1).

Second, the matrix structure resulting from the Realignment⁴⁸ has not effectively addressed the coordination problems intrinsic to any matrix organization, which particularly affect processes for strategy and program definition (IDB, 2012d).⁴⁹ As the evidence presented in the previous chapter suggests, collaboration among sectors and among VPC, VPP, and VPS is weak for several reasons.⁵⁰ When compared to the pre-Realignment structure, the chain of command has grown in length.⁵¹ This tends to hinder coordination and effective participation by all parts of the matrix. It also limits the country representative's control of resources when it comes to strategy preparation. In addition, Bank procedures and structure do not facilitate coordination among VPC, VPS, and VPP in the preparation of country strategies and programs (Box 3.1).

The strategy preparation procedures⁵² and budget practices do not help to integrate the perspectives and inputs from all sides of the matrix, taking advantage of the "creative tension" expected from a matrix structure.⁵³ Preparation and approval of country strategies and programs is VPC's sole responsibility. VPS staff are required only to prepare technical notes. VPP employees are occasionally consulted, but they do not often take part in the dialogue on the strategy, even with respect to private sector development.⁵⁴ Also, the Bank produces few rigorous country level diagnostics that identify the crucial development challenges across sectors and help integrate the Bank's program design and delivery and guide its technical dialogue.⁵⁵ Moreover, VPC has no adequate staff to integrate VPS work, and VPS has no designated mechanism to integrate its country-specific knowledge across sectors.⁵⁶ Finally, country representatives do not have the authority, budgetary or otherwise, to coordinate the work undertaken in their countries even by technical specialists in country offices, much less by headquarters-based staff.⁵⁷

Moreover, lending pressures reinforce sector silos (Box 3.1). VPS divisions and VPP private sector windows are under management pressure to boost their portfolios, which encourages each to pursue its own agenda irrespective of the priorities of the country. As noted earlier, these same pressures also make it extremely difficult to

include multi-sector programs in country strategies or programs, even though—as government representatives noted—some development problems would be more effectively tackled from a cross-sector perspective.

Though country situations vary, day-to-day technical dialogue for specific sectors tends to be conducted by sector specialists with limited knowledge of country representatives (Box 3.1). As a result, the technical dialogue tends to lack a clear strategic focus and responds more to the needs of portfolio generation. The situation is compounded when the office and the portfolio are large, although more experienced country representatives tend to be better than less experienced ones at keeping informed about, and helping guide, the technical dialogue.

B. CAPACITY TO DELIVER BANK PRODUCTS

1. Project design

Both the Bank's capacity to design projects and country offices' contributions to that capacity appear to have improved as a result of the Realignment. In line with the findings of OVE's evaluation of higher-middle-income countries (IDB, 2012f), 69% of staff surveyed and the majority of country representatives interviewed for this evaluation stated that there has been an increase in staff skills related to project design in country offices.⁵⁸ A majority of staff interviewed attributed this at least in part to an increase in authority to design projects in the field and to the increase in the number of sector specialists in the field as a result of decentralization. As was noted in Chapter 2, more country office staff are participating in or leading project teams, and the fragmentation between project design and execution has been reduced. Unfortunately, OVE was not able to compare project quality pre- and post-Realignment using empirical evidence, or to determine whether projects are better tailored to country needs, as reliable data are not available.⁵⁹

Other changes emerging from the Realignment are also likely to have contributed to better project design: including the establishment of a strong and independent quality-control function in the Strategy and Planning Department (SPD) and the introduction of various quality control tools, such as the Development Effectiveness matrix (DEM) to measure upstream project evaluability. According to government representatives and operations managers interviewed for this evaluation, these changes have contributed to projects that are more realistically designed than in pre-Realignment days—when there was no effective, quasi-independent quality control mechanism, and the standards and methodology used to evaluate project quality were ineffective.⁶⁰

Processes have not been streamlined. The New Project Cycle, which the Bank approved in 2007, aimed to adjust the project cycle to the new matrix organization and to resolve some of the weaknesses of the previous system— excessive number of steps, too many required signatures, lack of clarity in the decision- making process, inadequate focus on implementation, and weak risk- and results- based management (IDB, 2007c). However, two-thirds of staff interviewed believes that the bureaucratic costs for preparing projects have increased, and 55% have similar opinions about the costs of preparing TCs. Furthermore, as Chapter IV discusses, preparation times for projects have not fallen.

One reason for the increase in the bureaucratic costs may be added quality control mechanisms. For example, the introduction of the DEM has led to an improvement in project evaluability, but it may also have considerably increased the amount of work needed to finalize a project. The time between the Quality and Risk Review's (QRR) approval of the Proposal for Operations Development (POD) and the Operational Policy Committee's (OPC) approval of the loan document has increased by 18.3% since 2008. It should be noted though that some project team leaders whose projects have consistently obtained good DEM ratings reported that the DEM generates no extra work for them—and, indeed, that it makes their job easier by clearly stipulating the formal elements a good project needs. They also believe that the DEM, and SPD's role in reviewing it, has led to a more objective system of quality control than existed before the Realignment.

Another reason for increased bureaucratic costs is an uncertain review process. Informal controls proliferate, and it is unclear when the process might end and how. Staff complain that the QRR often fails to close the cycle, meaning that the project continues in a constant, ad hoc process of being amended by informal reviewers until it is presented to the OPC. Staff also complain about the number of signatures they have to obtain to process a project.

Even with these added processes, quality control mechanisms for projects appear weak. The QRRs do not appear to be taken seriously enough from a substantive point of view—perhaps because of the coexisting informal processes noted above and the fact that they are conducted virtually and managers are not required to participate—and thus they are unable to gather and incorporate the relevant opinions in the Bank. QRR reviewers appear to focus more on improving the formal aspects of project documents than on improving the substantive design of the project.⁶¹ Neither experienced specialists from other sectors nor external reviewers participate, and opportunities for learning and “cross-fertilization” are thus missed. Nearly half of the specialists interviewed believe that the quality control exercised by the QRR has gotten worse when compared with the old model -- the General Review Committee. There are also widespread doubts about the value-added of the OPC review, and many staff interviewed felt that a stronger and more disciplined one-stop process would be preferable to the two- level QRR-OPC process now in place.

As noted above, SPD's role has enhanced quality control since the Realignment, but it needs to be reinforced. According to the operational staff interviewed, SPD lacks the number and variety of sector experts with Bank operational experience that would be needed to carry out quality control consistently.⁶² The majority of staff interviewed felt that a project might receive different ratings depending on which SPD staff served as reviewer—which points to some possible shortfalls in SPD capacity and/or processes.⁶³

Finally, as noted in Chapter 2, pressures to approve projects can undermine incentives for good project design. Over three-quarters of staff surveyed believe that pressures to approve loans have increased since the Realignment (Annex G). Many staff reported in structured interviews and focus groups that they have been pressured by their supervisors to minimize identified risks lest project approval be delayed. These pressures also compromise the value of the DEM, as staff report that managers view the achievement of the minimum DEM score necessary for Board approval as an end in itself rather than as an instrument to help achieve a project's development outcomes (Box 3.1).⁶⁴

2. Project implementation

The Realignment has had mixed effects on the Bank's capacity to support project implementation. Progress in some aspects has been offset by backsliding in others. More than two-thirds of staff surveyed and a majority of those interviewed expressed the view that backward steps are negating the progress achieved in some dimensions (Annex H).⁶⁵

A number of elements have enhanced the capacity of the Bank in general, and of the country offices in particular, to support project implementation: the delegation of more authority to project team leaders, the project attorney, and the fiduciary specialist; increased continuity in project teams; the stronger educational profile of sector specialists; and the greater proximity to the project for field-based team leaders (see Chapter II).⁶⁶ The authority delegated to project team leaders and members for supporting project implementation increased significantly after the Realignment. Before the Realignment, project team leaders—rather like today's country representatives with regard to country strategy and programming—were in a situation of responsibility without sufficient authority. The authority to grant an extension or modify a contract, for example, was reserved for the Bank's highest authorities (see OA-420, 2003). Today, in contrast, project team leaders have wider authority—for example, to extend the deadlines for prior conditions and final disbursements. Financial specialists and project lawyers also have greater authority—for example, over legal reports, interest rate changes, and the presentation of audits.⁶⁷ The great majority

of those interviewed, particularly those responsible for implementation at the Bank and in the countries, stated that the delegation of authority has created a wave of dynamism.

However, changes in staffing due to the Realignment have led to some decline in the experience and competence of technical specialists in country offices with regard to project implementation (as discussed in Chapter II).⁶⁸ According to the case studies, a large majority of staff and government counterparts alike believe implementation skills in country offices are weaker than before the Realignment (Box 3.1). In recognition of this fact, VPC expanded the position of operations analyst to operate across sectors and help deliver the work program.

