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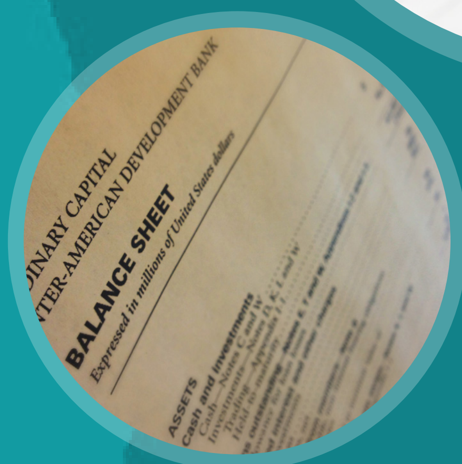

Mid-term Evaluation of IDB-9 Commitments

Operational Performance and Budget

Background Paper

IDB
Inter-American Development Bank
March 2013

Classification: Public Document
Original Version: English

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ABSTRACT

In IDB-9 the Board of Governors of the Inter-American Development Bank (IDB or Bank) mandated the adoption of a results-based budgeting process (RBB) that would be aligned to and would help achieve the key performance targets of the Corporate Results Framework (CRF), as well as improve accountability and transparency. In addition, they mandated the use of a Balanced Score Card Performance Management System (BSC) that would incorporate the results from an External Feedback System (EFS). The Governors also requested that the Bank continue its efforts to improve organizational efficiency.

The IDB has made significant progress in improving the quality and availability of information related to the budget and the associated work program, and in developing and enhancing the systems to support the budget planning and monitoring process. Many of the actions defined in the RBB Framework document can be considered complete from a technical perspective, but the RBB is still a work in process. One major area that RBB planners underestimated was the effort and time it would take to create an organization that uses data to manage for results. This effort must involve all levels of Management and be accompanied by appropriate incentives. Work on this cultural change has started but will extend beyond the planned three-year RBB implementation period. The BSC effort resulted in organizational learning and the development of a number of performance indicators, but it failed to achieve its objective of implementing a BSC that would provide the Bank with a Strategic Planning and Management system to help ensure the alignment of business activities with organizational strategy and provide a focused, comprehensive perspective of the Bank's organizational performance. The EFS is just being restarted, and preliminary results are expected in early 2013. Work is under way to improve operational efficiency, but the RBB data provide limited support to this activity, as most of the efficiency indicators are related to cycle times and not budget.

OVE provides several suggestions for future work: (i) increase the focus, attention, and resources devoted to the RBB change management process to help achieve the culture change needed to create an organization that "manages for results"; (ii) plan for the involvement of all levels of Management, use internal and external experts in this process, and recognize that the process will take time; (iii) with Human Resources, create and implement incentives to recognize and reward behavior and good practices that can change the Bank's culture; (iv) consider raising the sponsorship level of the RBB, possibly combining it with the Program Optima governance structure; (v) focus on creating a limited set of performance indicators that drive the Bank's business and that link to its strategy, objectives and priorities; and (vi) reexamine the budget process to identify key constraints—for example, the head count ceiling—and reexamine the timing of performance reporting and budget allocations/reallocations to ensure alignment.

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 increasingly 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 background paper was prepared by; George West, and Marco Velarde under the guidance of Alejandro Soriano. 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

BDA	Budget and Administrative Services Department
BUFIPOL	Budget and Financial Policies Committee
BSC	Balanced Scorecard
CAN	Country Department for the Andean Group
CPC	Corporate Performance Console
CPF	Corporate Performance Framework
CRF	Corporate Results Framework
DEF	Development Effectiveness Framework
DEO	Development Effectiveness Overview
EFS	External Feedback System
EVP	Executive Vice President
IDB	Inter-American Development Bank
IDB-9	Ninth General Capital Increase
OVE	Office of Evaluation and Oversight
RBB	Results-based budgeting
SPD	Strategic Planning and Development Effectiveness Department
VPC	Vice President for Countries
VPP	Vice President for Private Sector and Non-Sovereign Guaranteed Operations
VPF	Vice President for Finance and Administration

