



Mid-term Evaluation of
IDB-9 Commitments

**Knowledge
Products**

Background Paper



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Office of Evaluation and Oversight

1350 New York Avenue, N.W.

Washington, D.C. 20577

www.iadb.org/evaluation

ABSTRACT

The Inter-American Development Bank (IDB) has a diverse set of knowledge products: economic and sector work, knowledge products associated with loans, and a variety of non-reimbursable technical cooperation products (TCs) funded by either income from ordinary capital or donor trust funds. With growing emphasis on IDB's capacity to make effective nonfinancial contributions to its borrowers, there has been substantial focus on how to increase the development impact of TCs. This involves balancing client demand and the institution's own view of country and regional priorities. IDB has struggled to achieve this balance and to put in place supporting systems to manage and monitor TCs effectively. Since 2008 the definition and classification of TCs and guidance on how to manage them has changed almost yearly. The IDB-9 Agreement reflected both a general intention to make this area of IDB's work more effective, and a more specific mandate to look into the possibility of providing fee-based services in the future.

This evaluation identified several areas in which there are continuing issues pertaining to TCs, some of which also relate to IDB's knowledge products more generally. First, the strategic alignment between TCs and lending products needs to be strengthened; it has improved somewhat in annual country programs, but needs to be strengthened in the periodic Country Strategies and overall. Second, the management of TCs is complicated by the various constraints imposed on the inter- and intrasectoral allocation of both ordinary capital and donor trust funds, and IDB Management's efforts to find ways to work around these constraints have met with limited success, as evidenced by the substantial underutilization of available resources. Third, IDB does not have a system for monitoring and reporting on the results of TCs, and this needs to be rectified, given their importance to development effectiveness. Fourth, proposals for fee-based services have been slow to get off the ground, though some progress now appears likely. Finally, the accessibility of reports and studies is a long-standing problem, though Management has recently begun to address this more systematically with the development of a new system for data access.

PREFACE

The Inter-American Development Bank (IDB) is in a period of rapid change, responding to both the economic dynamism of the Region it serves and the increasing competition in the international financial marketplace. Over the past decade, countries in Latin America and the Caribbean have gained greater access to alternative sources of finance and an increasing ability to generate and share knowledge among themselves. Like other multilateral development banks, IDB is seeking to adapt to this changing international landscape by ensuring that it is responsive to borrowing countries' needs and putting strong emphasis on effectiveness in its use of scarce resources.

In 2010 the IDB's Board of Governors approved the 9th General Capital Increase of the IDB (IDB-9). The IDB-9 Agreement laid out a series of reforms intended to strengthen the strategic focus, development effectiveness, and efficiency of the IDB to help it remain competitive and relevant in the years ahead. As part of that Report, IDB's Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation—to be presented to the Board of Governors in March 2013—to assess IDB's progress in implementing those reforms. The full evaluation is available at www.iadb.org/evaluation.

This paper is one of 22 background papers prepared by OVE as input to the IDB-9 evaluation. It seeks to determine whether one portion of the IDB-9 requirements has been implemented fully and effectively and to offer suggestions to strengthen implementation going forward. The overarching goal of this paper and the entire evaluation is to provide insights to the Governors, the Board, and IDB Management to help make IDB as strong and effective as possible in promoting economic growth and poverty reduction in Latin America and the Caribbean.

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This paper was prepared by Basil Kavalsky and Jose Ignacio Sembler under the general guidance of Diether Beuermann and Monika Huppi. All background papers were thoroughly reviewed and discussed within OVE and shared with IDB Management for comments. The other background papers and full IDB-9 evaluation can be found at www.iadb.org/evaluation.

ABBREVIATIONS AND ACRONYMS

BRIK	Bank Repository of Institutional Knowledge
CIP	Corporate input products
CPD	Country Program Document
CPE	Country Program Evaluation
CS	Client support
ESW	Economic and sector work
GCM	Grants and Cofinancing unit
IDB	Inter-American Development Bank
IDB-9	Ninth General Capital Increase
KCP	Knowledge and capacity-building product
LAC	Latin America and the Caribbean
OS	Operational support
OVE	Office of Evaluation and Oversight
PTL	Project team leader
RD	Research and dissemination
SPD	Office of Strategic Planning and Development Effectiveness
STF	Strategic thematic fund
TC	Nonreimbursable technical cooperation product
VPC	Vice Presidency for Countries
VPS	Vice Presidency for Sectors and Knowledge

EXECUTIVE SUMMARY

Evaluations conducted over the years to assess the development effectiveness of the knowledge products produced by the Inter-American Development Bank (IDB, or Bank) have been critical of the Bank's ability to guide, coordinate, and manage these products. In the evaluation of the 2005-2008 New Lending Framework, the Office of Evaluation and Oversight (OVE) wrote that "Evidence from prior evaluations indicates that technical assistance at the Bank has consisted of isolated efforts, disconnected from a comprehensive assessment of beneficiaries' needs, priorities and demands. As a result outputs produced by Technical Cooperation were routinely not integrated into the Bank's overall sector knowledge, and thus did not advance comprehensive development plans and agendas."

To address these concerns, the Bank made a number of commitments in the context of the IDB-9 Agreement: to ensure a relevant mix of products by improving its framework to deliver nonfinancial value-added products; to enhance its role as a conduit of external, untied, multidonor funds to finance nonreimbursable technical cooperation products (TCs); and to consider a fee-based services option to tap the unexplored potential for substantial cost recovery and meet clients' demands for high-quality, fast-turnaround, highly relevant products.

This background paper assesses to what extent and how effectively these commitments have been implemented, with a particular focus on TCs, which were the underlying focus of the IDB-9 commitments.

Country Strategic alignment

Annual Country Program Documents (CPDs) provide substantial coverage of the TCs that are ongoing or proposed for the year ahead, though there is very limited elaboration beyond the title of the TC and the amount, and no data on implementation. For the periodic Country Strategy documents, IDB's knowledge work plays two separate roles: sector notes inform the design of the strategy, and the strategy should indicate the contribution of TCs to the program. The evidence suggests that sector notes are valued both by staff, as internal summaries of key sectoral issues and IDB's role in dealing with them, and by borrowers as reflecting an objective assessment of the status of the sector. In contrast, Country Strategies make very little reference to TCs.

Efficient sectoral allocation of TC resources

Resources for funding TCs are allocated to a number of different thematic funds on the basis of broad institutional priorities. The allocation of the income from ordinary capital (about \$100 million in 2012) is proposed by Management on the basis of its view of broad sectoral priorities and approved by the Executive Directors. In many of these areas there is a second layer of earmarking of resources for a set of target countries, groups, or activities. This appears to have created an over-determined system in a number of areas and inhibited the use of TC resources. There was a substantial carry-over of funds from 2011 and a similar carry-over is expected this year.

Monitoring and management of TC resources

Given the multiple objectives and funding sources of IDB TCs, it is not an easy task to design systems for monitoring and managing them in a way that keeps the transaction costs to manageable levels and does not create a major disincentive to the use of these instruments. Most operational staff interviewed by the evaluation team commented on the high transaction costs associated with TCs—the process requirements, the separate steps required to assess whether donor trust funds can be used to fund the TCs, and the procurement arrangements (which, for example, make it prohibitively cumbersome to hire consulting firms rather than individual consultants). Considerable work is currently going on in IDB to put in place monitoring arrangements that allow managers to identify the status of implementation of TCs. Some partial systems have been put in place, but there is still some way to go in developing an integrated system and eventually linking it to Optima. There is still no system in place for monitoring and reporting on the results achieved with TCs.