A large majority of country office staff and government officials interviewed stated that, despite some decentralization of responsibilities in the Realignment, the Bank's country representatives lack adequate authority to coordinate the budgetary and human resources necessary for portfolio management (see Box 3.1).⁶⁹ Managing a portfolio with a country focus requires proximity to the country, a global view of the country and its portfolio, and the capacity to reallocate financial and human resources among different projects. Although project implementation tends to be supported by specialists located in country offices, these specialists are assigned to, and answerable to, the sector divisions located at headquarters, which may lack a global view of the country and its portfolio. Moreover, this responsibility is shared by as many sector divisions as there are sectors in any given country's portfolio, and there is no effective mechanism to manage trade-offs at the country level or to facilitate cross-sector coordination when needed. Many representatives and specialists based in country offices report that the assignment of technical staff to country offices tends to be decided with reference more to the needs of each sector division than to the needs of the specific country. Thus some sectors lack adequate coverage in country offices, while others are covered to excess.⁷⁰ In this context, many interviewees also point out that a centralized HRD has limited ability to focus on country office human resources issues. Moreover, country representatives, in contrast to the pre-Realignment arrangements,⁷¹ lack the authority to shuffle work responsibilities among specialists (whether employees or consultants) in country offices, and no mechanism exists to enable country representatives and division chiefs at headquarters to jointly allocate work among specialists, fiduciary staff, and consultants.⁷² More than half of project team members are in headquarters, making it even more difficult for country representatives to influence staffing and resource allocation for portfolio management.

Other process-related issues, some long-standing and some introduced since the Realignment, also affect project implementation. The requirements associated with risk management, safeguards, corporate goals, and project monitoring and evaluation

are necessary to ensure development effectiveness. However, team leaders believe many of these tools—such as the Project Monitoring Report—are not yet adequate for project management.⁷³ Moreover, a general weakness in information systems raises the amount of work specialists must do.⁷⁴

Staff report that pressures to disburse, like pressures to lend, have increased since the Realignment. The great majority of staff interviewed recognize that the Bank is putting greater emphasis on results-based management and development effectiveness. However, 83% of those surveyed thought that the pressures to make disbursements are higher now than before the Realignment (Annex G). Moreover, the great majority of those interviewed maintain that when there is a trade-off between development effectiveness and disbursement, the latter usually wins.

Country office staff may face some disadvantage in career development opportunities. As noted previously, OVE analysis found that the grades of field-based staff are on average lower than those of headquarters-based staff, controlling for academic qualifications and professional experience.⁷⁵ The majority of field-based staff interviewed for this evaluation believes that losing proximity to one's direct supervisor has a negative effect on promotions and evaluations, and that the opinion of the country representative has little effect on their promotion possibilities or long-term professional development.

C. SUMMARY

The Realignment has resulted in a modest increase in country office capacity to lead the strategy and programming dialogue. This increase resulted from the delegation of these responsibilities to country representatives, combined with some decentralization of technical staff and stronger collaboration among headquarters and field-based employees within individual sectors. However, this capacity remains limited by Bank structure, policies and processes, and incentives—most notably the confusion between the roles of managers of country departments and country representatives and the limited authority actually delegated to the representatives in practice, combined with the very limited engagement of VPS or VPP staff in this dialogue. There is no evidence that the Realignment has led to better long-term strategic planning or programming, and short-term pressures for loan approval and disbursement appear greater than before the Realignment.

On the project side, the Realignment appears to have led to some increase in the ability of the Bank in general, and of country offices in particular, to design better projects, but not necessarily to support their implementation. The decentralization of technical staff, the strengthening of SPD's quality control function, and the greater continuity in project team membership across the entire project cycle have all contributed to better project design, according to most people interviewed for this evaluation. The overall quality control function is still problematic, however; SPD lacks adequate capacity,

neither the QRR nor the OPC is seen by staff as particularly effective, and informal quality control mechanisms are uncertain and costly. Project implementation has been positively affected by the Realignment's delegation of some authority to team leaders and members, but it has been negatively affected by some reduction in the experience of country office staff and by the same cross-matrix coordination problems that affect the policy and programming dialogue.

The institutional overhaul unleashed by the Realignment included the introduction of a matrix structure to simplify the Bank's organization, the consolidation of organizational units to create synergies and eliminate institutional fragmentation, the update of project procedures, and the reform of operational support and the shared service functions.

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4 Institutional Efficiency

Another of the objectives of the Realignment was to enhance institutional efficiency. To this end the Realignment proposed the following reforms: the introduction of a matrix structure to simplify the Bank's organization, the consolidation of organizational units to create synergies and eliminate institutional fragmentation, the update of project procedures, and the reform of operational support and the shared service functions (budgets, administration, human resources, information technology, and legal advice). To assess to what extent this objective has been achieved, OVE gathered data on the direct and indirect costs of the Realignment and a number of efficiency indicators.

A. THE COSTS OF THE REALIGNMENT

Management initially estimated the costs of the Realignment at US\$87.6 million, but these estimates were adjusted downward during implementation. Management agreed to repay the costs of Phase I and Phase II of the Realignment by 2013 (US\$74 million), leaving 109 staff vacancies unfilled to achieve this goal. This plan would have meant making annual budget cuts totaling \$12.3 million through 2013, to repay the estimated costs. As a result, Management took a budget reduction of US\$12.3 million in the 2008 Administrative Budget. In 2009 Management informed the Board that the Realignment costs to be paid back totaled only US\$61.5 million instead of the originally estimated amount, so the 2010 cuts totaled only US\$10.3 million.⁷⁶ In 2010 the Board approved a budget increase of US\$1.5 million for 2011,⁷⁷ and in 2014 a budget adjustment of US\$8.8 million was put in place to reduce the annual reimbursement to zero.

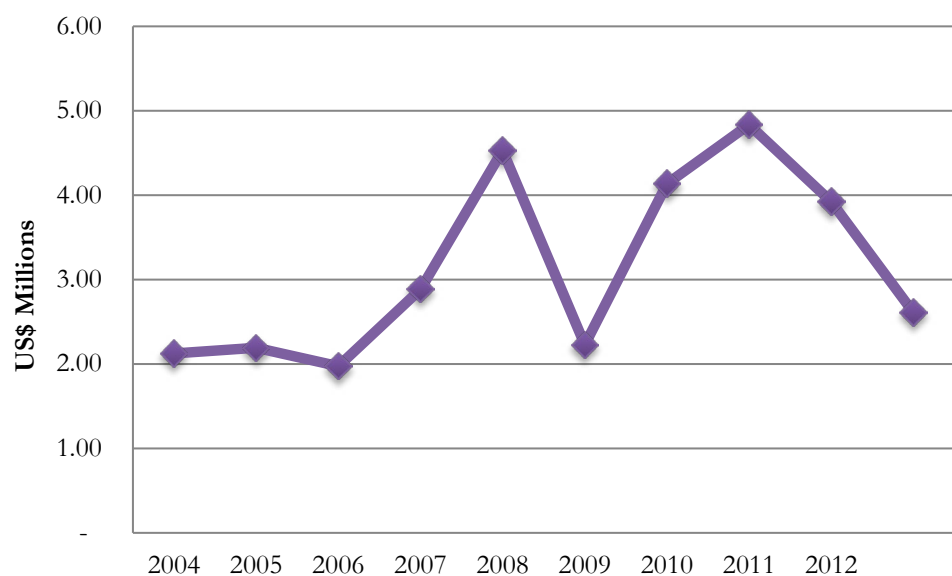
Management estimated that most of the costs would be for staff redundancy payments, personnel costs, and consulting services. As of April 2009, these expense categories accounted for more than 97% of total expenses. Other costs included recruitment expenses, logistic costs, and temporary field office leasing, but these costs were small and decreased still further over time.

However, these cost figures do not include other direct and indirect costs associated with the Realignment. Unfortunately it is difficult, and in some cases impossible, to quantify these costs and separate them from the Bank's normal costs. They include decentralization costs, the costs of improving the Bank's processes — under project OPTIMA—, and the costs of staff early retirement brought about by the Realignment, as well as the loss of institutional memory and the learning curve of the new employees contracted to replace those made redundant by the Realignment.⁷⁸

The decentralization promoted by the Realignment required spending on staff relocation and investments in the country offices to accommodate the transferred staff. The costs associated with staff decentralization approximately doubled, from roughly \$2 million per year before 2007 to almost \$4 million per year after 2010 (Figure 4.1). And as Chapter II noted, consulting costs in country offices have almost doubled. It should also be noted, however, that although a rigorous cost-effectiveness analysis is not possible, many of the positive developments noted in Chapters II and III have resulted from the greater delegation of authority and decentralization of personnel to the field.

FIGURE 4.1
Staff Relocation Costs
(millions of US\$)

Source: OVE, based on data from the Enterprise Data Warehouse (BFMP Actual).



OPTIMA implementation costs have not been accounted for as part of the Realignment.⁷⁹ The Bank has allocated \$55 million to this program, excluding staff costs and other capital projects needed to implement the program. Management estimated that OPTIMA would bring benefits in efficiency of between 10% and 15%, and returns on the investment of between 6% and 20%.⁸⁰ The OVE evaluation of OPTIMA conducted as part of the IDB-9 evaluation concluded that there have been significant delays that have been costly in efficiency terms, given that current Bank systems are already obsolete (IDB, 2012b).

The early retirement program promoted by the Realignment contributed to a decline in the ratio of active to pensioned staff, which puts added pressures on pension costs. In 2007 the number of pensioners surpassed the number of active Bank employees (Figure 4.2). Limiting the number of Bank staff—in part to repay the costs of the Realignment—and relying increasingly on consultants tends to perpetuate the problem.