EXECUTIVE SUMMARY

This paper reports on the midterm evaluation of the implementation of a results-based budgeting (RBB) system at the Inter-American Development Bank (IDB, or Bank). The objective of this review was to assess the progress made by IDB Management in implementing the reforms requested by the Board of Governors in the context of the Ninth General Capital Increase (IDB-9). The RBB mandate was divided into three components: (i) adoption of an RBB process that is aligned with the Corporate Results Framework (CRF) priorities; (ii) implementation of a Balanced Scorecard (BSC) system to improve management for results in the Bank, by aligning business activities to the corporate mission and monitoring corporate results; and (iii) continued improvement of the Bank's organizational effectiveness and efficiency.

In 2010 the Bank formed four teams (RBB Working Group) to create the RBB Framework document, which was approved by the Board of Directors in December 2010. The Framework contained an implementation plan that outlined the steps Management would take to implement the RBB over the next three years. The teams recognized and included in the Framework document a statement that the RBB requires a shift in the Bank's culture to one of setting objectives and managing for results, further noting that this would involve hard choices, prioritization, clear incentives, and accountability, accompanied by changed behavior.

The Working Group recognized that the IDB-9 Report called for actions that would not be possible in an RBB system—for example, linking the assignment of budget resources to achieve the CRF targets would mean making a direct tie between budgeted inputs and outcomes, which a budgeting system cannot do. It was decided that this objective would be reported on through the Development Effectiveness Overview. Thus a major goal of the RBB became one of linking Bank inputs to outputs and making other modifications to the five phases of the budget cycle to achieve the RBB objectives. The RBB was taken as a mandate and there was no fundamental review of the existing budget process to identify process or other issues—for example, rigidities or deficiencies—that could be addressed to improve how the Bank makes its resource allocation decisions.

The bulk of the work to implement the RBB involved modifications to the five stages of the budget cycle. Improvements were made in the quality and comprehensiveness of data/information and in the provision of reports, including online access to work program and budget data related to tracking the resources planned and used to achieve specific outputs. A number of enhancements were also made in the budget planning and reporting systems. There are still some data issues to address with regard to recording time and making changes in consultant contracts to accurately reflect the specific projects consultants work on. With regard to the systems supporting the budget process, there are many separate systems, and the linkages between them are not seamless. There is an expectation that Program Optima will address most of these systems issues, but the timing of this work and the details of exactly how this will be accomplished are not yet clear. Another issue not yet addressed is that of creating or identifying a limited set of

key indicators that will help Management and the Board focus attention on critical objectives and priorities and make needed allocations or shifts in resources.

A key objective was to create in the Bank a culture that manages for results. A change management component was part of the RBB implementation, and considerable time and effort were devoted to training staff and explaining RBB to them. However, it is only recently, with the help of experts from the Universidad de Chile, that the Bank has realized the extent and depth of the organizational change RBB requires. Addressing the element of cultural and behavioral change will extend well beyond the planned three-year implementation period.

With the kinds of changes required for a successful RBB, the level of project sponsorship is important. Responsibility for this project was assigned to a division within the Budget and Administrative Services Department—too low a level to provide the organizational traction needed to command the attention of managers and staff and change behavior. The fact that incentives to encourage and reward behavioral change were not in place made this task even more difficult. This is an open task, and the Human Resources Department needs to own this part of RBB and work with Management to create effective incentives. Management needs to play a substantive role in implementing the RBB if the Bank is to achieve the attributes of accountability and transparency that are critical to a successful RBB.

The Bank is in the second year of the planned three-year implementation period for the RBB. Considerable effort has been expended in making changes, and good progress has been made on a number of fronts, but RBB implementation is still a work in process. The extent to which the RBB has improved decision-making is an open question. Although some of the components of the RBB effort can be considered completed, the RBB is not fully implemented; therefore, its effectiveness and realization of the potential benefits have not been attained, and we believe they will not be realized by the end of the planned three-year implementation period. This is partly because of the complexity of bringing about behavioral change and the amount of time and effort, as well as incentives, needed for the Bank to make the kinds of cultural and behavioral changes required to create an organization that "manages for results." Support going forward must include a willingness to experiment, continually adjust, and learn from mistakes—not always an easy thing to do in a hierarchal organization like the Bank.