Fee-based services

While the IDB-9 Agreement specifically requested the Bank to develop a framework for fee-based services, work seems only recently to have gotten off the ground. The new Country Strategy for Peru raises the possibility of fee-based services. IDB did not have a framework for this—only a very specific document designed for Chile, the only country that has received fee-based services from the Bank. It is expected that the Bank will have a general framework in place in 2013.

Accessibility of data and studies

OVE's 2006 evaluation of IDB studies commented on the difficulty of accessing IDB's accumulated knowledge through the available search tools, and IDB staff interviewed for this evaluation suggested that this problem has not yet been overcome. Numerous staff mentioned to the evaluation team that in many cases the only way to find a document was to call the author and get it directly. The Bank has recently put in place new systems that should make all studies funded by IDB accessible and searchable. The challenge will be to ensure that all such work is indeed entered into the system.

Conclusions

IDB has made a good-faith effort to respond to the concerns on knowledge services raised by the IDB-9 Agreement, but much remains to be done to ensure that resources for knowledge services, particularly TCs, are allocated efficiently and effectively and results are accounted for. Staff and managers interviewed suggested that things are moving in the right direction overall, with greater transparency and monitorability of internal processes for knowledge delivery. But progress has been limited by the complexity of needing to meet different, incompatible objectives and to balance the various trade-offs. The fact that revised instructions on this topic are issued almost annually suggests that IDB is “churning” in this area, and that a commitment to a simpler, clearer, and more effective approach is still lacking.

Going forward, OVE suggests that Management revisit the practice of earmarking TC funds from ordinary capital, seek a stronger strategic alignment of TCs with country programs, and adopt a system for monitoring and reporting on the results of TCs. OVE should itself seek to have better coverage of TCs in Country Program Evaluations.

I. INTRODUCTION

A. Background and context

- 1.1 During the early years of the Inter-American Development Bank (IDB, or Bank), the Latin American and Caribbean (LAC) countries' development financing needs made lending a priority.¹ Knowledge generation and capacity-building activities not only had a lower priority but also were mostly envisaged as inputs to the preparation of loans. As the development community began to recognize the quality of policies and institutions as a key determinant of development, and as LAC countries improved their access to national and international capital markets, knowledge and capacity building began to attract more attention. With the Bank's organizational changes and changing priorities of the 1990s, a number of knowledge and capacity-building activities began to take shape as true Bank products with a value of their own: economic and social research, support for regional public goods, external training, regional policy dialogues, technical assistance, support for the development of national systems, seminars, and policy advice to governments.
- 1.2 The Region's demand for knowledge and capacity-building products (KCPs) led to growing institutional mandates to improve the Bank's work in this area.² These mandates converged around the idea stated in the New Lending Framework for 2005-2008 that "in the context of decreasing net financial flows from the IDB to borrowing countries, the importance of the contribution to development that the Bank can make through these activities becomes critical." Evaluations conducted over the years to assess the development effectiveness of the various components of KCPs/TCs have been critical of the Bank's ability to guide, coordinate, and manage them. In evaluating the New Lending Framework, the Office of Evaluation and Oversight (OVE) wrote:

Evidence from prior evaluations indicates that technical assistance at the Bank has consisted of isolated efforts, disconnected from a comprehensive assessment of beneficiaries' needs, priorities and demands. As a result outputs produced by TCs were routinely not integrated into the Bank's overall sector knowledge, and thus did not advance comprehensive development plans and agendas. This dispersion of efforts seems related to the fact that KCPs/TCs have been driven more from the input side than from the output side. In addition the piecemeal approach has resulted in the inability of Management and the Board to have a comprehensive view of the extent, direction, cost and results of the Bank's work in this area.³

¹ This section is taken from the *New Operational Framework*, October 31, 2008.

² IDB's knowledge products are no longer known as KCPs, but as technical cooperation products (TCs).

³ *The Evaluation of the New Lending Framework: 2005-2008* (RE-342-1).

- 1.3 In the context of the Ninth General Capital Increase, the Governors called on the Bank to undertake measures to strengthen the relevance and accountability of nonlending services, particularly TCs. Specifically, the Report on the Ninth General Capital Increase (IDB-9 Report), adopted in 2010 by the Board of Governors, committed the Bank:

To ensure a relevant mix of products (by) improving its framework to deliver nonfinancial value-added products. The platform for KCPs will strengthen these products as a component of the Bank's core business and to adapt their funding strategy, operational and accountability arrangements. Additionally, a Fee-based Services (FBS) funding option to tap the unexplored potential for substantial cost recovery has been proposed. FBS will require that the Bank effectively match the demand from clients with the supply of high-quality, fast-turnaround, highly relevant products. In parallel, the Bank will continue to enhance its role as a conduit of external, untied, multidonor funds to finance non-reimbursable Technical Cooperations (TCs).

- 1.4 Accordingly, this evaluation reviews what progress has been made on implementing the reforms subscribed to by the KCP platform, particularly with respect to TCs and where the Bank stands on the development of a fee-based services product line.

B. Methodology

- 1.5 It is important to note that this is not an overall evaluation of IDB's knowledge products. The focus of this background paper is on the extent to which the IDB-9 requirements on knowledge services have been fully and effectively implemented. To assess this, OVE (i) gathered detailed background information on IDB's knowledge services; (ii) interviewed project team leaders (PTLs), staff of the Office of Strategic Planning and Development Effectiveness (SPD), the Office of the Vice President for Sectors and Knowledge (VPS) and the Grants and Cofinancing unit (GCM); (iii) undertook a meta-evaluation reviewing all knowledge-related evaluations and the discussion of TCs in Country Program Evaluations (CPEs); and (iv) obtained the perceptions of clients on the various knowledge products IDB offers in twelve countries. Since the IDB-9 Agreement in this area relates essentially to the country-level knowledge services provided by IDB, particularly the TCs, the evaluation did not include coverage of the broader regional research and dissemination programs that IDB undertakes; however, OVE notes the importance of these programs and the contribution they make to the Region and to individual countries over the long term.

II. OVERVIEW OF IDB’S KNOWLEDGE AND CAPACITY BUILDING PRODUCTS

- 2.1 It is challenging to put together a picture of IDB’s knowledge services to clients, because of the different ways in which these services are defined, implemented, and funded. IDB’s knowledge products can be looked at from the perspective of the programming of knowledge products, and the funding mechanisms (Table 1).

Table 1. Technical Assistance and Knowledge Services by Funding Source

Source of funding					
Type of service		Donor Trust Fund	OC Special Programs	Admin Budget	Client (cost recovery or lending)
	TC-Operational Support	√	√		
	TC-Client Support	√	√		
	TC-Research and Dissemination	√	√		
	ESW (VPS+VPC+VPP)			√	
	CIP (VPS+VPC+VPP)			√	
	Country strategies, programming et al. (VPC)			√	
	Fee based services				√
	KCP in lending operations				√

Source: Adapted from VPS Presentation to Programming Committee on ESW and CIP 2009-2013, June 14, 2012.