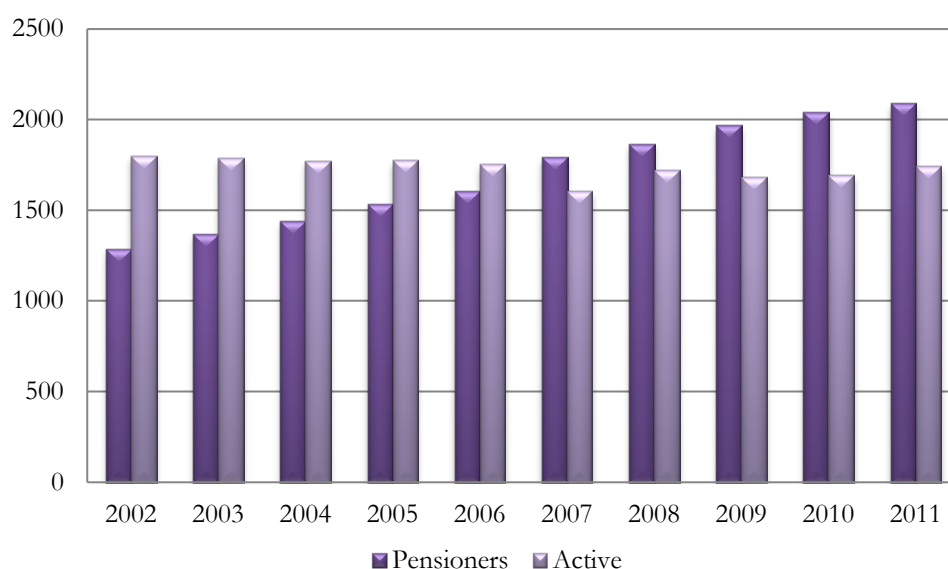


FIGURE 4.2
**Retirement Plan:
Active Personnel vs. Retired
Personnel**

Source: Annual Report Staff Retirement Plan 2011.

B. EFFICIENCY INDICATORS

OVE found no difference in preparation times before and after the Realignment. To compare project preparation times, OVE measured preparation time starting at the end of the first month in which 40 or more hours were registered in the Time Reporting System. Using this standard measure, OVE found that since 2004 average project preparation times have varied between 10 and 12 months (see Table 4.1). According to interviews, the reason why recent Management reports suggest that there has indeed been an improvement in preparation times is that there have been changes in the way operations' "starting date" is computed.

TABLE 4.1. AVERAGE PREPARATION AND FIRST DISBURSEMENT TIMES

	Year of Approval	Preparation Period	Interim Period
Pre 2004-2006	2004	10.85	5.23
	2005	10.6	5.17
	2006	12.43	5.77
Post 2008-2012	2008	11.30	3.70
	2009	10.77	4.67
	2010	10.67	3.80
	2011	11.08	3.20
	2012	11.70	3.72

Note: The values indicate the average months of preparation by the year in which the projects are approved.

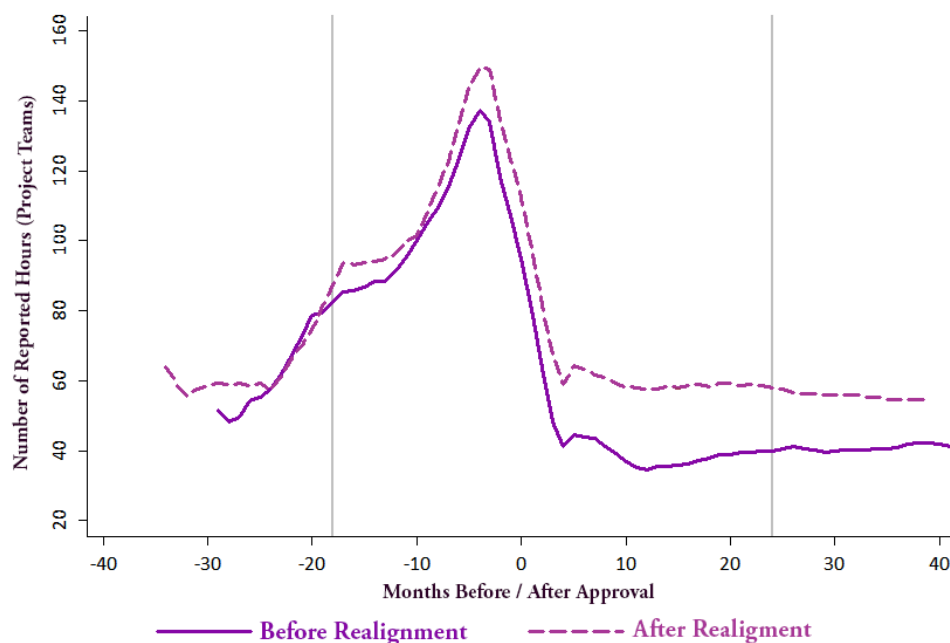
The evidence shows no change in hours reported by project teams throughout the project cycle. Around 80% of all technical staff hours dedicated to the project cycle continues to go to the project preparation stage (Figure 4.3).

FIGURE 4.3

Hours Reported Monthly by Project Teams relative to Approval Date

Source: OVE, based on data from the Enterprise Data Warehouse.

Note: This figure was prepared excluding administrative and legal staff (OVE, 2013a).



The trend in project preparation costs is difficult to determine given data weaknesses. As noted above, the average number of staff hours spent in preparing projects appears to be the same pre- and post-Realignment. In addition, the ratio of total project preparation expenditures to the number of projects approved in the Bank each year has declined over time. Figure 4.4 shows the total real project preparation expenditures⁸¹ divided by the number of projects approved per year. It is important to point out that trend started prior to the Realignment.⁸²

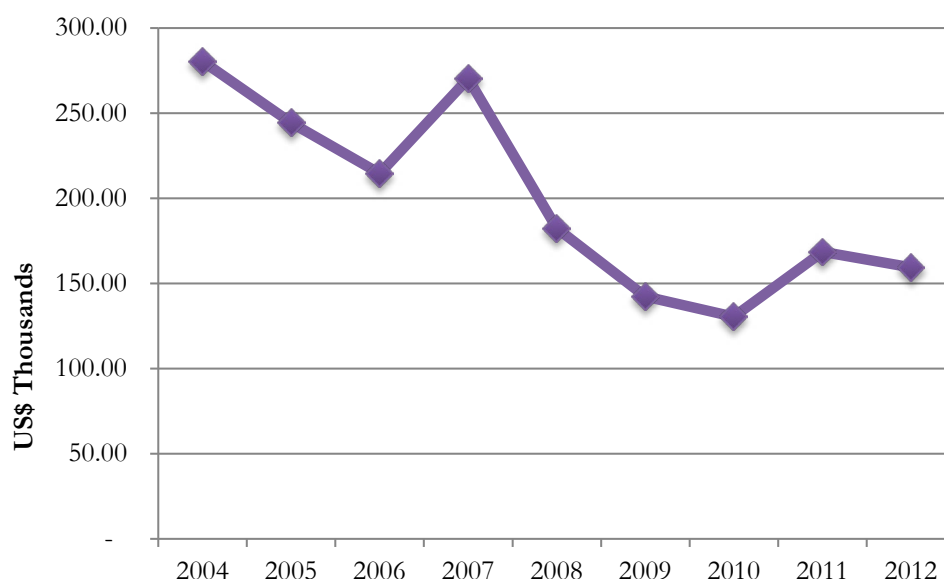


FIGURE 4.4
Ratio of Total Project Preparation Expenditures to Number of Projects Approved

Source: OVE, based on data from the Enterprise Data Warehouse.

Note: The figure shows the total direct costs associated with all loans until their approval date divided by the total number of projects approved, all within a calendar year. Costs have been deflated with the compound deflator used to calculate the Bank's budget in 2004 US\$.

OVE's analysis does reveal reductions in the interim period—that is, the time between project approval and eligibility for implementation. The data suggest that before the Realignment more than 5 months were required, on average, to take a project from approval to implementation; this number fell to between 3 to 4 months in all years after the Realignment except 2009 (Table 4.1).

With regard to project implementation, available data indicate that the rate of disbursements in individual projects has accelerated since 2007.⁸³ Before the Realignment, the typical project disbursed 10% of the approved funds during the first year and 27% during the first two years. After the Realignment, these percentages rose to 14% and 38%, respectively (Table 4.2).