With regard to implementation of the BSC, there was a major breakdown, and the work on implementing the BSC project was stopped after more than two years of effort and the expenditure of approximately US$2.5 million dollars. While considerable learning resulted from this effort, the project failed to achieve its key objective of implementing a BSC that would provide the Bank with a strategic planning and management system to help ensure the alignment of business activities with organizational strategy and give a focused and comprehensive perspective of the Bank's organizational performance. The failure to implement the BSC was due to weak internal processes, management deficiencies, and a lack of ownership. Many vice presidential units have implemented "dashboards," but these do not provide the corporate level strategic planning and management system for Bank Management and the Board that a well-designed BSC

would represent. This objective has not been achieved, and a portion of the funding went to purchase software that is no longer in use.

Work on the External Feedback System has recently restarted. A process, governance structure, and implementation plan have been developed and are in the early stages of implementation. Expectations for what will come from this work are high and need to be managed, given the complexities in designing and conducting successful longitudinal surveys.

The efficiency indicators in the CRF are largely related to measuring time-cycle improvements and aggregating cost data on operational and administrative expenses. The RBB supports the cost data aspect of this, but the linkage is weak and reporting is annual through the CRF. The effect of these indicators on decision-making and reallocation of resources appears to be very limited

Suggestions Going Forward

As the Bank moves forward a number of actions could help achieve some of the benefits expected from these initiatives.

1. Increase focus on the change management process.

- The type of change that RBB involves is more behavioral than technical. Thus it will be important to revisit the RBB change management process, with the help of the external consultants, to design a plan that will help managers and staff understand what really is needed to have an entire organization "manage for results."

- The types of changes envisaged in the mandates of IDB-9 need to occur at multiple levels in the Bank, and resistance will be encountered. It will take both time and resources to effect culture change, and management commitment and support will be essential. With the clearer understanding of what RBB involves, Management should reconsider its sponsorship level, possibly bringing it to a higher level and combining it into the Program Optima governance structure to provide the increased organizational traction needed.

2. Use incentives to change culture.

- Appropriate incentives are essential to encourage, reward, and recognize managers and staff who demonstrate they are "managing for results." It will be important for the Human Resources Department, which needs to own the incentives aspect of this effort, to work with external expertise to create the appropriate and effective incentives related to RBB and see they are embedded into the way the Bank recognizes and rewards its managers and staff.

3. Use key performance indicators in decision-making, creating accountability and transparency.

- Focus on the creation and use of a limited set of performance indicators. These indicators must be linked to the Bank's strategy, objectives, and priorities. The effort should also be extended to educating the Board that a smaller number of well-designed performance indicators will help both Management and the Board going forward.

- Make these indicators available at the times that resource allocation decisions are being made.

- Use external consultants to help educate staff; and, as appropriate, incorporated Bank internal experience—for example, CAN and its RBB practices.

- Management must continue its efforts to ensure that unit work plans are clearly and transparently linked to institutional priorities, objectives, and strategy. Accountability for delivery must also be clear, and both positive and negative performance must be recognized.

4. Make sure that the budget process fits the Bank's business.

- Reexamine the budget process and identify its key constraints and ways to make it more flexible to support changing Bank needs.

- Reexamine the need for head count and dollar limits on the budget. The combination of a head count ceiling and a fixed annual budget limits Management's flexibility in dealing with a rapidly changing external environment.

- Investigate the advantages and disadvantages that a biannual budget might offer the IADB, similar to what is in place with many UN organizations. For example, it might provide increased flexibility and aid the Bank in planning, budgeting, and managing its work programs, especially projects that extend beyond a single fiscal year.