- 2.2 From the programming perspective there currently are six categories:
- *Knowledge that is “bundled” in IDB’s lending products*, including through purpose-designed lending—such as technical cooperation loans, the Project Preparation and Execution Facility, and knowledge and capacity-building components of investment operations—to transfer know-how and technical support.
 - *Technical cooperation—operational support (OS)* activities that complement, or contribute to the preparation, design, or implementation of, an IDB-supported project.
 - *Technical cooperation—client support (CS)* activities that are requested by IDB clients in support of their broader development agenda.
 - *Technical cooperation—research and dissemination (RD)* that is originated by IDB as an instrument for creating, capturing, and sharing regional or country knowledge.
 - *Corporate input products (CIPs)* that serve to further institutional priorities and corporate initiatives, such as , development of sector strategies and policies, mainstreaming of corporate priorities (e.g. gender, climate change)

into lending operations through development of operational tools or implementation of specific action plans.

- *Economic and sector work* (ESW) that is carried out by IDB to inform its knowledge of regional and country issues in support of its operational program.

2.3 These activities can be funded from four different sources:

- IDB *loans* finance technical support activities as components of investment loans or dedicated technical support operations.
- *Administrative budget* principally supports the corporate input products and ESW carried out by the Bank. In 2012 US\$24.3 million was allocated from the administrative budget for ESW.⁴ About US\$2.5 million goes annually for the Rapid Response Fund, which is disbursed at the discretion of the Vice-Presidency for Countries (VPC) for important activities at the country level. In 2012 US\$10.5 million was allocated to CIPs.⁵
- *Ordinary capital funds* is funding from IDB's capital income that can be used for technical cooperation for OS, CS, and RD. In 2012 approximately US\$100 million has been made available through Ordinary Capital (OC) Special Programs for these purposes. The funds are allocated to specific programs, of which there were 17 in 2012, aligned to IDB's strategic priorities.
- *Donor trust funds* can be used for whatever TC programs the donor designates. They are an important source of funding for RD, particularly for regional programs. As of October 2012, US\$375.5 million in donor trust funds was available.

⁴ It includes Personnel Cost (US\$12.1 million) and Non-Personnel Cost (US\$12.2 million). Source: "2012 Approved Program and Budget. Final Version" (GA-248-7)

⁵ It includes Personnel Cost (US\$5.3 million) and Non-Personnel Cost (US\$5.2 million). Source: "2012 Approved Program and Budget. Final Version" (GA-248-7)

Table 2. TC Approvals and Availability (US\$ million)

Fund Type	TC Taxonomy	Approvals 2012 (As of October 31)	Estimated Availability with Annual Limits (As of October 31, 2012)	Estimated Availability minus 2012 Pipeline (As of October 31, 2012)
OC	Client Support (CS)	25.4	109.1	63.4
	Operational Support (OS)	12.8		
	Research and Dissemination (RD)	8.3		
	Total OC	46.5		
DTF	Client Support (CS)	23.1	423.4	375.5
	Operational Support (OS)	15.9		
	Research and Dissemination (RD)	17.5		
	Total DTF	56.5		

Sources: GCM TC Approval Report (as of October 31, 2012), GCM Trust Fund Availabilities Report (as of October 2012).

Note: Approvals include operations classified by TC taxonomy (CS, OS, and RD). PSGs and Small Projects have not been classified by TC taxonomy.

- 2.4 The allocation mechanisms and processing modalities for TCs are driven by both their purposes and the funding source.
- 2.5 The primary focus of the IDB-9 shareholders was on the effective use of resources for non-reimbursable technical cooperation TC, and this is therefore the focus of this background paper. As Table 3 shows, TCs range from small activities such as meetings, seminars, or study tours to major studies carried out on key development issues. Shareholder concerns in IDB-9 have focused on this last category and on ensuring that the approved TCs reflect both the priorities of governments and IDB's own strategic priorities.

Table 3. Some Recent TCs

Operation Number	Operation Name	Fund	Country Benefits	Original Approved Amount (US\$)
RG-T2160	Technical Support to Development Banks for the Mitigation of Climate Change	MSC	Regional	1,000,000
NI-T1105	Strengthening of the Fiscal Management of 5 municipalities of Nicaragua	ORC	Nicaragua	460,000
UR-T1097	Guaranteeing the Rights of Highly Vulnerable Children and Youth	ORC	Uruguay	20,000
CO-T1315	Planning and Management for Results: The Experience of Brazil	ORC	Colombia	16,400
NI-T1149	Strengthening of Foreign Trade One Stop Shop	ORC	Nicaragua	750,000
PE-T1275	Internship Forest Investment Program (FIP) in Mexico	ORC	Peru	17,900
BO-T1180	Experiences on WS Sectorial Framework in Colombia	ORC	Bolivia	11,500
CO-T1264	Support to FINDETER with Environmental and Social Risk Assessment and Management	STC	Colombia	135,600
CO-T1290	Innovation in the Services of Official Postal Operator	ITC	Colombia	300,000
DR-T1096	Support for the Creation of the Dominican Youth Philharmonic	ORC	Dominican Republic	10,000
ES-T1180	Support to the Innovation for Competitiveness Program	KEF	El Salvador	160,000
ME-T1185	Promotion of Carbon Markets in Mexico	CTF	Mexico	800,000
ME-T1199	Support to FINRURAL with an Environmental and Social Risk Management System	ICS	Mexico	146,100
NI-T1145	Support to the implementation of the National Plan of Science, Technology and Inn	KEF	Nicaragua	80,000
RG-T2171	Tracking Improvements in Maternal and Child Health Care in Mesoamerica	KPK	Regional	1,000,000
TT-T1033	Understanding the Economics of Climate Adaptation (ECA)	ORC	Trinidad and Tobago	360,000

Source: OVEDA, using the Bank's data warehouse.

Notes: Approvals as of August 27, 2012. Fund codes: MSC (Sustainable Energy and Climate Change Multidonor Trust Fund), ORC (Ordinary Capital), STC (Swiss Technical Cooperation Fund for Consulting Services and Training), ITC (Italian Consulting Firms and Specialized Institutions Trust Fund), KEF (Knowledge Multidonor Economy Fund), CTF (Clean Technology Fund), ICS (Institutional Capacity Strengthening Thematic Fund), KPK (Knowledge Partnership Korea Fund for Technology and Innovation).

- 2.6 The “Proposal for a New Framework for Technical Cooperation,” approved on April 1, 2008, defined the context for technical cooperation as follows:
- a. IDB Non-Reimbursable Technical Cooperation (TC) resources are increasing in volume and variety – 38 active Donor Trust Funds;
 - b. Imperfect alignment of TC with borrowing country priorities – lack of a programmatic vision at the country level;
 - c. Varied and cumbersome TC approval processes;
 - d. Execution of TC projects is slow;
 - e. IDB has no knowledge management strategy;
 - f. IDB’s TC reform process has lagged that of other MDBs.
- 2.7 It proposed a new policy in an attempt to shift the focus from TC as a type of financing toward the objectives of TC and the activities needed to support it.⁶ In the words of the proposal: “The Bank now needs to recognize KCP as one of its core businesses. Consequently the Bank should develop a comprehensive platform for KCP development which includes adapting their funding, operational and accountability arrangements.” The policy defined the objective of the Bank’s TC as “to facilitate the transfer of technical know-how and qualified experience with the purpose of complementing national and regional technical capacities.” It further specified TC activities as the “transfer, adaptation, mobilization and utilization of services, skills, knowledge, technology and engineering to build national capacity on a sustainable basis.” And it stated that “TC activities will be integrated with the Bank’s lending program, aligned with country and regional strategies and focused on realizing development outcomes and results.”
- 2.8 Against this background the paper proposed the creation of a new TC Framework and a Bank model of grant resource management that would (i) establish a strategic link between TC and the Bank’s lending portfolio, Country Strategies, and regional programming; (ii) simplify and standardize approval procedures; (iii) simplify execution procedures; (iv) improve monitoring, evaluation, and reporting on the development outcomes achieved with TC; and (v) provide critical inputs for the mobilization of grant resources. It proposed a large number of steps to operationalize this approach:
- Establishment of a limited number of strategic thematic funds (STFs) to support key priorities of the Bank’s program;
 - Emphasis on partnership building;
 - Application of simplified standardized procedures;

⁶ “Proposal for a New Bank Policy on Technical Cooperation,” approved April 1, 2008.