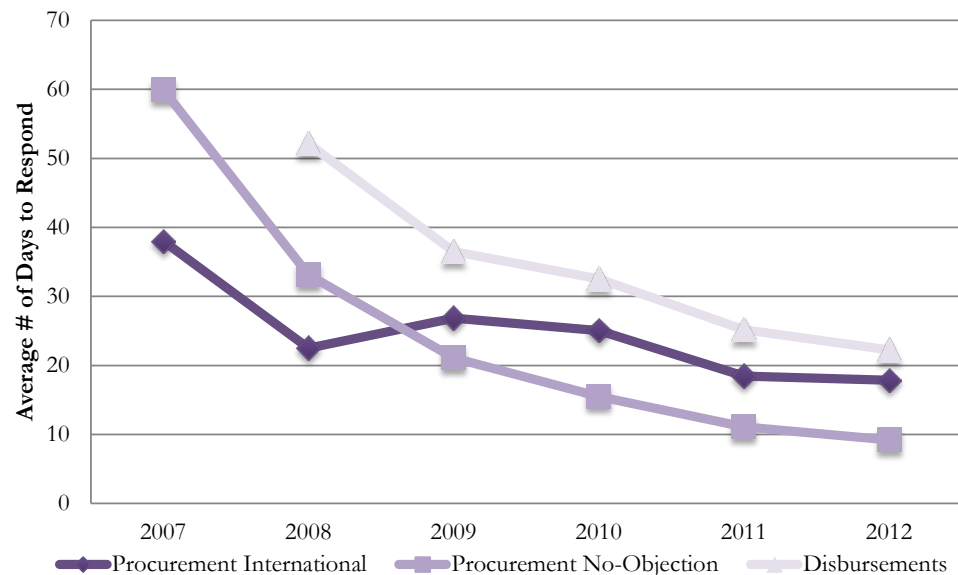
TABLE 4.2. PERCENTAGES OF DISBURSEMENTS PRE- AND POST-REALIGNMENT FOR INVESTMENT PROJECTS

	% Disbursed	# of Projects	P25	Median	P75
Pre 2004-2006	Year 1	203	0.05	0.10	0.25
	Year 2	203	0.12	0.27	0.54
	Year 3	203	0.25	0.45	0.72
	Year 4	203	0.38	0.62	0.90
	Year 5	203	0.49	0.78	0.98
Post 2008-2012	Year 1	410	0.05	0.14	0.34
	Year 2	290	0.20	0.38	0.69
	Year 3	186	0.33	0.55	0.85
	Year 4	62	0.48	0.73	0.90
	Year 5	12	0.62	0.87	0.99

Furthermore, there is some indication that the Bank may be responding more quickly to requests. Information gathered from SISCOR (Correspondence System), the Bank's official correspondence system, indicates that the Bank's reaction times with regard to non-objections, international contracts, and disbursements have fallen. Table 4.5 shows these changes, though they should be interpreted with some caution as reporting has also improved in recent years.

FIGURE 4.5
Bank Reaction Times According to SISCOR

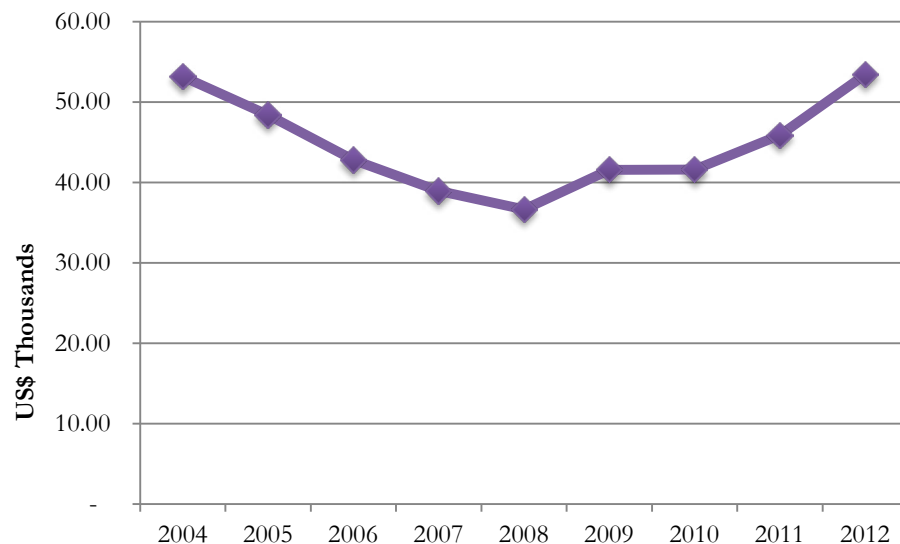
Source: OVE, based on data from SISCOR.



It appears that implementation costs have risen since the Realignment, reversing a previous downward trend. The real budget spent annually on implementation divided by the total number of active projects in that year increased from US\$39,000 to US\$64,000 between 2007 and 2012, well above the US\$48,000 average in 2004 (Figure 4.6).

FIGURE 4.6
Ratio of Total Project Implementation Expenditures to Number of Active Projects⁸⁴

Source: OVE, based on data from the Enterprise Data Warehouse.



Despite improved disbursement speeds in individual loans, total undisbursed balances continue to rise. Figure 4.7 shows trends in approvals (both number of loans and amounts), overall disbursements, and undisbursed commitments. As Figure 4.8 illustrates, total disbursements have fallen significantly below projected levels since 2010.

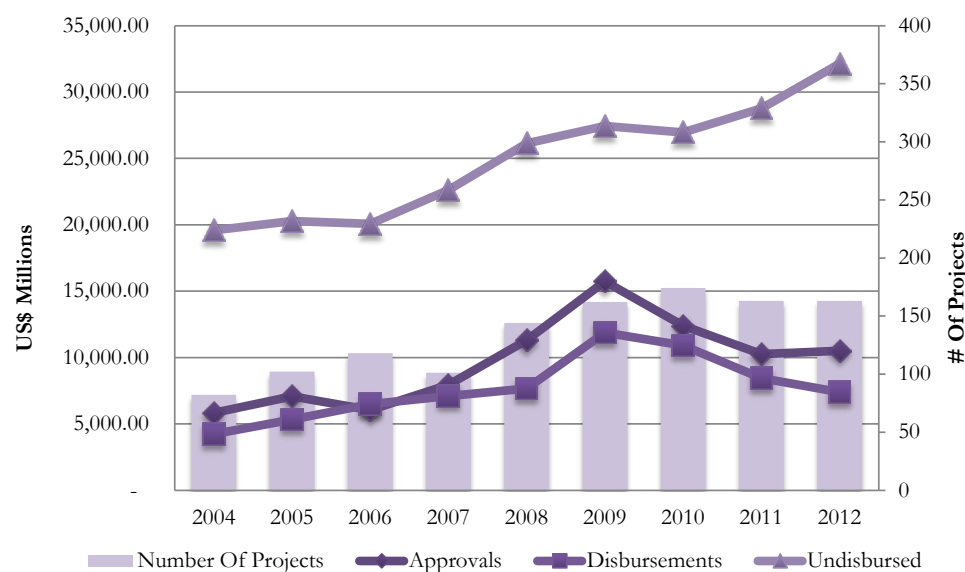


FIGURE 4.7
The Bank Portfolio: 2004-2012

Source: OVE, based on data from the Enterprise Data Warehouse.

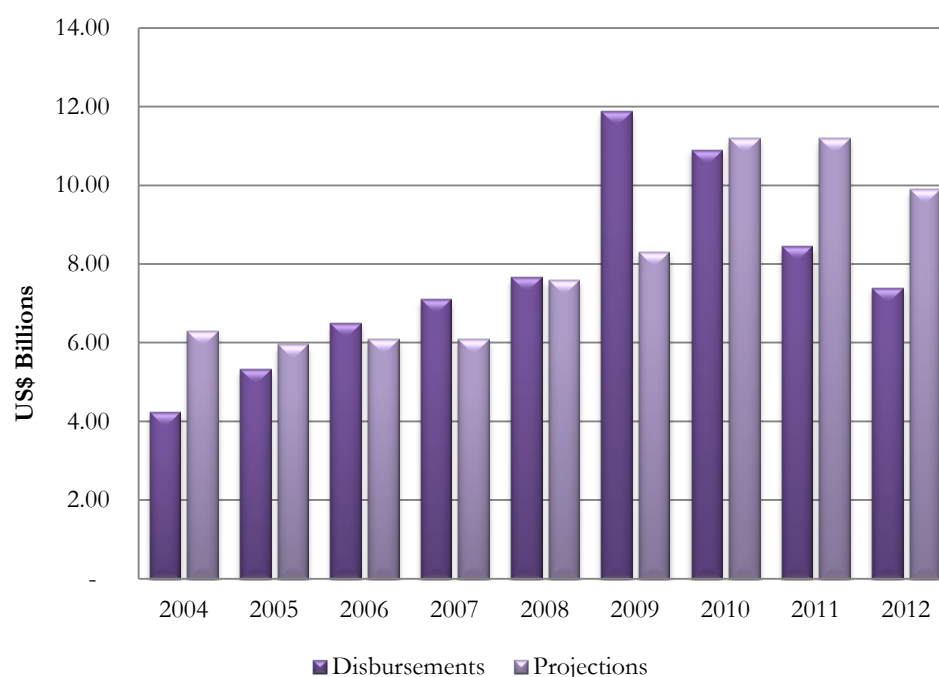


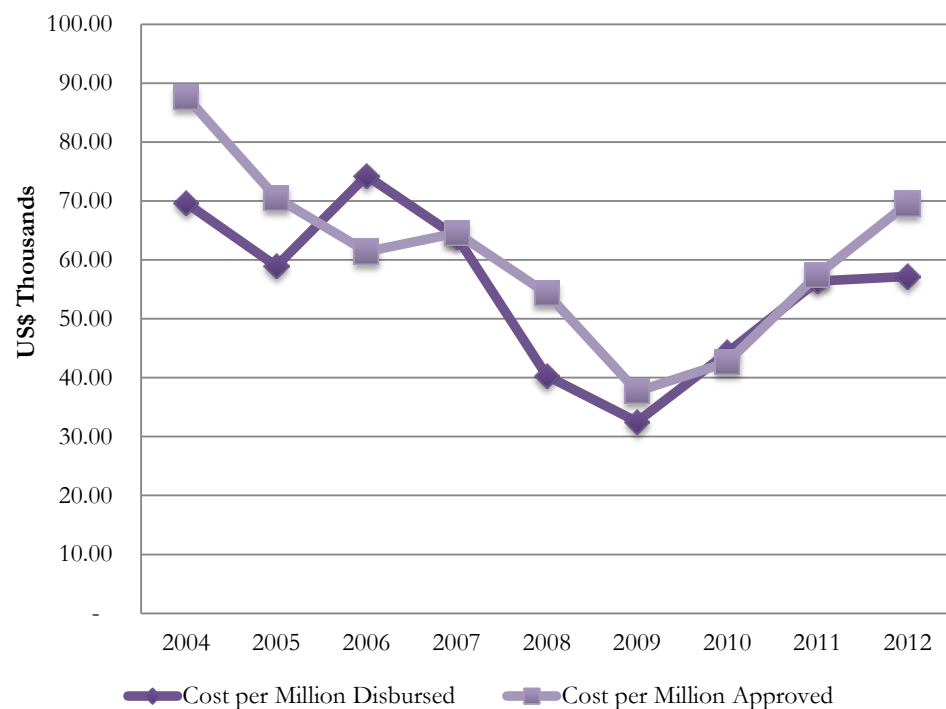
FIGURE 4.8
Real and Projected
Disbursements

Source: OVE, based on data from the Enterprise Data Warehouse and Budget & Program documents.