- Develop a streamlined process that allows consultant contracts to be easily modified to accommodate new or changed work assignments. Focus on units that are outside the Bank's norm on time recording.

- Continue to simplify the Bank's coding structure and eliminate overlaps and duplicate codes. Reexamine the overall coding structure as part of Program Optima.

I. Introduction

1.1 In the Ninth General Capital Increase in Resources (IDB-9) of the Inter-American Development Bank (IDB, or Bank), the Board of Governors included the adoption of results-based budgeting (RBB) as one of the conditions to improve accountability and transparency. This paper—one of some 20 background papers prepared by the Office of Evaluation and Oversight (OVE) as part of an overall midterm evaluation of the IDB-9 requirements—evaluates the extent to which the RBB requirements have been fully and effectively implemented.

A. Background: The IDB's budget before IDB-9

1.2 IDB's first movements toward budgeting for results began in 2002 with the implementation of the New Lending Framework,[1] in which Management expressed its goal of moving toward a results-focused culture. However, the Bank lacked analytic tools to inform budget assessments and guide resource allocation decisions. The approach to its annual budgeting remained largely incremental: units had well established work programs, and received budget increases that were based on a combination of external cost factors, including cost of living and labor market costs.

1.3 The demand for a results-oriented budget process began to take shape in 2007. In October of that year, OVE provided an oversight note[2] discussing the principles of RBB, reviewing how they had been applied in 2007 (see Box 1), and making five recommendations for improving performance-based budgeting at the IDB. All of the recommendations were "fully shared by Bank Management and endorsed by the [Policy and Evaluation] Committee members."[3]

1.4 However, the Bank's movement toward results-oriented budgeting was limited to rhetoric, since performance-based budgeting was not an explicit objective in Management's 2008 Budget Document. Instead, progress toward corporate objectives was to be tracked through a specific set of performance indicators in the Corporate Performance Framework (CPF), which the Strategic Planning and Development Effectiveness Department (SPD) presented to the Board of Directors in May of that year.

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1 The New Lending Framework, 2002 (AG-7/09).

2 "An Oversight Note on Budgeting for Results at the IDB" (RE-344), October 2007.

3 Chairman's Report of the Policy and Evaluation Committee (RE-344-1), December 2007.

Box 1: OVE's RBB Principles

Culture Change
"…[Results-based] budgeting is fundamentally about bringing information about results into the decision-making process for resource allocation…"
Incentives
"Linking performance information to budgeting carries great potential to improve the budget debate by changing the kinds of questions and information available to decision makers. However, performance information will not provide mechanistic answers for budget decisions; nor can performance data eliminate the need for considered judgment and political choice."
Focus on Key Drivers
"…Utility of the system can easily be overwhelmed by too many indicators and too much information …since [RBB] is a tool for improving the quality of managerial decisions… it needs to focus on a relatively small number of key institutional objectives…"
Decision Making
"… [RBB] needs to have feedback mechanisms to ensure that information on past performance is provided at the time decisions are made on future resource allocation…"
Accountability and Transparency
"…Accountability requires clear specification of resources required to achieve given objectives and the organizational units responsible for delivering both resources and results."
Fit with the Business
"Institutions that have made commitments to results-based budgeting have found that it takes time and diligence to develop systems that work well in different institutional contexts. It is likely that the Bank will also require time and experimentation to determine a structure that fits with the newly realigned Bank."

Source: "An Oversight Note on Budgeting for Results at the IDB" (RE-344), October 2007

1.5 By the time of the 2010 Annual Meeting in Cancun, Mexico, shareholders were increasingly expressing concerns that the Bank's resource allocation processes were not sufficiently transparent and that the 2007 IDB realignment had not dealt with the right-sizing of the Bank's functional units by adopting a zero-based budget approach. As a result, RBB was incorporated into the language of the declaration from IDB's Board of Governors[4] and in Management's report[5] in response to their requirements (IDB-9 Report).[6]

1.6 The IDB-9 Report divided the RBB mandate into three components: (i) adoption of an RBB process that is aligned with the Corporate Results Framework (CRF) priorities; (ii) implementation of a Balanced Scorecard (BSC) system to improve management for results within the Bank, by aligning business activities to the corporate mission and monitoring corporate results; and (iii) continued improvement in the Bank's organizational efficiency and effectiveness.