- Increased delegation for approval of TC projects to Management;
- Delegation to the President of authority to enter into agreements with donors that support TC;
- Financing of trust funds with untied grant contributions only;
- A preference for STFs to be financed by multi-donor contributions;
- Creation of a results framework for each STF;
- Implementation of an enhanced staff training program for the administration and use of STF resources;
- A dedicated resource mobilization function in the Office of Outreach and Partnerships;
- Location of responsibility for TC in [the Vice-Presidencies] for sectors, knowledge, and private sector;
- Location of a centralized grant resource management function in the Grants and Cofinancing Management unit of VPC.

2.9 The paper concluded:

To consolidate these developments, Management will submit a full proposal to the Board laying out a comprehensive platform for planning, managing, monitoring, evaluating and sustainably financing KCP, placing them at the strategic core of the Bank's new business model. The platform includes the following three elements. KCPs can be classified along two dimensions; origination and scope. In the first dimension KCPs can be either the results of clients demands or of initiatives generated within the Bank. In the second dimension, demand for KCPs can have an immediate, short-term scope or serve a longer-term forward looking purpose. (This two by two matrix yields four products: Advisory services; Policy and capacity development; Outreach and dissemination; and Research and development). KCPs should be planned within a two-year rolling program including approvals and disbursements, sources of financing, allocation by KCP type and priorities. All KCP programs will be subject to evaluations at the aggregate, category and program levels on the basis of the objectives and expected development effects of each. Tangible deliverables will be stored in the Bank's knowledge repository, which is expected to be in place in 2010.

2.10 Each year since then, IDB has produced a new paper with elaborations or modifications of the structure outlined above (see Annex A for a detailed description). The next section summarizes the main messages of each of these documents.

III. DEVELOPMENTS DURING AND SINCE IDB-9

- 3.1 ***Strategy for Knowledge and Capacity Building Products at the IDB, December 22, 2009.*** This strategy argued that, unlike lending products, IDB’s nonlending products had evolved in an ad hoc manner, without a conceptual and operational framework. It defined IDB KCPs as having the following characteristics: “increase LAC members’ intellectual and institutional capacity; are standalone—not dependent on being part of a loan; draw down the Bank’s exhaustible resources—net income, reserves and donor trust funds; and are managed and funded as products.” They include lessons learned and best practice papers, capacity-building programs like PRODEV, conferences and seminars (external), economic assessment reports, economic consultations missions, policy research, analytic papers, and external training. The strategy estimated that roughly US\$130 million of products financed by the Bank in 2008 fell into this category.
- 3.2 The strategy proposed four categories of KCPs: (i) short-term response to clients; (ii) policy and institutional developments in countries; (iii) outreach and dissemination; and (iv) strategic research and development. It proposed a three-stage resource allocation process: categories, programs, and projects. The primary allocation would be made by the Board at the level of the four KCP categories. It provided that all KCPs should have a clear statement of their objectives and expected development results, and be subject to evaluation.
- 3.3 In addition, an important part of the strategy was a proposal to develop a program of fee-based services, building on the model that had been developed for Chile in 2001.
- 3.4 Operational Guidelines for Technical Cooperation to Finance Knowledge and Capacity Building Products and Operational Inputs, April 19, 2010. These guidelines are an attempt to provide the operational framework specified in the 2009 strategy document. They outline the different procedures to be followed for different KCP categories.
- 3.5 Review of the Bank’s Non-Reimbursable Technical Cooperation Products: Findings and Recommendations, June 1, 2011. This review laid out a new set of procedures for approval of TCs.
- 3.6 ***Operational Guidelines for Technical Cooperation Products (GN-2629), September 2011.*** These guidelines revised the categorization of TCs (the term KCPs was no longer used) from four categories to three. TCs were now classified as (i) Operational Support (products contributing to the preparation, execution, or evaluation of a loan or guarantee); (ii) Client Support (products not linked to a financial product, but originated and requested by the borrowing member country; they cover demand-driven stand-alone products that provide either the capacity to

offer a quick response to a client need, or medium- or long-term assistance for policy development and sector knowledge, or outreach and dissemination, capacity building and training, and community development projects); and (iii) Research and Dissemination (all knowledge products and dissemination activities originated by the Bank—that is, stand-alone products and activities aimed at deepening the Bank’s or client’s knowledge or capacity on a given topic).

- 3.7 The guidelines use the mechanism of five STFs, each mapped to one of the five sector priorities, or small and vulnerable countries, or private sector development priority, defined in the IDB-9 report. Each STF would be financed through a multidonor trust fund, the OC Special Program, or a combination. The guidelines included a series of follow-up steps to implement the new processes for IDB allocation, management, and monitoring of TCs, designed in response to the concerns raised by the IDB-9 Agreement. (Table 4 shows these processes, along with an indication of their status as of August 31, 2012).

Table 4. Status of Implementation of the TC Reform

<i>Result</i>	<i>Status</i>
The new programming process will be incorporated into the 2012 programming exercise. This includes the need for GCM to provide a notional envelope of resources by September 2011.	Achieved. GCM provided a notional envelope, and the new programming process was used for the 2012 programming exercise.
The new approval process can begin on September 1, 2011. This will require a concerted effort to provide updated manuals and training sessions on the procedures and design of TCs. The new procedures will also include the streamlining of processes to create STF and the governance of OC Special Programs.	Achieved. New operational guidelines are provided online, and training sessions have been conducted. In addition, online training is available. Work on streamlining processes is ongoing.
The new simplified fiduciary execution guidelines will be implemented by January 1, 2012. PDP will lead the process of training staff on the new financial management and procurement guidelines.	Partially achieved. Simplified guidelines for financial management have been issued. New procurement guidelines have been implemented since January 2012, but applied so far only to MIF operations. MIF staff had a help desk for 3 months, and WebEx training on procurement guidelines for the private sector (note that the operations of the MIF were not evaluated as part of the study).
The new Bank-executed TC procurement policy and information system can be ready for January 1, 2013, if the policy is approved during the first semester of 2012. The new system will need to be budgeted in the 2012 capital budget, and be aligned to the Optima Program, and the organizational adjustments will need to be made by this date.	Work is ongoing. A working group is developing new corporate procurement processes for TCs. There are still important issues to be resolved, in particular the complex arrangements for procurement of firms for IDB-executed TCs. The alignment with Optima is planned for the next phase.
The new TC monitoring system will also be operational by January 1, 2013. The system could take eight months to a year to develop and implement, and training will need to be provided.	Work is ongoing on developing the system. A consultant has prepared a conceptual framework, and the next phase is to determine which outputs to track and how to track them.
The selective evaluation will require Management to allocate resources for the evaluation of TCs, and to agree on criteria for selecting the TCs.	Requires further progress with the monitoring system. A working group is looking at these issues.

