ove Office of Evaluation and Oversight

Executive Summary

Corporate Evaluation

IDB's Ninth General Capital Increase: Implementation and Results

IDB | IDB Invest

OFFICE OF EVALUATION AND OVERSIGHT — OVE

Established in 1999, OVE undertakes independent evaluations of IDB Group's strategies, policies, programs, activities, performance and delivery support systems. Findings and recommendations are disseminated so they can be used in the design, analysis and execution of new projects.

EXECUTIVE SUMMARY

Corporate Evaluation
IDB'S NINTH GENERAL CAPITAL INCREASE: IMPLEMENTATION AND RESULTS

April 2018

IDB | IDB Invest | ove Office of Evaluation and Oversight

THIRTEEN HUNDRED

About this evaluation

In 2010 the Inter-American Development Bank's (IDB) Board of Governors approved the 9th General Capital Increase (IDB-9), adding US$70 billion in paid-in and callable capital to IDB's existing US$100 billion capital base. Governors tied the capital increase to a series of Bank reforms, further detailed in the "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank" ("IDB-9 Agreement").

The IDB-9 Agreement laid out an institutional strategy with two overarching objectives – reducing poverty and inequality and achieving sustainable growth – and two strategic goals: to address the special needs of the less developed and smaller countries, and foster development through the private sector. It enumerated a broad set of priorities and activities, organized under three headings: "Operationalizing the Institutional Strategy," "What the Bank Does," and "How the Bank Works."

The IDB-9 Agreement included a requirement that the Office of Evaluation and Oversight (OVE) conduct a midterm review to determine to what extent IDB was implementing the IDB-9 mandates fully and effectively. OVE undertook the review during 2012 and delivered it to the Board in December 2012 (www.iadb.org/ove/midIDB-9).

The evaluation's broad conclusion was that "Management has invested heavily in efforts to implement the IDB-9 requirements. The requirement of 'full implementation' has been met or is in the process of being met on most fronts…. The progress toward 'effective implementation' has been more mixed. Likely effectiveness varies widely across areas, with some moving forward well and others more slowly, and with a few having little impact or even imposing costs on the organization." The evaluation included 10 recommendations.

Recommendations from IDB-9 Mid-term Evaluation

01_ Begin a process to update IDB's institutional and sector strategies and revisit the Corporate Results Framework with an eye to simplification, improved data accuracy, and full knowledge and ownership by Bank staff and other stakeholders.

02_ Revisit the formal role and content of Country Strategies and Country Programming Documents to balance the need for strategic selectivity with the demand-driven character of the Bank.

03_ Restructure the private sector windows of the Bank to integrate them much better with each other and with the public sector side of the Bank.

04_ Undertake further reforms to streamline resource allocation processes and results monitoring for technical cooperation and capacity-building work.

05_ Complete the implementation of the Development Effectiveness Framework as envisioned in the Cancun Declaration and IDB-9.

06_ Refocus the Haiti program intensively on sustainable poverty reduction and economic growth, moderating short-term pressures for loan approvals and disbursements to take into account the country's absorptive capacity, and providing space for critical yet smaller or slower-disbursing activities.

07_ Redesign the Macroeconomic Sustainability Assessment (MSA) process.

08_ Reform the Independent Consultation and Investigation Mechanism (ICIM).

09_ Revise the policy on information disclosure.

10_ Undertake further analysis and scenario testing of the Income Management Model and the Capital Adequacy rules.