4 "Cancun Declaration," March 21, 2010 (AB-2728).

5 "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank," May 21, 2012 (AB-2764).

6 See Annex A: IDB-9 Actions for Results-based Budgeting.

B. Objective, scope, and methodology of the evaluation

1.7 This report assesses the progress in implementing the RBB-related mandates from the Cancun Declaration and the IDB-9 Report. It raises two broad questions: How complete has implementation of the IDB-9 requirements for RBB been, as compared with expectations? and How effective has this implementation been in achieving the underlying goals pursued by Governors?

1.8 This evaluation reviews RBB implementation activities, including the work of the RBB Working Group and its role, responsibilities, and products, and the RBB Framework Document (GA-245-12) and its Implementation Plan.[7] Given that the RBB implementation is ongoing, the focus is on evaluating what was planned, what has been done, and what remains to be done. The implementation period covered by this review extends from mid-2010 to August 2012.

1.9 To assess the full and effective implementation of the reforms, reforms were benchmarked against (i) IDB-9 requirements as described in the IDB-9 Report and the RBB Framework plan, and (ii) the underlying objectives of the IDB-9 requirements, while also taking into account the comprehensiveness of the RBB plan, the practices of other international financial institutions, IDB policies, and staff/managerial behavior in planning and managing for results. Given the limited availability of factual performance data, the findings of this evaluation are based largely on staff interviews, and document reviews.

II. FINDINGS

C. Full implementation

2.1 In assessing the full implementation of the IDB-9 RBB requirements, the OVE team looked at the three mandates in the IDB-9 Report that relate to the RBB: Results-Based Budgeting, Balanced Scorecard, and Operational Effectiveness and Efficiency. This section attempts to answer the following questions: (i) What steps has IDB taken to address the IDB-9 requirements for RBB? (ii) Are these steps appropriate to address the requirements? (iii) Have they been taken in a timely manner? (iv) Have they been sequenced appropriately? (v) Have they been undertaken efficiently? and (vi) What remains to be done?

1. Adoption of a results-based budget

2.2 The IDB-9 Report set out the following objectives for Management in implementing the RBB requirements, and they were included in the RBB Implementation Action Plan of the RBB Framework: (i) adjust the budget procedures to ensure that results are considered in a timely manner in the

[7] See Annex B: RBB Implementation Plan.

decision-making process; (ii) assign resources to achieve the key performance targets of the results framework and align the RBB with results framework priorities; (iii) measure the costs of achieving results (data accuracy); (iv) adapt budget classifications, link resources to outcomes clearly (coding structures); (v) assign institutional responsibility for resource usage and delivery of results; (vi) modify Bank information systems to capture and monitor RBB allocations and results; (vii) report regularly to the Board on results achieved, resources used, and the percentage distribution of administrative budget between Bank operational and support programs; and (viii) review the alternatives the RBB Working Group's considered, and review early reporting.