IV. FINDINGS

- 4.1 The evaluation looked at IDB's evolving strategy for knowledge products from several perspectives that are either explicit or implicit in the IDB-9 Agreement: the *strategic alignment* of TCs with IDB's country strategies; the *alignment with corporate sector priorities*; the *monitoring and management* of TCs to assess whether they are achieving the objectives within the projected timeframe and at the expected cost; the role that an expansion of *fee-based services* could play in the future; and the *accessibility* of the data and studies that are generated in the course of IDB project preparation and implementation and through TCs.

A. Alignment with Country Strategic

- 4.2 To what extent have the TCs served to inform the design of IDB's Country Strategies and form part of well-designed Country Strategies going forward? Annual Country Program Documents (CPDs) provide substantial coverage of the TCs that are ongoing or proposed for the year ahead, their alignment with the Country Strategy priorities, and their contribution to the results framework. The CPD is short, however, and there is very limited elaboration beyond the title of the TC and the amount, and no data on implementation of TCs.
- 4.3 IDB's knowledge work plays two separate roles with regard to periodic Country Strategies. First, the design of the Country Strategy is informed and shaped through the preparation of sector notes. Second, Country Strategies should reflect the contribution of TCs and their strategic contribution to the new program. As far as the first is concerned, the evidence suggests that the sector notes are valued both by staff as internal summaries of key sectoral issues and IDB's role in dealing with them, and by borrowers as reflecting an objective assessment of the status of the sector.
- 4.4 In contrast, Country Strategies make very little reference to TCs. Partly as a consequence, in the CPEs that evaluate the Country Strategy, OVE also pays very little attention to TCs. The extracts in Box 1 below, taken from the most recent CPEs, demonstrate the relative neglect in Country Strategy documents of any discussion of IDB's role in providing knowledge services at the country level. This contrasts with the detailed discussion of the lending program and the role of each project in contributing to the potential achievement of results in each of the pillars of the Strategy. While uncertainties about the availability of TC funding may not permit identification of a specific TC program, the strategy could nevertheless identify priority areas for the preparation of knowledge products and capacity building, along with an indication of the approach that will be taken to address these priorities.

Box 1. Examples: Mention of TCs in CPEs

Haiti 2008-2011—CPE September 2011

The strategy contains no diagnostic assessment of the challenges and risks of the post-earthquake situation that would enable it to develop a sequential strategy for the Bank’s work. Decisions were not based on a diagnostic assessment of the country’s challenges, and the criteria for selection were not stated explicitly beyond an assertion that “the active portfolio, prior sector experience, and areas of comparative advantage were taken into account.”

Few analytic products have been approved during the Country Strategy period, and they relate mainly to the preparation of events and aspects of the Country Strategy and portfolio. Of the 12 nonfinancial projects approved in 2007-2010, 6 were for preparation of conferences, forums, and annual meetings; 3 related to Country Strategy programming and portfolio review; and just 2 products were in-depth studies of macroeconomic issues. No KCs were approved for 2010-2011, although several are slated for the next strategy (for example, in the agricultural sector). Nevertheless, OVE acknowledges that Bank specialists have been substantially involved in the preparation of plans and strategies and in the provision of technical assistance to the government.

Recommendation: Expansion of the knowledge and information base. Expand the Bank’s knowledge capital, firmly rooting its work in a robust diagnostic assessment of the real conditions on the ground in Haiti by proposing as part of the first country program a strategy to address information deficits, including diagnostic assessment of the current state of affairs, lending needs, work execution timetable, and commitments by donors and the Haitian government.

Bolivia 2008-2010—CPE April 2011

To keep its country program relevant, the Bank should provide sufficient resources to maintain an ongoing program of analytic support for strategic sectors in Bolivia. Such a program should be set out in detail in the Bank’s strategy and reviewed periodically, incorporating analytic outcomes from the country dialogue and lending program.

Dominican Republic 2004-2008—CPE August 2010

The Bank made limited use of the TC instrument, approving 20 TC projects and three small projects for an original amount of US\$6.6 million. Although this amount exceeds the projected amount in the Country Strategy for TC operations (US\$5.1 million), it is less than half the amount approved in 1999-2003. The Country Strategy called for a mix of financial and nonfinancial instruments to increase the likelihood that the country would consent to programmatic approaches to financing that make increasing use of country systems. Although the Country Strategy noted as a lesson learned that “nonfinancial products can be useful tools of policy dialogue, the formulation of strategic frameworks that are critical for development, and the dissemination of experience relevant to the country,” it does not seem to have taken full advantage of these tools.

B. Alignment with sector strategies

- 4.5 Do IDB’s TCs reflect IDB’s strategic priorities as defined at the sector level through the five institutional strategies that have been prepared as part of the IDB-9 response? TCs’ alignment with corporate sector strategies is handled first through the creation of dedicated “pockets” or funds for TCs, financed from ordinary capital income, supplemented by donor trust funds. In recent years about US\$100 million from ordinary capital income has been allocated in this way, plus any resources that have been carried forward from the previous year. The operational guidelines established committees that started working in 2010

to review proposals and allocate the resources available in the various funds or from donor trust funds for approved TCs. Initially the thought was that these committees would meet twice a year to assess a batch of proposals and fund the best ones. In practice this did not prove workable, as it created delays—approvals could be delayed for up to six months. The allocation process now operates on a “first come, first served” basis. The sense among those interviewed is that while the allocation process is time-consuming and imposes transaction costs, it has the benefit of reducing some of the discretionary element that was associated with funding TCs in the past.

- 4.6 Efficient and effective allocation and use of TC funds remains problematic because of the confining system of earmarking within and across programs. At end-2011 about US\$60 million in unallocated or cancelled TCs was carried over and added to the new allocation of about US\$100 million. The division of the ordinary capital income resources into 17 special programs seems to be a major source of the problem: so many constraints have been introduced that it becomes difficult to match proposals with resources. In the Gender Fund, for example, there is an earmark for indigenous communities, and another for women from poor and vulnerable countries. This is well-intentioned, but it may result in worthwhile activities not receiving funding. It would seem more appropriate to provide general guidance to Management on priorities to ensure that proposals that meet these objectives get funded, than to provide specific earmarks by purpose and country groupings.