Looking more broadly, total Bank expenditures per US\$ millions in loans approved and disbursed fell after the Realignment—probably because of the increased lending in response to the financial crisis—and rose again from 2009 on; by 2012 they had returned to 2005 levels (Figure 4.9). These expenditure figures do not include spending on technical cooperation financed by donor trust funds and the Bank’s ordinary capital, which has also been rising— from \$97 million in 2005 (\$40 million in trust funds and \$39 million in ordinary capital) to \$156 million in 2012 (\$73 million in trust funds and \$83 million in ordinary capital). While these numbers are a very broad indicator, they do not hint at any significant increases in overall Bank efficiency since the Realignment.

FIGURE 4.9
Costs per \$ Million Approved
and per \$ Million Disbursed

Source: OVE, based on data from the Enterprise Data Warehouse.



Finally, two further factors that represent a source of inefficiencies predate the Realignment. First, Bank systems and incentives do not yet promote the precise measurements of product costs.⁸⁵ Travel costs are generally measured consistently, but personnel costs are not.⁸⁶ A considerable portion of preparation—and sometimes implementation—costs are financed through technical cooperation and are not attributed as costs of particular projects. Furthermore, consultants hired under one activity are often used to work for other ones.

Second, even if costs could be measured, the lack of clear price signals for internal transactions tends to exacerbate inefficiencies. A high percentage of fiduciary specialists have commented that team leaders over-demand their services because they are “free.” The same perception also leads to larger project teams, as project team leaders do not internalize the cost of more personnel. Many of those interviewed maintain that these inefficiencies would be eliminated if a total project

cost ceiling were established for the team leaders, which would need to cover all staff, consultant, and travel expenses. Stronger budget discipline would tend to reduce the number of team members to only those considered necessary to deliver the product, and would encourage team leaders and their supervisors to manage more efficiently.

C. SUMMARY

On the basis of the evidence reviewed by OVE and summarized in this chapter, it is difficult to make a case that the Realignment has improved institutional efficiency. Some positive indicators on project-specific disbursement rates and Bank response times are offset by the high costs of the realignment itself (including both direct and indirect costs) and the lack of any reductions in project preparation time, project implementation costs, or overall Bank costs per US\$ million lent. Cost accounting continues to be imprecise, and internal transactions are not subject to price signals and therefore cannot internalize the true costs of activities.



Despite some positive trends introduced by the Realignment process, the Bank's matrix structure is not yet functioning effectively and efficiently. In the picture, IDB's Headquarters in Washington, DC.
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5 Conclusions and Recommendations

A. CONCLUSIONS

This evaluation concludes that the Realignment has not yet achieved all of its objectives, though our analysis suggests that its underlying direction toward a matrix structure and greater decentralization were appropriate. The partial success of the Realignment is explained in part by inadequate planning and the misalignment of some elements of structure, process, and human resources and incentives with the strategic objectives. The main text has highlighted key issues, and Annex J describes others uncovered during this evaluation.

There are several noteworthy trends on the positive side. The technical skills of Bank staff have improved, the capacity to generate and disseminate knowledge (though not always operationally relevant knowledge) has increased, and more authority has been delegated to country representatives and team leaders, bringing IDB closer to the client. The collaboration between staff in the same sector in country offices and headquarters has increased, as has the continuity of project team membership over the project cycle.

Despite these positive trends, however, the matrix is not yet functioning efficiently and effectively. VPC has limited authority and few mechanisms to coordinate Bank inputs at the country level to ensure delivery of a coherent and efficient program. VPS and VPP have limited opportunity or incentive to bring their knowledge and influence to bear in the country strategy, programming process, and day-to-day technical dialogue. The sector silos are tall and the pressures to lend and disburse greater than ever. As a result, the Bank and its borrowing countries are not reaping the potential gains from cross-VP and cross-sector collaboration on country strategy and program formulation, project design and implementation, and knowledge sharing.

Moreover, the evaluation found no conclusive evidence of improved efficiency, and in many areas it appears that bureaucratic costs may have increased. Processes (such as quality control at the project level) are time-consuming and uncertain, and the lack of accurate cost accounting or binding budget constraints for task teams undermines incentives for the efficient use of resources. Although implementation of some aspects of the Realignment is still ongoing, it is unclear that these issues can be addressed without some significant systemic changes.

How has the Realignment affected the twin goals of the Realignment—greater Bank presence and relevance in the LAC Region? While this evaluation cannot expect to answer this complex question fully, some general observations can be made. Presence can be measured in various ways, one of which is the volume of lending. As Chapter I noted, the Bank's overall lending presence in the LAC Region depends on many factors, some of which are beyond its control and cannot be affected by the good governance of the institution. Rather than consider overall lending levels, therefore, it is interesting to compare the Bank's market share with that of other MDBs. The MDBs as a whole have responded vigorously to the Region's financial demands, providing double the amount of financing during 2009-2011 as they did in 2003-2005. IDB lending to countries in LAC has also increased in recent years, though its market share relative to the other MDBs has fallen somewhat as the market share of both the CAF and the World Bank increased (Table 5.1). This decline in market share may result from a variety of factors (on both the supply and demand sides).

TABLE 5.1 TRENDS IN MDB LENDING⁸⁷

MDB	2003-2005		2009-2011	
	\$MM	%	\$MM	%
IDB	20,388	38.6	40,397	34.7
CAF	11,552	21.8	29,770	25.5
WB	20,932	39.6	46,325	39.8
Total	52,872	100	116,492	100

Source: Annual Reports of IDB, IIC, World Bank, IFC and CAF.

In addition to presence, the other principal objective of the Realignment was to raise the Bank's relevance in the Region. Relevance is a multifaceted concept and difficult to measure.⁸⁸ Most government and executing agency representatives interviewed reported that, as a consequence of the Realignment, they are more satisfied with the Bank's accessibility and service orientation, the improved quality of its interactions and technical support, and the support they receive during project implementation.

B. RECOMMENDATIONS

The challenge the Bank faces now is to deepen the reforms to reap their full benefits and to enhance IDB's effectiveness and efficiency. To this end, OVE offers five recommendations to Management.

1. To enhance country focus, further strengthen the country program management function in country offices.

To that end, the Bank should consider, among other options:

- Decentralizing the country management function by (i) increasing the number of country managers (to facilitate their deeper engagement in individual countries), (ii) locating them in country offices (to bring authority closer to the client), and (iii) maintaining country representatives only in countries without a manager (to reduce managerial layers); and
- strengthening the ability of country departments to allocate and monitor budgets used to deliver operational programs.

Locating managers of country departments in the field would enhance the decision-making authority in country offices, and increasing the number of country departments would allow the managers to take a more hands-on role in country management. A country representative would arguably not be needed where there is a resident manager (thereby offsetting costs). Managers of departments with two or more countries would reside in one of the countries (perhaps rotating among countries over time) and would supervise the country representatives in the other countries under their purview, as happens today but with a clearer definition of roles and responsibilities. This change would go a long way toward decentralizing real authority, clarifying responsibilities over policy dialogue and country strategy and programming, and removing excessive bureaucratic layers.

Current Bank policy formally assigns the transactional budget to VPC, and VPC transfers the resources to VPS once a country program is approved. However, in practice VPC's managers and country representatives appear to have little real influence or leverage over budget allocations for country program design and delivery. Strengthening this influence and leverage could help increase the coherence and effectiveness of country programs. VPS could continue receiving a separate R&D budget as needed to generate cutting-edge research to advance the knowledge agenda outside of specific country programs, but the bulk of knowledge resources would be allocated, together with lending and other operational products, to ensure coherence in the overall country program.

2. To enhance inter-VP coordination and country program coherence, strengthen the role of VPS and VPP in country strategy-setting and programming.

To this end, the Bank should consider, among other options:

- assigning senior VPS and VPP specialists, along with regional economic advisors (REAs), to country strategy and programming teams, to ensure close collaboration with VPC management; and
- situating these VPS and VPP specialists and REAs in country offices, to co-locate them with country managers to the extent possible.