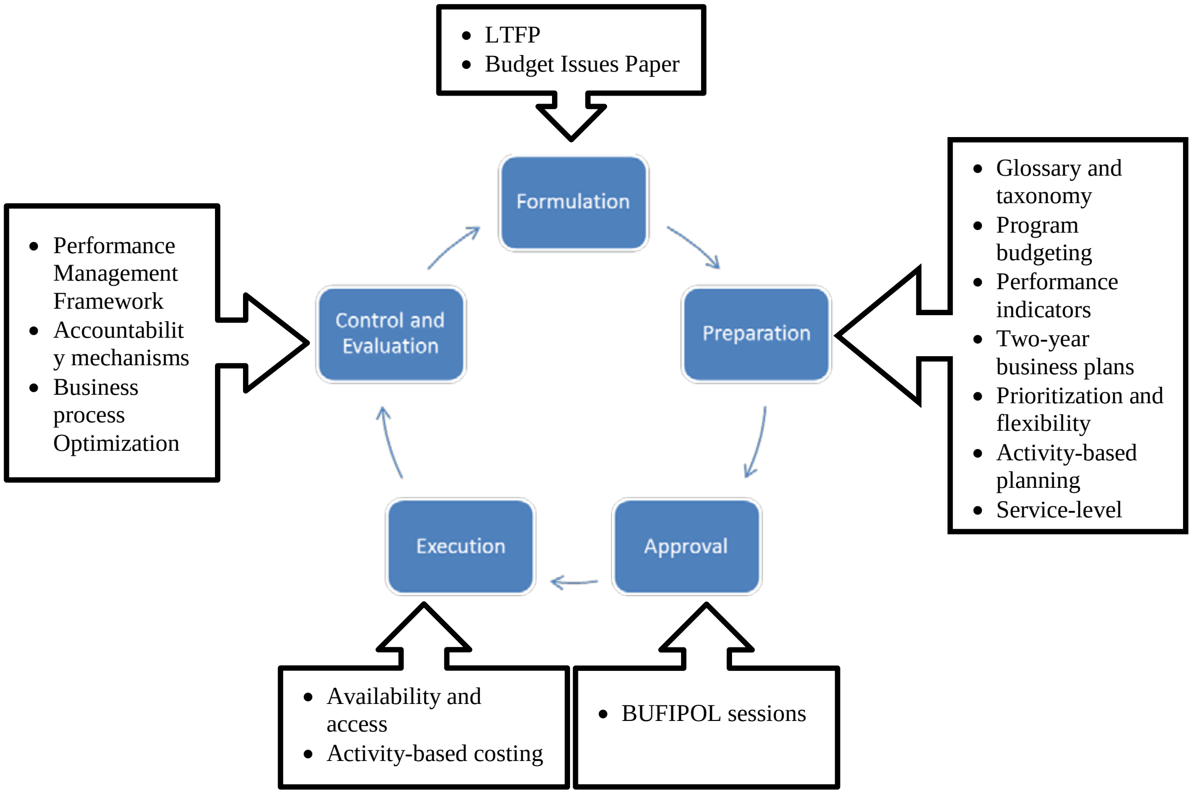
a) Adjust budget procedures

2.3 Management began by developing the RBB Framework (GA-245-12), which focused largely on integrating key elements of an RBB into the Bank's budget cycle by strengthening the five stages of the cycle [8] (see Figure 1). This framework defines—but without offering a clear diagnosis of the current budget process or its limitations—the steps that will be taken over three years to achieve the RBB objectives.

2.4 While the five broad stages of the budget cycle have not changed, the detailed steps planned and taken in implementing the RBB may have actually changed the budgeting process in ways that have achieved, or will achieve, the IDB-9 objectives. This section examines the specific changes attributed to each of the planned actions.

[8] Formulation, Preparation, Approval, Execution, and Control and Evaluation.

Figure 1. Budget Cycle and Actions to be implemented by the RBB Framework



i. Budget formulation

2.5 ***Introduce LTFP into the budget cycle***, establishing a link between Bank income and expenses, dimensioning the overall budget, and providing a clearer pro-forma financial picture to the Board. This step has been accomplished, and the link is in place.

2.6 ***Revise Budget Issues Paper*** to serve as a more medium-term strategic document with greater thematic focus. A comparison of the Budget Issues Papers for 2011, 2012, and 2013 shows a similar structure, and each one presents considerable information on plans and budget projections for the coming years, with links to the Bank's priorities. The 2013 document shows, for the first time, progress toward the IDB-9 mandates. However, it does not have greater thematic focus, nor does it provide the necessary information at the right time to allow for managing forward. In the sections related to RBB, the focus is on describing the accomplishments of RBB, which indicates that this paper functions as a reporting document that speaks primarily to what has been done; it has little or no discussion of issues encountered, lessons learned, or adjustments made in plans for implementation. For example, training was provided to staff on RBB, but the

report does not detail the results of that training and, in particular, how it has affected decision-making.

ii. Budget preparation

2.7 ***Create a glossary of IDB RBB terminology*** to clarify the meaning of *inputs*, *outputs*, *results*, and other terms used in the framework. An RBB glossary was created and included in the Framework document. The RBB Budget Taxonomy, provided as an annex, groups the Bank's activities into Products and Services. Although this task has been completed, the glossary and taxonomy should continue to be updated and changed to reflect the Bank's changing products, services, and needs.