C. Monitoring and management

- 4.7 Given the multiple objectives and funding sources of IDB TCs, it is not an easy task to design systems for monitoring and managing them in a way that keeps the transaction costs to manageable levels and does not create a major disincentive to the use of these instruments. Most operational staff whom the evaluation team met commented on the high transaction costs (mostly in staff time) associated with TCs—the process requirements, the separate steps required to assess whether donor trust funds can be used to fund the TCs, and the procurement arrangements (which, for example, make hiring consulting firms rather than individual consultants prohibitively cumbersome).
- 4.8 Considerable work is going on in IDB to try to put in place monitoring arrangements that allow managers to identify the implementation status of TCs. Some partial systems have been put in place, but there is still some way to go in developing an integrated system and eventually linking it to Optima. The Vice-Presidency for Sectors (VPS) has been quite successful in putting in place a monitoring system for ESW, and some elements of this could perhaps be used for TCs, though obviously there are also different requirements that will need to be addressed.
- 4.9 In addition, there is the question of what is actually done with the data generated by the monitoring systems. If a monitoring system is put in place, it should be

possible to provide periodic reporting on the status of TC implementation. The problem of the large carry-over mentioned above could be identified and analyzed in real time. Three types of evaluations would be useful:

- Ex-post evaluation would validate the relevance, effectiveness, and efficiency of the TCs. Completion reports are not now prepared for TCs, but they should be. They should be extremely brief for smaller TCs (no more than a page), but could be more comprehensive for larger ones, and perhaps subject to OVE validation on a sample basis.
- OVE could occasionally undertake in-depth evaluations of cross-sections of TCs, organized by themes, sectors, or subregional or country groupings.
- OVE should evaluate the use of TCs in country programs. CPEs barely mention TCs. Some record the number of TCs, and some discuss the overall contribution of knowledge products, but when the CPE deals with the achievement of the pillars of the Country Strategy, it moves directly to loans with barely an acknowledgement that TCs are also designed to contribute to the results of these pillars. OVE evaluators need to recognize and assess the efforts that the country team makes to integrate TCs effectively into IDB's country program. To do that, however, will require better underlying data on the size, scope, and results of TCs provided during the program period.

D. Fee-based services

4.10 While work on fee-based services was explicitly requested in the IDB-9 Agreement, this work has been slow to get started. It finally seems to be gaining some momentum, and the Peruvian authorities have recently made a specific request for such services. The new Country Strategy for Peru raises this possibility. IDB did not have a framework for this—only a very specific document designed for Chile, which is the only country to which fee-based services have been provided.⁷ The fee-for-service instrument was used three times for Chile, and there appears to have been a glitch with at least one of the products: the Chilean authorities disagreed with one of the studies and refused to accept it even though IDB viewed it as satisfactory. This underlines the difficulties the fee-for-service instrument is likely to face and the importance of developing a model that clearly defines the responsibilities of all parties.

4.11 For the past six months SPD has been working on Peru as a “model.” The Peru country team is taking the lead, collaborating with representatives from VPS, the Vice-Presidency for the Private Sector, Legal, and the Executive Vice President's office. It has now been decided to move in parallel with a general review of the concept managed by SPD. It is expected that a general framework for the entire Bank will be developed soon. Whatever agreement is reached with Peru could

⁷ See “Propuesta para el establecimiento de un Programa de Servicios de Asesoría (PSA) entre la República de Chile y el Banco,” CC - 5 6 9 3 – 2; 15 Junio 2001.

then serve as a prototype, although the expectation is not that a general model will be applicable to every situation. The next country would probably be Mexico, where a new Country Strategy will be prepared next year. Fee-based services could be an interesting option for IDB in a number of countries. The May 2009 CPE for Trinidad and Tobago, for example, explicitly proposes that IDB explore the possibility of piloting fee-for-service contracts there.

- 4.12 What remains unclear is whether and how IDB will be able to integrate the fee-for-service instrument into a strategic approach at the country level. The advantages of IDB operating as a consulting firm are limited; and since there are constraints on the overall staffing of the institution, there are likely to be trade-offs in using staff time to manage fee-for-service contracts, even if there is cost recovery for institutional overheads. Countries' interest in IDB fee-based services may well be in areas that are not covered by the agreed strategic program, under which borrowers would expect to receive services as part of IDB's regular support. If it is determined that fee-based services should be a significant instrument for IDB, the staffing implications would need to be assessed carefully.

E. Accessibility

- 4.13 OVE's 2006 evaluation of IDB studies commented on the difficulty of accessing IDB's accumulated knowledge through the available search tools, and the comments of IDB staff interviewed for this evaluation suggest that this problem has not yet been overcome, though efforts are under way to address it. Numerous staff mentioned that in many cases the only way to find a document is to call the author and get it directly. The search engines do not allow for accessing relevant IDB documents on, say, "road safety in north-east Brazil." A particular problem relates to capturing knowledge generated through IDB loans. Many loans include resources for studies, but there is no internal system for quality assurance for these studies, and there is also very little dissemination of them.
- 4.14 The Bank has recently developed a system to ensure the accessibility, visibility and effective dissemination of Bank knowledge products: the Bank Repository of Institutional Knowledge (BRIK). As of November 16, 2012, IDB knowledge products can be accessed through BRIK. Other efforts are ongoing to improve both the internal and external search engines. The introduction of the Zahori portal for the Internet should make all studies funded by IDB accessible and searchable. The main challenge ahead will be to work with staff to ensure that knowledge products are routinely entered into and made available through these systems and to enhance staff's level of comfort in using this potentially powerful resource.

F. Conclusions

- 4.15 IDB has made a good-faith effort to respond to the concerns on knowledge services raised by the IDB-9 Agreement. Overall, the consensus is that things are moving in the right direction, with greater transparency and monitorability of internal processes for knowledge delivery, but much still remains to be done to ensure that resources for knowledge services, particularly TCs, are allocated efficiently and effectively and results are accounted for.

V. SUGGESTIONS GOING FORWARD

- 5.1 Most of the IDB managers and staff interviewed by the evaluation team felt that the creation, dissemination, and use of knowledge products is still work in progress. They said that IDB still has some way to go to reach an institutional consensus on what level of knowledge services it can provide to clients, given staff and budget constraints, and on how these services should be prioritized, managed, and monitored. Interviews carried out in the context of another OVE evaluation⁸ suggest that IDB's knowledge services and its TCs are appreciated by clients, although some pointed out that a more strategic use of such resources would be desirable.
- 5.2 To ensure that resources available for TC programs are used efficiently and effectively, OVE has the following suggestions:
- ***Revisit the practice of earmarking ordinary capital income funds for TCs.*** The current practice of defining multiple funds and earmarking allocations for TCs to subcategories within these funds and across country groupings inhibits the use of these funds for important activities. Further review needs to be undertaken to see whether the number of funds can be reduced, their objectives broadened and earmarking within funds and across country groupings relaxed.
 - ***Enhance systems for ex post monitoring and evaluation of TCs.*** If IDB is to move away from ex ante earmarking, then it will need much more effective systems for monitoring and evaluating TC ex post. The ongoing work on measuring the deliverables should be the basis for better reporting and review, but it needs to be supplemented by a focus on the strategic coherence and quality of TC products.
 - ***Integrate TCs better into country programs.*** While TCs are generally at least mentioned in CPDs, the contributions of TCs and synergies between lending and nonlending products are not generally examined in the Country Strategy

⁸ "How is IDB Serving Higher-Middle-Income Countries? A Borrowers' Perspective." Office of Evaluation, January 2013.

process. An effort should be made to identify priority areas for TC and discuss their contribution in the Country Strategy.

- ***Seek better coverage of TCs in OVE's Country Program Evaluations.*** CPEs usually discuss the major loans in the country program but barely mention TCs and their role in supporting the achievement of the various pillars of the program. OVE should seek to enlarge the coverage of TCs, commensurate with better integration of TCs in Country Strategies and programs, and better monitoring and reporting of TCs by Management.