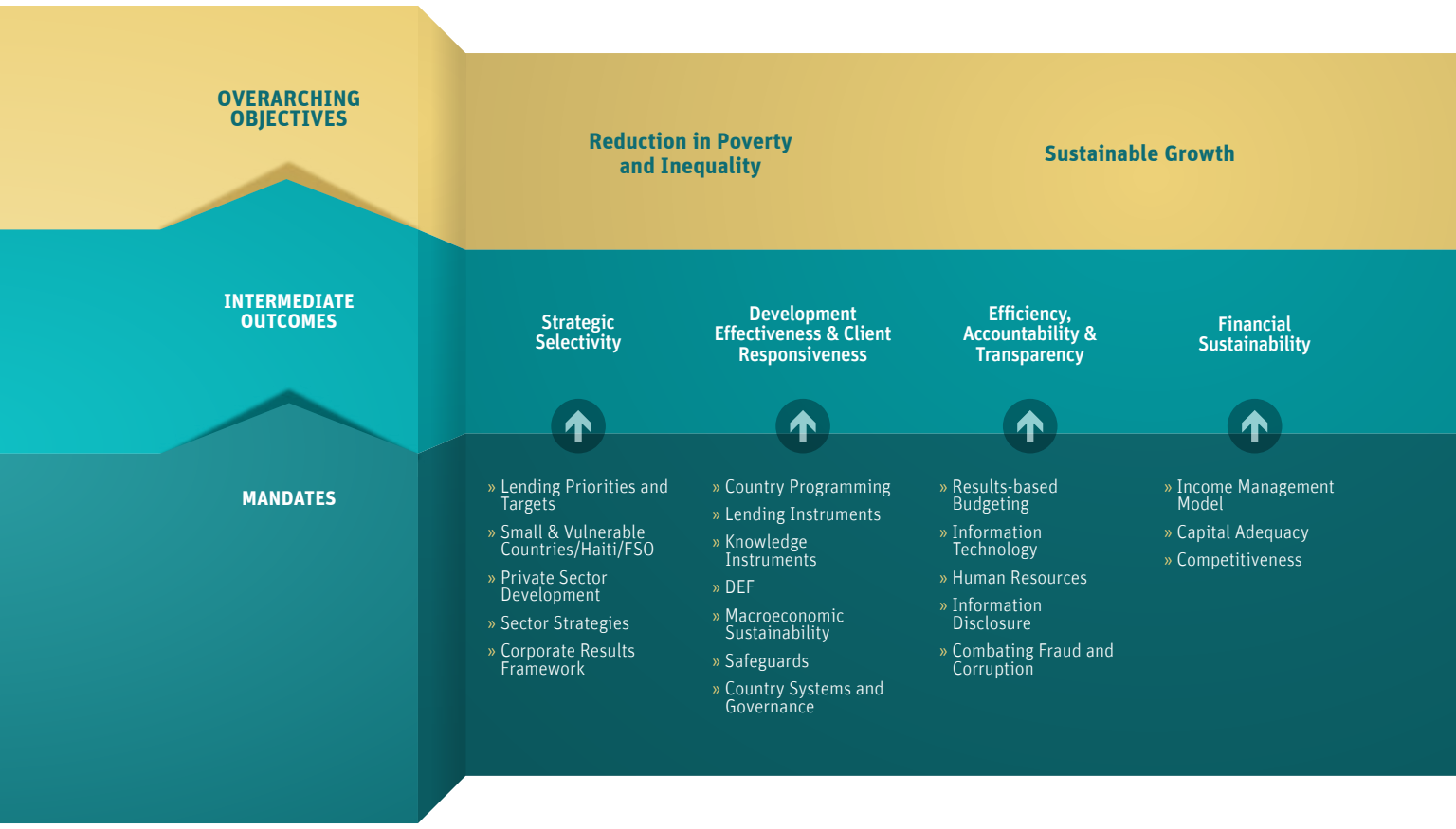
The institutional strategy laid out in the IDB-9 Agreement extended until 2015, when the accomplishments under the strategy and the IDB-9 Results Framework were to be evaluated and a follow-on strategy was to be adopted. The Results Framework specified 2015 as the target date for achieving many IDB-9 mandates, in line with the strategy period.

In 2016, the Board of Directors requested that OVE include a IDB-9 evaluation in its 2017-18 work program. OVE delivered it to the Board in April 2018.

Overview: IDB-9 implementation and results

This evaluation reviews IDB's implementation of the IDB-9 mandates and results to date. It follows the themes of OVE's 2013 midterm evaluation (also mandated under IDB-9) and focuses more centrally on "the big picture" – to what extent IDB-9 mandates have been implemented, what has been achieved, and what challenges remain going forward. It is organized around four key intermediate outcomes of IDB-9.

IDB-9 Evaluation Conceptual Framework



With regard to implementation

OVE finds that IDB has made extensive progress in implementing most of the IDB-9 mandates. The midterm evaluation made 10 recommendations, of which all but the 6th on Haiti were endorsed by the IDB Board. Of these nine, Bank management has made strong progress in implementing seven and more modest progress on two (4 and 9).

Progress has also been made in implementing a number of other IDB-9 mandates, including the adoption of results-based budgeting, the country systems agenda, the implementation of new information technology systems (SAP and Convergence) through the Optima program, and the strengthening of the Bank's ability to address issues of fraud and corruption.

With regard to results

OVE finds that progress toward achieving IDB-9's four intermediate outcomes has been significant though uneven.

01_ Strategic electivity.

IDB-9 seems to have had only a modest effect on the Bank's strategic selectivity. Neither IDB-9's five mandated sector strategies nor its lending targets appear to have led to meaningful changes in Bank activities. The Bank's C&D country classification is increasingly outdated and is not the best tool to focus the Bank's support on poverty or on the special needs of less developed countries. Indeed, there is little evidence that the Bank focused more on poverty and inequality than it had before (other than in Haiti, where results have been weak to date), though a broad emphasis on economic growth does encompass much of what the IDB does and is also important to poverty reduction. The 2015 private sector merge-out has the potential to strengthen the Bank Group's effectiveness in supporting development through the private sector, but strong leadership will be needed to overcome the centrifugal tendencies inherent in the organizational structure and take advantage of IDB Group synergies to have the strongest impact.

02_ Client responsiveness and development effectiveness.