2.8 ***Program budgeting.*** During budget preparation there was to be increased focus on program budgeting and execution, facilitated by the updated budget program matrix structure. The program matrix structure has been created, but this step by itself does not ensure increased focus on program budgeting. It is not possible to assess accurately the increased level of focus being given to program budgeting and execution, as there is no benchmark or baseline to judge the extent of change in this area.

2.9 ***For all units, develop performance indicators for outputs,*** measuring quantity, efficiency, and effectiveness. Bank units have had performance indicators for measuring the quantity of outputs since before IDB-9. However, those indicators have been limited to providing simple measures, such as the number of operational products (e.g., loans, grants, and Country Strategy documents), and, more recently with the RBB, calculating all the costs to create certain outputs (a relatively straightforward exercise, except for a few data gaps noted in this paper). There has been slow progress in the much more complex and difficult task of designing meaningful performance indicators for measuring efficiency and effectiveness for all units. The effectiveness and efficiency indicators in the results framework are not a part of the RBB, nor can they be easily calculated from RBB information. Thus the RBB focus and priority became one of measuring the cost and quantity of specific outputs. How these new effectiveness and efficiency indicators for all units will be created and incorporated into the RBB system is still an open question.

2.10 ***Create two-year business plans.*** Each August, the Budget Call prepared by the Budget and Administrative Services Department (BDA) contains a template that calls for submission of a business plan that covers two years and includes inputs (personnel and non-personnel resources) and the quantity of outputs to be produced at an aggregated level. However, because this template does not show the direct links between inputs, outputs, and results—for example, contributions to lending program priorities—it falls short of what was planned in the IDB-9 initial RBB implementation. A review of a limited number of business plans submitted for FY12 indicates that they are of mixed quality, and therefore not entirely useful as a tool to manage for results. It is our understanding that the 2013

Budget Call document has several enhancements over prior years that should result in substantial improvements, but these were not part of this assessment.

2.11 ***Prioritize budget resources*** according to institutional mandates and VP priorities and objectives. Accomplishing this task is a managerial function; the only thing an RBB system can do is to facilitate the aggregation and display of plans that Management has approved. Management must then decide whether resources have been allocated in accordance with institutional and vice-presidential mandates and priorities. In the 2013 Budget Issues Paper (Table 6.1), BDA recognizes that this is a difficult task, and one which has not yet been fully implemented.[9]

2.12 ***Strengthen activity-based planning*** as a tool to estimate costs of costs of outputs. As part of the work to improve the systems supporting budget planning, the activity-based planning system has been strengthened. However, activity-based planning requires continuously improving the quality of information used to support planning. One of the steps the Bank has taken to provide improved planning information is the calculation of cost coefficients; the number of cost coefficients calculated has grown, and work continues to refine this information. It should be noted that a comparison of IADB cost coefficients for loan preparation with those of the World Bank's Latin America and Caribbean Region shows that there is a high degree of correlation between the two organizations. This task is completed and improvements have been made; however, without comparative quantitative data, it is difficult to assess the extent to which these measures have improved budget planning for the Bank

2.13 ***Introduce service-level agreements*** (now called *service-level offerings*) as a tool for units to achieve excellence by benchmarking and establishing performance standards. While some work has been done in this area, very limited progress has been made. The original plan to cover all units with service-level agreements was clearly overly ambitious, and failed to foresee the difficulties of creating and negotiating these types of agreements. As a result, the requirement has not been fully implemented, and it is unlikely that this task can be accomplished in the near term. The development of service-level agreements supported by a limited set of meaningful indicators that can be used to drive improved performance remains a difficult and open task.[10]

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9 See Annex B.