LIST OF PERSONS INTERVIEWED

<i>Name</i>	<i>Title</i>	<i>Department</i>
Gerhard Lair	Operations Lead Specialist	ORP/GCM
Sonia Rivera	Operations Lead Specialist	ORP/GCM
Hector Salazar	Operations Principal Technical Leader	SCL/SCL
Susana Sitja	Sector Principal Specialist	SPD/OPT
Morgan Doyle	Sector Senior Advisor	VPS/VPS
Ferdinando Regalia	Division Chief	SCL/SPH
Fazia Pusterla	Evaluation Economics Senior Specialist	SPD/SDV
Jaime Vargas	Operations Senior Advisor	EVP/EVP
Eduardo Borensztein	Economics Principal Technical Leader	CSC/CSC
Carola Alvarez	Division Chief	SPD/SDV
Maria Mercedes Mateo	Sector Advisor	VPS/VPS
Nestor Roa	Division Chief	INE/TSP
Tracy Betts	Division Chief	SPD/SMO
Kai Hertz	Operations Lead Specialist	ORP/GDM

ANNEX A. RECENT EVOLUTION OF THE IDB POLICIES ON TECHNICAL COOPERATION

The Proposal for a new framework for technical cooperation (TC) issued in 25 March 2008

1. IDB8 called for consolidation of Bank TC into a “consolidated, decentralized program” and mobilization of resources for TC. The proposal defines the context as follows:
 - a. *IDB Non-Reimbursable Technical Cooperation (TC) resources are increasing in volume and variety – 38 active Donor Trust Funds etc.,*
 - b. *Imperfect alignment of TC with borrowing country priorities – lack of a programmatic vision at the country level;*
 - c. *Varied and cumbersome TC approval processes;*
 - d. *Execution of TC projects is slow;*
 - e. *IDB has no knowledge management strategy;*
 - f. *IDB’s TC reform process has lagged that of other MDBs.*
2. The new policy proposed in March 2008, was presented as an attempt to shift the focus from TC as a type of financing toward the objectives of TC and the activities needed to support it.⁹ The policy defines the objective of the Bank’s TC as ‘to facilitate the transfer of technical know-how and qualified experience with the purpose of complementing national and regional technical capacities. The new policy further specifies TC activities as the transfer, adaptation, mobilization and utilization of services, skills, knowledge, technology and engineering to build national capacity on a sustainable basis. It states that ‘TC activities will be integrated with the Bank’s lending program, aligned with country and regional strategies and focused on realizing development outcomes and results.’
3. Against this background the paper proposed the creation of a new TC Framework and a Bank model of grant resource management that would i) establish a strategic link between TC and the Bank’s lending portfolio, country strategies and regional programming; ii) simplify and standardize approval procedures; iii) simplify execution procedures; iv) improve monitoring, evaluation and reporting on the development outcomes achieved with TC; and v) provide critical inputs for the mobilization of grant resources. In order to operationalize this approach a large number of related steps were proposed:
 - *Establishment of a limited number of Strategic Thematic Funds (STFs) that support key priorities of the Bank’s program;*
 - *Emphasis on partnership building*

⁹ Proposal for a new Bank policy on technical cooperation 25 March 2008.

- *Application of simplified standardized procedures*
 - *Increased delegation for approval of TC projects to management*
 - *Delegation to the President of authority to enter into agreements with donors that support TC*
 - *Financing of trust funds with untied grant contributions only*
 - *A preference for STFs to be financed by multi-donor contributions*
 - *Creation of a results framework for each STF*
 - *Implementation of an enhanced staff training program for the administration and use of STF resources*
 - *A dedicated resource mobilization function in the Office of Outreach and Partnerships*
 - *Location of responsibility for TC in VPS for sectors and knowledge and VP private sector*
 - *Location of a centralized grant resource management function in the Grants and cofinancing management unit of VPC*
4. To consolidate these developments, the Bank now needs to recognize KCP as one of its core businesses. Consequently the Bank should develop a comprehensive platform for KCP development which includes adapting their funding, operational and accountability arrangements. Management will submit a full proposal to the Board laying out a comprehensive platform for planning, managing, monitoring, evaluating and sustainably financing KCP, placing them at the strategic core of the Bank's new business model. The platform includes the following three elements.
5. KCPs can be classified along two dimensions; origination and scope. In the first dimension KCPs can be either the results of clients demands or of initiatives generated within the Bank. In the second dimension, demand for KDPs can have an immediate, short-term scope or serve a longer-term forward looking purpose. (This two by two matrix yields four products: Advisory services; Policy and capacity development; Outreach and dissemination; and Research and development. KCPs should be planned within a two-year rolling program including approvals and disbursements, sources of financing, allocation by KCP type and priorities. All KCP programs will be subject to evaluations at the aggregate, category and program levels on the basis of the objectives and expected development effects of each. Tangible deliverables will be stored in the Bank's knowledge repository, which is expected to be in place in 2010.

Strategy for knowledge and capacity building products at the IDB 22 December 2009

6. Over the years the ‘project’ side of the Bank’s business has evolved into a set of lending products tailored to address particular client needs. The non-lending side of the Bank’s business has not had a similar development. Although the Bank has produced a significant body of analytic work and non-reimbursable technical assistance it has not benefited from a conceptual and operational framework and clear funding arrangements as on the lending side. The production of ‘non-lending’ products has been and still remains largely ad hoc. The Bank will develop a strategy to mobilize funding for KCPs in order to compensate possible financial shortfalls in funding from FSO. The Bank will develop a fee-based services (FBS) mechanism. The precedent has been set already with the establishment of a program with Chile in 2001 to provide short-term (10-20 days) advisory services through Bank staff and, in exceptional cases, through consultants. The IDB will present to the Board a regulated and transparent mechanism a) to concentrate its use in the production of products that are more directly appropriated by clients; b) to ensure that such a mechanism tops up current funding and does not erode the available of NR funds for lower income countries; c) to align incentives of operational units and staff to respond to clients need without eroding the developmental role of the Bank.

A coherent taxonomy:

Objectives

- Increase LAC members intellectual and institutional capacity
- Standalone – not dependent on being part of a loan
- Draw down the Bank’s exhaustible resources – net income, reserves and donor trust funds
- Managed and funded as products

Instruments

7. These include lessons learned and best practice papers, capacity-building programs like PRODEV, conferences and seminars (external), economic assessment reports, economic consultations missions, policy research, analytic papers and external training, among others. This excludes non-financial products whose effects are mostly limited to the Bank as well as those whose impact on countries is embodied in the (loan process). It includes products funded from sources other than the administrative budget., but includes TCs funded from FSO net income, Donor Trust Funds (47), off-budget special programs funded from OC net income (11), and the MIF. According to this definition it is estimated that KCPs expenditure may reach more than \$130 million in 2008.

Funding managed in an integrated system

8. Funding may be expanded by creating a fee-based technical assistance facility, allowing the Bank to provide expert advice to countries that do not require financing. Predictable and sustainable funding however requires effort to unify and simplify KCP funding. All OC originated funding for KCP will be included in a single budget and reflected separately in the Bank's financial statements. This will be a key step to integrate it with donor trust funds, FSO and MIF under a common financial framework, which will include a common programmatic classification and medium-term financial scope.

Part of a common operational and accountability framework

9. In order to respond to different purposes served by KCP, individual products would follow differentiated institutional streams. There are four broad categories a) short term response to clients b) policy and institutional developments in countries c) outreach and disseminations, and d) strategic research and development. Resource allocation would be in three stages – categories, programs and projects. The primary allocation will be made by the Board at the level of the four KCP categories. Subsequent allocation of resources among programs will be done by management under a structured process. Strategic direction will be coordinated either through a special purpose committee or the current OPC. Each category of KCP will be under the primary responsibility of a particular unit. All KCPs should have a clear statement of objectives and expected development results, and be subject to evaluation.