The Bank has no formal structure or mechanism to ensure VPC-VPS-VPP collaboration in country strategy-setting and program delivery. This could be remedied by the creation of country teams, led by the VPC country manager and joined by senior VPS and VPP specialists and REAs, co-located in the field to the extent possible. These country teams would be expected to collaborate on a day-to-day basis on all aspects of country program dialogue and management, thereby deepening cross-matrix collaboration and coherence. The senior VPS and VPP specialists would have a better view of the broader country program than they now have, and they would be able to bring this broader view to bear in working with their VPS and VPP managers to design and deliver the operational work of their sectors in the countries they work on. VPS would coordinate the work of sector technical specialists and promote collaboration between economists and sector staff and greater synergies in VPS's analytic work. One responsibility of the team (led by the REA with VPS and VPP input) would be to prepare integrated country studies to identify development constraints and opportunities and support the preparation of country strategies and programming. If needed to ensure effective collaboration, both the senior specialists and the REAs could have a formal dual reporting to their VPS/VPP managers and the relevant VPC country manager.

3. To enhance development effectiveness, strengthen mechanisms for quality control of Bank operational products.

To this end, the Bank should consider, among other options:

- having managers of country departments chair QRRs for VPS and VPP operational products, to ensure meaningful and high-level substantive review and promote the QRR as a one-stop review mechanism; and
- providing SPD with more, and more operationally-experienced, staff; enlarging SPD's responsibility to cover VPP as well as VPS operational products; and strengthening SPD's capacity to oversee all Bank sectors.

By having managers of country departments chair QRRs, both sides of the matrix would have a role in ensuring the quality and appropriateness of operational projects, further enhancing meaningful cross-matrix collaboration. The country manager would be expected to bring the country perspective to bear, and VPS or VPP management would continue to be responsible for ensuring sector expertise and quality. Elevating the role and importance of the QRR could help reduce uncertainty and delay, with OPC review being reserved for exceptional circumstances. The upgrading of SPD's capacity is needed for it to perform its important independent quality control function effectively.

4. To enhance efficiency, continue to strengthen budget processes and information systems to ensure full and accurate cost accounting.

In addition, the Bank should consider having division chiefs allocate fixed annual budgets to team leaders that cover all costs (staff, consultants, travel, etc.) for product design and/or implementation, with some flexibility to reallocate over the course of the year if needed.

Fully utilizing accurate cost accounting in task management would allow the Bank to identify the real costs of various products and define budget coefficients more accurately. This, in turn, would help the Bank plan and manage resources more efficiently and would enhance accountability. Having division chiefs assign fixed budgets for product delivery to team leaders (ideally including staff as well as variable costs) would give each one greater certainty about the availability of resources while providing an incentive for efficiency. This would not mean reducing overall responsibility of division chiefs and managers for their budgets. Indeed, given that staff costs must be covered, managers rather than team leaders must have the ultimate authority to allocate staff resources among teams. They would also retain the ability to reassign resources among tasks throughout the year as needed, but the procedures for reallocation should be clear and predictable.

5. To promote effectiveness and efficiency, fill a significantly higher share of management positions through transparent competitive processes.

To this end, the Bank should consider requiring thorough 360° evaluations for candidates for management positions.

As a premier development institution, IDB strives for quality, professionalism, and credibility in its staff and management cadre. To this end, OVE would suggest that the Bank's hiring practices be reviewed to ensure that competitive systems are in place and routinely used to fill both staff and management positions to the maximum extent possible—a goal clearly recognized in the Realignment document. This should arguably include positions for sector and country managers and country representatives as well as division chiefs and other executive positions. The implementation of 360° evaluations for internal candidates for managerial positions should be an important part of the information-gathering process for the selection of managers.

- ¹ The four phases of implementation were start-up of the new organization (June 2007), migration to the new organizational blueprint (December 2007), finalization of implementation (2008), and evaluation and adjustment (2009).
- ² IDB 2006b, Introduction and paragraphs 2.6, 4.4, 4.6, 4.7, 4.12, 5.4, and 5.7.
- ³ For example, the Realignment document provided details about the functions of the new vice- presidencies, only basic concepts on the new matrix organization, and almost no information on corporate and operational processes.
- ⁴ For progress, see IDB 2009b and 2010d; for implementation, see IDB 2007c, 2007d, 2007e, 2008b, 2008c, 2008d, 2008e, 2008f, 2009c, 2009d, 2009e, 2010e, and 2012d.
- ⁵ The Realignment document (IDB, 2006b) offered two classifications for the reforms. Chapter IV classified them according to the following objectives: (i) sharpening the country focus, (ii) the business model, and (iii) building technical competencies in strategic areas. Chapter V categorized them according to the following: (i) greater strategic focus and multiple-goal management; (ii) getting better and more timely results from Bank operations; (iii) greater accountability regarding operational quality and safeguard management; (iv) less fragmentation and duplication, to achieve greater efficiency and expertise; (v) to become a knowledge partner in development; (vi) using the Country Offices to achieve greater country focus; and (vii) consolidating country alliances. The Realignment implementation plan (IDB, 2007a) and the first two Management Realignment evaluations (IDB, 2007b and IDB, 2008a) classified the different reforms in their four phases of implementation. The third Realignment assessment (IDB, 2009b) used the following categories: (i) strengthening human resources; (ii) streamlining processes: updating policies and operational processes; and (iii) transversal themes. Finally, Management's last Realignment evaluation (IDB, 2010d) classified the reforms under five categories: (i) organizational transformation; (ii) Pillar I: sharpening the country focus; (iii) Pillar II: strengthening the sector focus; (iv) Pillar III: results attainment and risk management; and (v) institutional efficiency.
- ⁶ *Structure* refers to the allocation of responsibilities and authority within an organization, and includes aspects such as defining the number and types of function, the span of control, distribution of authority, the degree of decentralization, and departmentalization. There are two types of *processes*: corporate or vertical processes (for example, those relating to financial planning, to human or material resources, to budget approval and execution, and to procurement and contracting), and operational or horizontal processes (such as those referring to design and execution of lending operations, technical cooperation, or strategy design and preparation). *Human resources and incentives* refers to the policies of recruitment, selection, staff rotation and training, and professional development, which must be in line with the institutional strategy and the formal prizes or rewards (such as promotions, bonuses, acknowledgements), or informal ones (such as length of contracts, degree of discretion in evaluations or contract renewals, culture, and so on) that are established to align employee behavior with the organization's goals and objectives (Galbraith 2009).

- ⁷ A matrix organization is an organizational structure that coordinates within and across business units. According to some experts, it facilitates the achievement of dual and sometimes conflicting strategic priorities. It is used mainly in the management of large projects or product development processes, drawing employees from different functional disciplines for assignment to a team without removing them from their positions. For a matrix organization to work efficiently and effectively, its objectives, structure, processes, and human resources should be aligned (Galbraith, 2009). The World Bank has adopted a matrix organization, and its independent evaluation office considered it the best option to obtain this type of lateral coordination (World Bank, 2012). In contrast, some sophisticated studies attribute only a very limited benefit to the effectiveness of matrix organizations (Hambrick, MacMillan, and Day 1982; Grimes, Klein, and Shull 1972; Chi and Nystrom 1998, and Agranoff 2001).
- ⁸ MDBs are both financial and development institutions. As financial institutions, their business model rests on lending to borrowing countries and charging a fee for that lending; thus, their sustainability depends in part on the amount of both loans and disbursements. As development institutions, MDBs need to focus on the development effectiveness of the projects they finance. While the financial side pushes for fast disbursements and lending, the development side requires selectivity, greater diagnosis, and safeguards, which tend to increase transaction costs and may affect the speed and rate of lending. Finding equilibrium between these two goals is a challenge for MDBs. Some have adopted matrix organizations to help in this endeavor (Gottlieb 2007; Phillips 2009; Galbraith 2009; and World Bank 2012).
- ⁹ IDB 2006b, p. ii and paragraphs 6.15, 6.23 and 6.68.
- ¹⁰ These include, for example, the Development Effectiveness Framework (GN-2489); the guidelines for operative and institutional systems in a matrix organization (GN-2496); documents on programmatic and budgetary themes from 2008 to 2013 (GA-238, GA-242, GA-244, GA-245, GA-248 and GA-252); Country Strategy Guidelines (GN-2468-6); the New Operational Framework (GN-2494); the Framework for Technical Cooperation (GN-2469-2); the Knowledge and Learning Strategies (GN-2479 and GN-2479-2); and the Operational Policy on Gender Equality (GN-2531).
- ¹¹ A “RACI matrix” that details the roles and responsibilities of staff in the context of certain processes is in preparation and is expected to become operational on January 1, 2014. (RACI matrices describe participation by different units and persons during the execution of processes in any organization. The initials derive from the four main functions used when an activity is carried out: Responsibility [the person or unit responsible for doing out the work], Authority [the person or unit that authorizes and answers for the action], Consultation [the persons or units that need to be consulted before the activity can continue], and Information [the persons or units that must be informed of the outcomes of the activity].) The employees to be covered by this RACI matrix include the country representatives, chief of operations, team leaders, fiduciary specialists, operations analysts, country economists, and country coordinators. The processes covered include Bank country representation and leadership, knowledge management, strategic corporate management, internal corporate management, country strategy preparation, dialogue with the country, programming, project design and preparation, project supervision, contracts administration, audit monitoring, and

evaluation. The matrix will not cover all operational processes or include the roles of key management positions such as division chiefs, country and sector managers, or vice-presidents, or of supporting departments such as the Legal Department, the Financial Department, the Knowledge and Learning Sector, and the Office for Strategic Planning and Development Effectiveness.