IDB-9 appears to have had a more significant effect on the second outcome, enhanced client responsiveness and development effectiveness. The Bank has developed a comprehensive and flexible set of lending products and has moved toward more integrated country diagnostic work as part of its new approach to country strategies. It has also invested heavily in broader knowledge generation, with an important challenge going forward being to prioritize and streamline this work. Major progress

has been made in strengthening tools to measure development effectiveness, though further work is needed to complete the IDB-9 mandates. Macroeconomic safeguards and the Independent Consultation and Investigation Mechanism have been redesigned to correct initial problems under IDB-9. The Bank is also making progress in helping countries develop fiduciary systems and address issues of fraud and corruption, and continued attention is warranted given the importance of strong institutions not only to development outcomes generally but also to the success of Bank support.

03_ **Efficiency, accountability, and transparency**.
Regarding the third outcome, the Bank has made meaningful improvements but there is still room to enhance its efficiency, accountability, and transparency. The Bank has become a larger and more complex organization during IDB-9 – with increasing annual budgets and more staff and consultants doing more things. Many of the Bank's internal processes, systems, and oversight functions – RBB, IT, Ethics, and the Office of Institutional Integrity – have been strengthened, though continued work will be needed to expand their reach and effectiveness. The Bank's 2010 policy on access to information was a major step forward toward greater transparency, and continued progress is being made on tools and training to implement the policy, though progress in measuring or addressing the use of exceptions could be strengthened. Strong leadership and incentives are needed for all of these efforts to translate into further gains in efficiency, accountability, and transparency.

04_ **Financial sustainability.**
Finally, the Bank has taken proactive and successful steps to address risks to financial sustainability during the IDB-9 period, but it is likely to face increased challenges of competitiveness that could threaten the currently strong financial stance going forward. LAC countries are increasingly able to access financial markets, often at lower cost than borrowing from the Bank. While current market conditions are particularly favorable, these trends are likely to continue over time as LAC countries grow and develop. IDB will need to increasingly scrutinize its cost structure and the value-added of its financial and non-financial products if it is to stay relevant to borrowers across the LAC region.

Summary Report
Finance Report
Summary
Summary
Summary

Five broad lessons for IDB emerging from this evaluation

01_ **Lending patterns and trends in the Bank tend to change slowly from year to year, primarily in response to country demand and country conditions, and top-down lending mandates are rarely effective in this context.** If the IDB Governors decide to pursue another capital increase in the future, they are advised to weigh the costs and benefits of top-down mandates and consider carefully their relevance and likelihood of success in the context in which the Bank operates.

02_ **IDB-9's heightened attention to the measurement and documentation of results was well-placed, but further work is needed to make it a reality.** The Development Effectiveness Framework is a strong set of tools but has still not been fully implemented as intended. It is critical for IDB to monitor, evaluate, and report clearly and accurately on development results if it expects to achieve them, and renewed effort to meaningfully implement the DEF is warranted.

03_ **One of the Bank's most important but difficult challenges – both in supporting development in LAC and in ensuring success in its own projects -- is to help countries strengthen institutional capacity and governance.** Despite IDB-9's emphasis on poverty, institutional strengthening, and anticorruption, IDB has had great difficulty achieving results in countries with weak governance and institutional capacity. A renewed look at IDB project designs and at staff incentives to deliver results in these settings -- and more generally at IDB's ability to support countries in improving governance and strengthening institutional capacity -- is warranted.

04_ **Promoting openness and transparency is a worthy goal of all MDBs, and IDB should make a renewed push in this direction.** IDB is a public organization funded with

public money serving public and humanitarian ends, and citizens of both borrowing and funding countries deserve to know how their funds are being spent. IDB's reputation is already strong, and its credibility will only improve with increasing openness and transparency.

05_ IDB is likely to face increasing challenges of relevance and competitiveness as LAC countries continue to develop, and greater consensus is needed on what kind of institution IDB wants to be. OVE's interviews for the evaluation highlighted the wide variety of views among Bank stakeholders on what IDB should seek to be.

The IDB will emerge from IDB-9 as a stronger organization than it was in 2010. Though IDB-9 was overly prescriptive in some areas, it led the Bank to focus more on results and accountability and to improve many aspects of how it works. The work is not yet complete, however, and IDB-9's four intermediate objectives remain highly relevant. IDB should continue to build on the successes it has achieved while moving proactively to develop a consensus on the kind of Bank it wants to become.

Documents of OVE´s IDB-9 Evaluation

All available at **www.iadb.org/ove/IDB-9**

General report

IDB´s Ninth General Capital Increase: Implementation and Results

Background Notes

Country Programming
Country Systems
IDB-9 Survey: Overview of the Results
Implementation of the Access to Information Policy
Lending Instruments
Operational Trends
Results Based Budgeting
Sector Framework Documents
Support to Small and Vulnerable Countries

Copyright © [2018] Inter-American Development Bank. This work is licensed under a Creative Commons IGO 3.0 Attribution - NonCommercial - NoDerivatives (CC-IGO BY-NC-ND 3.0 IGO) license
(http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode) and may be reproduced with attribution to the IDB and for any non-commercial purpose. No derivative work is allowed. Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.

Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.

Note that link provided above includes additional terms and conditions of the license.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

© Inter-American Development Bank, 2018

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

RE-515-6

ove Office of Evaluation and Oversight

www.iadb.org/ove/IDB-9

facebook.com/idbevaluation

@BID_evaluacion