Operational Guidelines for technical cooperation to finance knowledge and capacity building products and operational inputs GB-2549-2 19 April 2010

10. In the case of advisory services KCP proposals will be submitted to the VP for Countries which will coordinate the evaluation, selection and approval process. In the case of policy and capacity development, outreach and dissemination and research and development KCP proposals will be subject to a competitive process. VPC and VP Sectors and Knowledge will be responsible. The VP-KCP committee will review all proposals submitted, select the highest quality proposals, and authorize them for funding. VPC/CGM will match the proposals to the best fitting funds.

Operational Guidelines for Technical Cooperation Products; GN-2629 14 July 2011

11. In February 2010 the IDB launched a Strategy for Knowledge and capacity building projects (GN-2549), reflecting on the growing importance of knowledge as a core business of the Bank. In April 2010 the Bank issued a set of Interim guidelines for TC to finance KCPs. During 2010 and the first months of 2011, Bank staff, management, EDs, and donors provided feedback to these guidelines.

12. TCs are classified in the following categories: **Operational Support** (products contributing to the preparation, execution or evaluation of a loan or guarantee); **Client Support** (products not linked to a financial product. They are products originated and requested by the borrowing member country. They cover demand-driven stand-alone products that provide either a) the capacity to offer a quick response to a client need, or ii) medium or long term assistance for policy development and sector knowledge, or outreach and dissemination, capacity building and training, and community development projects). **Research and Dissemination:** (All knowledge products and dissemination activities originated by the Bank. It basically comprises stand-alone products and activities aimed at deepening the Bank's or client's knowledge or capacity on a given topic.)
13. Recommendations are divided into three topics 1) criteria for the creation of an STF; ii) processes for approving funding for an STF; and iii) Governance structure of OC special programs and parallel multi-donor TFs.
 - a. *Each STF will be mapped to one of the five sector priorities, and/or small and vulnerable countries, or PSD priority, defined in the IDB9 report.*
 - b. *Each STF must define the key sub-themes within an IDB9 sector priority.*
 - c. *An STF can be financed through a multi-donor TF, or an OC special program or a combination.*
 - d. *All Special Programs and M-DTFs will have a results framework.*

Review of the Bank's Non-Reimbursable Technical Cooperation Products: Findings and Recommendations; OP619 1 June 2011

14. TCs build a bridge between what is known about a development challenge, what is unknown and how best to address it. It is an essential component for assisting clients in the design and execution of relevant and efficient investments, programs and reforms.
15. Programming of approval procedures; Step 1: PTL prepares TC abstract and submits to GCM for identification of funding; Step 2: GCM (Grants and Co-financing Unit) presents TC abstract to relevant fund counterparts and notifies PTL of fund assignment identified; Step 3: PTL prepares TC document; Step 4: Head of the responsible organizational unit convenes and chairs the QRR for reviews of the fund proposal; Step 5: PTL prepares final TC package for final approval and sends it to the GCM for certification of funds; Step 6: VP/GCM Chief certifies availability of the corresponding funds.
16. Within the Bank's executed TCs, a clear trend has developed showing a marked growth in the TCs executed at headquarters. This has generated an administrative burden on scarce resources; can lead to legal and reputational risk, has brought complexity in the organization of the procurement function and information

inconsistencies; and has diminished the degree of beneficiary involvement and consequently the ability to transfer knowledge and technology.

<p><i>1. The new programming process will be incorporated into the 2012 programming exercise. This includes the need for GCM to provide a notional envelop of resources by September 2011</i></p>
<p><i>2. The new approval process can begin on September 1, 2011. This will require a concerted effort to provide updated manuals, training sessions on the procedures and design of TCs. The new procedures will also include the streamlining of processes to create STF and the governance of OC Special Programs.</i></p>
<p><i>3. The new simplified fiduciary execution guidelines will be implemented by January 1, 2012. PDP will lead the process of training staff on the new financial management and procurement guidelines.</i></p>
<p><i>4. The new Bank executed TC procurement policy and information system can be ready for January 1, 2013, if the policy is approved by BOD during the first semester of 2012. The new system will need to be budgeted in the 2012 capital budget, and be aligned to the Optima Program, and the organizational adjustments will need to be made by this date.</i></p>
<p><i>5. The new TC monitoring system will also be operational by January 1, 2013. The system could take between eight months to a year to develop and implement, and training will need to be provided.</i></p>
<p><i>6. The selective evaluation will require that Management allocate resources for the evaluation of TCs, and to agree on criteria under which the TCs will be selected.</i></p>

Knowledge and Learning Strategy, 2012-2015, GN-2479-2, 16 July 2012

17. (The Bank is able to) identify and propose innovations, compile systematize and interpret data from different contexts, and capture key learning. (The Bank is) a repository of sector and institutional knowledge and a source of public goods for the countries. A continuous learning cycle needs to be managed. The Strategy is intended to (contribute to this). The strategy proposes 1) training and sharing of knowledge; ii) knowledge management in the region and the Bank; and iii) dissemination and communication of knowledge.
18. Investments in the generation of knowledge have followed a rigorous programmatic process that gives priority to analytical and economic studies, in line with the institutional priorities established in IDB-9 and with emerging issues in the region. Knowledge management activities are a way of working rather than an additional activity.

Management Comments



Mid-Term Evaluation of IDB-9 Commitments
Background Paper: Knowledge Products
Management Comments

I. INTRODUCTION

- 1.1 Management welcomes OVE's background paper on the Bank's implementation of the IDB-9 commitments related to the delivery of its nonfinancial value-added products. The paper's conclusions and suggestions will contribute to the Bank's efforts to more effectively program, manage and use its technical assistance and knowledge products.
- 1.2 Management is pleased to see that the comments provided to OVE on the earlier draft of the paper were incorporated in this final version.

II. OVERALL FINDINGS AND SUGGESTIONS

- 2.1 Management broadly agrees with OVE's findings and suggestions on the most important issues cutting across the IDB's non-financial contributions to its Borrowers. We particularly agree with the paper's conclusion that more efforts are needed to streamline the management of Technical Cooperation (TC) resources and to strengthen the framework to monitor and report on their results.
- 2.2 Management appreciates OVE's acknowledgement that the Bank has made significant efforts to respond to the issues raised by the IDB-9 Agreement and that it is moving on the right direction providing greater transparency in internal processes for knowledge delivery.

III. LOOKING FORWARD

- 3.1 Some of the IDB's work in the area of strategic alignment has already begun to be implemented. Country Strategies do take into consideration potential non-lending activities, indicating specific subareas that could be targeted by TC operations. Certain Country Strategies such as Peru (GN-2668) and Chile (GN-2642-1) have already dedicated special attention to the value added of reimbursable and non-reimbursable TCs as important implementation mechanisms. However, the difficulties the Bank faces to define ex-ante technical cooperation envelopes, makes it impossible to commit to a specific, well-defined program for each country.
- 3.2 Management agrees with the recommendations regarding the new TC monitoring system and the framework for fee-based services and has already advanced in both areas. A new TC monitoring system is being developed and should be operational shortly. In addition, a Bank-wide framework for fee-based services is expected to be approved in the first semester of 2013 and will benefit from the experience and lessons learned garnered from a pilot program to be initiated shortly in Peru.