- ¹² The 2001 Human Resources Strategy (GN-2113-3), which is based on the Principles of Human Resources Management (GA-153), March 30, 1994.
- ¹³ IDB 2006b, paragraph 6.67, 6.73, and 6.75.
- ¹⁴ IDB, 2006b, paragraph 6.23, 6.31-6.33 and 9.12.
- ¹⁵ Inadequate planning was a major cause of the problems the World Bank faced in implementing the matrix organization in 1996 (Phillips, 2009).
- ¹⁶ Prepared by Booz Allen Hamilton.
- ¹⁷ Generally speaking, the *vertical logic* is the reasoning that “connects” the inputs, the outputs, the outcomes, and the impact of an intervention. This includes, among other things, the diagnosis of the problem to be solved; the theoretical and empirical elements that justify each of the links between outputs, outcomes, and impact; and specific, measurable, achievable, realistic, and time-bound indicators. The *horizontal logic* refers to the preparedness of the reforms and should include, among other things, a detailed budget and implementation plan and arrangements to manage change and mitigate identified risks.
- ¹⁸ See IDB, 2012e.
- ¹⁹ *Agenda for a Better Bank* (GN-2518-10); *Evaluation of the Need for a General Capital Increase of Ordinary Capital and Replenishment of the Fund for Special Operations*. Second working document: Principal conclusions and options arising from the technical analysis (GN-2518-16); and *Report on the Ninth General Increase of Capital* (CA-511 or AB-2764, paragraphs 4.3, 4.13, and 4.22).
- ²⁰ Other relevant OVE evaluations include those of the Bank’s knowledge and learning strategy (IDB, 2011b), of the Bank’s analytic work (IDB, 2006c), of the Bank’s work in higher-middle-income countries (IDB, 2012f), and of the country studies initiative (IDB, 2010c).
- ²¹ The methodology followed by OVE for this evaluation was laid out in an Approach Paper that was reviewed by Management and discussed by the Policy and Evaluation Committee of the Board of Directors in July 2013.
- ²² For example, the Realignment document maintains that streamlining functions and processes, eliminating duplication, introducing more agile systems, and outsourcing certain functions have improved “institutional efficiency.” However, these are also necessary reforms for improving organizational effectiveness and serving countries better (IDB, 2006b, paragraph. 5.8-5.12, 6.68, 6.73 and 6.79-6.80). Likewise, the reforms in incentives and human resources (such as staff motivation and improvements in managerial leadership) are essential for sharpening the country focus and sector expertise and for generating efficiencies and economies of scale (IDB, 2006b, paragraph. 5.1, 6.1-6.80). The literature supports this view regarding the difficulty of separating the effects of each reform on the overall performance of an institution (Galbraith, 2009; Gottlieb, 2007 and Ellis, 2013).

- ²³ The evaluability of lending operations before the Realignment was low, and ex-post evaluation has been weak, which makes evaluating project impacts difficult. Thanks to the introduction of the Development Effectiveness Matrix (DEM), investment projects are beginning to have stronger evaluation frameworks, which should permit a better assessment of their impact in the future.
- ²⁴ In accordance with document GA-232-31, Management and OVE agreed that Management would monitor the Realignment indicators so that OVE could use them for its evaluation. Management, committed to prepare the baseline of the indicators as part of the 2010 review. However, Management has not produced all the indicators. With hindsight, Management and OVE concluded that not all the agreed indicators were appropriate for evaluating the Realignment's progress. This evaluation has therefore selected those that were appropriate from among the agreed indicators (20a, 20b, 21a and 21b), as well as some fresh ones that are more likely to fulfill the required objective. Annex C contains a list of the indicators agreed between OVE and Management.
- ²⁵ The strategic areas were the following: widen opportunities for the majority, implement efficient social policies, support development of science and technology, promote investment in infrastructure, and encourage development of the private sector (IDB, 2006b).
- ²⁶ The actual decrease in administrative personnel may be somewhat overestimated because of a broader definition of technical roles (which may encompass some administrative duties) adopted through the Career Management Framework of 2010.
- ²⁷ To calculate full-time equivalent employees, HRD divides the total number of days consultants work by 260 (the number of work days for staff in an average work year).
- ²⁸ All of these changes are statistically significant.
- ²⁹ See Box 3.1, Chapter 3.
- ³⁰ Competitive processes were used to staff 85% of the division chief, 32% of country representative and 18% of managers positions.
- ³¹ Announcing vacancies publicly and ensuring that various candidates are interviewed goes some way toward merit-based selection, but it needs to be accompanied by mechanisms that ensure that candidates' capacities are compared thoroughly, transparently, and impartially.
- ³² Some experts argue that implementation success depends at least in part on having the person responsible for design also participates in the implementation phase (Scott-Young & Samson, 2008). A study using data from 6,000 World Bank projects found that the quality of the project task manager mattered significantly for the ultimate outcome of projects (Denizer, Kaufmann, & Kraay, 2011). An SPD study found that having team leaders in the field helped disbursements, while disbursements tended to decrease as the number of projects under a single team leader grew (Álvarez, Bueso- Merriam, & Stucchi, 2012).
- ³³ The Realignment document (paragraph 5.13) noted limited incorporation of RES's knowledge inside the Bank and in borrowing countries.
- ³⁴ GN-2598-7.

- ³⁵ Box 3.1 in Chapter 3 provides a summary of the results of the focus groups and interviews. See also Survey Results (Annex G).
- ³⁶ It should be noted that most staff interviewed said that the current merit pay system does not help to motivate behavior. The reasons most commonly cited were that merit pay reflects a naïve understanding of human motivation (not considering intrinsic motivation); that merit pay increase is too small to really have any impact; that the system is not credible because it lacks objectivity; and that the stack-ranking method (the so called “curve”) penalizes many good performers. These views have some support from the management and motivation literature (Pearce and Perry 1983; Lewis and Wise 1990; Wholey and Hatry 1992; Terry 1998; Julnes and Holzer 2002; Gall 2005; Thomson and Perry 2006; Vandenabeele 2007; Bol 2008; Grund and Westergaard-Nielsen 2008; Weibel, Rost, and Osterloh 2009; Dushnitsky and Shapira 2010; Bailey and Fessler 2011; Walker, Brewer, Boyne, and Avellaneda 2011; Aral, Brynjolfsson, and Wu 2012; Wright, Moynihan, and Pandey 2012; and Brunstein 2013).
- ³⁷ Group A: Argentina, Brazil, Mexico, and Venezuela. Group B: Chile, Colombia, and Peru. Group C: The Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, and Uruguay. Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.
- ³⁸ The IDB-9 priorities were social policy favoring equality and productivity; infrastructure for competitiveness and social welfare; institutions for promoting growth and social welfare; competitive international integration at the region and worldwide levels; and environment, climate change, renewable energy, and food security.
- ³⁹ The empirical evidence backs up this perception, at least with respect to productions of an academic nature: the number of IDB articles in peer-reviewed publications, which can be used as a yardstick for academic quality, has grown since 2008.
- ⁴⁰ Nevertheless, RES has designed the methodology to carry out the Macroeconomic Sustainability Assessments (MSA) and the Independent Macroeconomic Assessments (IMA), and is currently participating in 14 impact evaluations of Bank projects.
- ⁴¹ These values are based on the books, databases, policy briefs, technical notes, and working papers published in the BRIK. OVE estimated the values on the basis of the information provided by the Felipe Herrera Library.
- ⁴² For example, the BRIK promotes the visibility and dissemination of the Bank’s knowledge products.
- ⁴³ IDB 2006b, paragraph 4.3.
- ⁴⁴ IDB, 2006b, paragraphs 4.4, 5.4, 5.10, 5.15, 6.15, 6.32, and 6.35. The Realignment documents also mention increasing harmonization with other donors (IDB 2006b, paragraphs 4.4, 4.5, 5.16, 6.20, and IDB 2007a, paragraphs 3.1, 3.2, 3.16, Appendix II) and making greater use of national systems (IDB 2006b, paragraphs 4.12, 5.15, 6.35, and IDB 2007a, paragraph 3.16). However, these two aspects were already examined as part of OVE’s evaluation of the IDB-9 and therefore are not considered in this report.
- ⁴⁵ Sixty-two percent of staff surveyed and a majority of those interviewed or taking part in focus groups thought that country office capacity had improved as a consequence of the Realignment (Annex G).

- ⁴⁶ *Roles of Management and the Board of Directors on the Programming Cycle* (PR-1102-2).
- ⁴⁷ According to GN-2679-2, country representatives lead the preparation and implementation of country dialogue and monitor Bank Country Strategies and the general manager has the authority to approve the country programming.
- ⁴⁸ The matrix organization is, according to some experts, the best mechanism for ensuring the achievement of two seemingly contradictory objectives (see note 7). However, because it tries to achieve both objectives at the same time — by having staff reporting to two bosses or more instead of to one as in the traditional hierarchy— it generates coordination challenges. For matrix organizations to work effectively and efficiently the organization’s strategy, structure, processes and HR policies and incentives have to be aligned among themselves (for a discussion on matrix organizations refer to Knight 1977, Galbraith 2009, and Gottlieb 2007). Other experts in organization theory argue that the “soft” elements of the organization (e.g. incentives, culture, leadership, HR policies) tend to be more important than the “hard” ones (e.g. structure, organizational charts, processes) for the achievement of organizational effectiveness. That is, structure (matrix or otherwise) charts and manuals matter less than leadership, culture and good hiring and motivating practices (Peters & Waterman 2006, Ellis 2013).
- ⁴⁹ The idea of a matrix structure is not a new one at the Bank, although the Realignment used the term matrix for the first time. In the two organizational models that predate the Realignment (those implemented in 1988 and 1994), there were also country units and technical units at the same hierarchical level that were called to coordinate laterally. In the 1988 model, the country units were located in an operations department and the technical units in a projects analysis department. In the 1994 model, the country and the technical units were both divisions under a regional manager. The problem with these models is that they were centered on headquarters; the culture, delegation of powers, processes, and incentives tended to favor only the “country” dimension over the “technical” dimension; and the “country” dimension evolved into a culture of project approvals. If these models failed to work adequately, it was partly because of the lack of alignment between the design elements (i.e. structure, processes, and human resources), rather than because of the choice of a particular structure (see note 8). The matrix resulting from the Realignment has aligned some of these elements (e.g. greater physical proximity to the countries, rewards and HR policies geared towards yielding greater technical excellence and development effectiveness) but it has yet to align many others. Annex J contains a summary of OVE’s findings regarding the degree to which these elements are aligned with the strategic goals.
- ⁵⁰ Many respondents said that “if before the Realignment there were 3 silos, there are now 2 large ones and 16 small ones” (i.e., VPC and VPS and the 13 sectors and the 3 private sector single windows). Of those surveyed, 63% agree that the Realignment has not changed, or has worsened, cross-sector collaboration on preparing strategy and technical notes.

- ⁵¹ The sector units are located under the different divisions of VPS, which is distinct from VPC. The only common authority between these parties is the Executive Vice Presidency (EVP). Before the Realignment, the country and sector units were gathered under the same regional management, which facilitated cross-sector coordination, coordination between sector and country units, and, thus, resolution of issues. The regional manager potentially had control over the resources and, therefore, could involve all the necessary parties. The shorter command chain made it easier to promote lateral coordination between sectors and countries.
- ⁵² *Roles of Management and the Board of Directors on the Programming Cycle* (PR-1102-2).
- ⁵³ The initiatives adopted as a consequence of the document *IDB Decentralization: Principal Conclusions and Recommended Actions* (IDB, 2012d) aim to improve the process by instituting regular “4 x 4” meetings of the sector, country, and private sector heads to coordinate planning. Such an approach, if formalized, could help to improve coordination, but it leaves the person responsible for planning—the country representative—out of the equation. Thus it favors a planning process centered more on headquarters than in the countries, contrary to the Realignment aspiration of bringing decision-making nearer to where the problems are. Also, for this mechanisms to work properly, VPC managers should be able to clearly define all products (e.g., strategies, loans, TCs, economic and sector work, seminars) to be delivered with a particular country budget—including the partial delivery of future products—in consultation with sector managers and should have the possibility of reassigning the budget to different units if products are not duly delivered or country conditions change markedly during a year.
- ⁵⁴ Some country representatives said that they had no information about missions in their country by VPP personnel, and that they usually find out about VPP-led operations from government civil servants. Likewise, the majority of civil servants interviewed maintained that the subject of the private sector does not even arise during dialogue with the Bank.
- ⁵⁵ Generally speaking, VPC and VPS do not conduct integrated country studies to identify development constraints and solutions, although in the past some regional departments conducted “growth diagnostics” (Hausmann, Klinger, and Wagner 2008) that helped to rationalize and integrate Bank and sector interventions at the country level.
- ⁵⁶ The World Bank, for example, uses in some Regions a specialist leader who is located in the country management unit (equivalent to the IDB’s country managers), who liaises between the unit and the sector managers, thereby helping to rationalize sector activity.
- ⁵⁷ More on this in paragraph 3.20.
- ⁵⁸ Note that paragraph 2.6 refers to the skills and experience of new hires, while this paragraph refers to the skills of all staff.
- ⁵⁹ Unlike some other MDBs, IDB does not have in place a reliable system of ex-post reporting of project results (combining self-evaluation with independent validation), though it is now working to develop such a system.

- ⁶⁰ For a description of the pre-Realignment quality control standards and methodology, see IDB 2003; for the system's lack of effectiveness, see IDB, 2008e.
- ⁶¹ OVE calculations show an average difference of 1.6 points between the DEM ratings obtained by projects before QRR and those obtained before going to OPC. It is unclear to what extent this reflects better project design as opposed to better documentation.
- ⁶² SPD/SDV has a total of 14 staff. Two of them have more than 20 years of Bank experience. The average Bank experience of the remaining 12 is less than 4 years.
- ⁶³ The Administration has pointed out the need to prevent the oversight functions from participating in the operational work they are supposed to oversee (IDB 2006b and IDB 2008h) to avoid potential conflict of interests. Even though SPD/SDV staff participate in project design, SPD ensures that those who are part of teams do not evaluate those projects.
- ⁶⁴ This process is known in the specialist literature as "goal displacement" (Merton, 1957).
- ⁶⁵ Chapter IV discusses the Bank's efficiency in more detail.
- ⁶⁶ Representatives of governments and executive agencies agree that one of the Bank's characteristics that they most appreciate is that those responsible for executing projects are actually in the countries. They are of the opinion that this proximity helps greatly in project execution. They have also noticed an improvement in the technical quality of the staff responsible for the projects, which means that they can now resolve technical issues without having to involve the personnel at headquarters.
- ⁶⁷ Annex I contains a comparison of the distribution of powers established in the OA-420 between 2003 and 2011.
- ⁶⁸ A significant number of people interviewed, particularly in larger countries, believe that one reason for poor implementation capacity is lack of resources, because the budget coefficients and parameters that the Bank uses do not adequately reflect the differences between countries and sectors. OVE has reviewed these coefficients and finds that they are reasonable. On average, they are below those of the World Bank but above those of the Asian Development Bank, and they are updated annually (IDB 2011a; 2010f, and 2012f). As more and better information becomes available, the coefficients should continue to become more precise in taking sector and geographical differences into account.
- ⁶⁹ See note 3.6.
- ⁷⁰ For example, the Brazil country office has six fiduciary specialists though there are more than 150 projects in the Brazil portfolio. El Salvador's country office has three such specialists, with 21 projects in execution. It is important to note also that the number of country office support staff has decreased by 13%, whereas between 2005 and 2012 the portfolio grew 28%.
- ⁷¹ Before the Realignment, country representatives controlled the human resources located in the country offices and the budget for execution. After the Realignment, the budget for the full project cycle was put under the control of the sectors. Once the resources are transferred to the sectors, they decide the allocation of these resources. Whereas VPS can reallocate these resources throughout the fiscal year, VPC has no effective mechanism to do the same.

- ⁷² For staff, the work plan, which is included in the performance evaluation system, is defined between the sector or the fiduciary specialist and their chief at headquarters, with little or no input from the country representative. For consultants, their work plan is defined in terms of reference prepared by the sector or fiduciary specialists.
- ⁷³ Bank staff complain that the Project Monitoring Report's emphasis on monitoring the level of disbursements and compliance with physical goals encourages manipulation of the information introduced into the system, and that projected targets for outcomes are undervalued.
- ⁷⁴ These weaknesses are meant to be addressed through the new OPTIMA system currently being introduced (RE-432-3).
- ⁷⁵ This conclusion is supported by a 2011 IFC (now IFD) study. This study was based on a survey conducted among 154 employees and consultants, yielding a percentage of valid answers of 92.2%. This study suggests, in line with the evidence found in the USA's public sector (Alonso & Lewis, 2001), that salary grades rise with age, experience, and education. Likewise, the study reveals that headquarters staff have, on average, and irrespective of age, experience, and education, almost one salary grade higher than their country office counterparts (ICF, 2011).
- ⁷⁶ GA-244-11.
- ⁷⁷ GA-245-19.
- ⁷⁸ This was one of the costs that was most mentioned in the interviews, but it is impossible to measure.
- ⁷⁹ The Realignment called for the reengineering of Bank processes, which is being undertaken under project OPTIMA (IDB, 2006b, paragraphs 5.12, 6.16, 6.23, 6.68, 6.77 and 9.9).
- ⁸⁰ GA-245-9.
- ⁸¹ Project preparation cost were deflated using the Bank annual deflator.
- ⁸² Most of the cost of preparation is for staff time, which is measured in the Bank's T&L system. Therefore the quality of cost estimates is constrained by the quality of time reporting data in the system. Especially before 2007, the reporting is considered to be very inaccurate because of lax enforcement.
- ⁸³ A caveat to this analysis is that the disbursement decisions are not entirely dependent on the IDB; the actual execution of projects depends on the Bank's counterparts.
- ⁸⁴ The costs displayed in this figure only account for direct costs associated with each loan after the approval date within a year divided by the number of loans in the portfolio at the end of the calendar year. Costs have been deflated using the compound deflator used to calculate the Bank's budget using 2004 US\$.
- ⁸⁵ Since 2002, the bank has attempted to improve the measurement of the costs of products via the Activity Based Costing.
- ⁸⁶ Since July 2013, consultants started to report the use of their time by category.
- ⁸⁷ IDB=FSO+OC Loans + IIC Loans + IDB Grant Facility; WB=IBRD + IDA Loans + IFC Loans.
- ⁸⁸ For further discussion, see OVE's evaluation of the Bank's activity in higher-middle-income countries (IDB, 2012f).



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