10 Service-level agreements were to be contractual agreements between operational and nonoperational Bank units, one unit being a service provider and the other unit being the consumer or purchaser of the service. It was envisaged that three agreements would help ensure the provision of excellent levels of service by benchmarking, establishing performance standards, making clear the cost of both basic services and any additional services. This would require an agreement on the definition of standard services, service-level standards, and the cost of these services.

iii. Budget approval

2.14 ***BUFIPOL sessions.*** Presentations to the Budget and Financial Policies Committee (BUFIPOL) are to focus on the results and lessons learned from the previous year; to inform the strategy and plans for the following year, including the inputs, outputs, and results to be obtained; and to report progress in template formats. While presentations to BUFIPOL include all of this information, and technically this task is complete, without quantitative data it is difficult to assess the extent to which RBB information has influenced or changed budget allocations.

iv. Budget execution

2.15 ***Improve availability of and access to budget information.*** There have been improvements in both the availability and quality of budget information and systems, but the creation of a more limited set of performance indicators, as explained in Section B, has not been accomplished. This task could be considered technically complete, since there is no definition of *improved*. However, this is an ongoing task with further work remaining.

2.16 ***Enhance the Bank's activity-based costing system*** to serve as inputs for coefficients for outputs and resource allocation in the following cycle. Work on improving cost coefficients is ongoing.

v. Control and evaluation

2.17 ***Develop a performance management framework*** that provides timely, reliable, and useful information to Bank and unit Management and enables and improves the prioritization of resources, the attainment of results, and monitoring and evaluation of budget plan commitments; and merge the Quarterly Business Review and budget execution reports. Performance management is best done when a limited set of key indicators is used for decision making. In the Bank, however, performance management is done through the management structure, supported by relevant performance information. RBB should provide timely, reliable, and useful information for managers to use in making resource allocation decisions that ensure the delivery of outputs in approved business plans. Today there is certainly more RBB-type information available to managers through multiple systems than before. However, the central issue is not the quantity of the information, but its usefulness in helping managers make priority and allocation decisions. There is little evidence or quantitative data available to judge the extent to which this information is—or can be—so used.

2.18 A comprehensive set of familiar indicators is available for Bank staff review, but there is no evidence that managers are consciously selecting them and using them in their decision-making. At the same time, there is evidence that an overabundance of information is being made available to Management, which can be a problem. The recently introduced Corporate Performance Console (CPC)

displays resources used and outputs promised and delivered, as well as other quantitative indicators. It has the advantage that its format is similar to the previous report (the so-called Annex H report), which is familiar to most managers. What is lacking is a more limited set of key selected performance indicators that can help managers identify and better focus on critical areas. This is a case in which less is better, because it focuses attention on critical areas.

2.19 While Budget Execution Reports are produced and discussed at the Board, the timing of their production and review limits their usefulness in influencing adjustments in priorities and objectives. Although technically this task can be said to be nearly completed (i.e., performance management reporting enhanced), it is not clear how much budget decision-making has been improved.

2.20 ***Institute an accountability mechanism*** to help units fulfill their budget plan commitments and manage resources adequately. This area was the focus of one of the Working Group teams that designed the RBB Framework. Holding managers and staff accountable requires clear definitions of what is to be produced and when, what resources are required, and who is accountable for what. This must be accompanied by a high degree of buy-in by all parties, as well as training in how to use performance data. It cannot be said that these changes have been fully implemented and embedded in the Bank's culture. This topic is also related to the issue of incentives that will encourage managers to focus more on managing for results—another topic of one of the original Working Group teams. In this area there is little or no evidence of progress, so this task cannot be considered fully implemented at this time.

2.21 ***Introduce budget process optimization reviews*** to ensure continuous improvement and efficiency gains in the Bank. This work has been going on for several years and is an integral part of Program Optima. While the business processes have been mapped, changes to the processes themselves and supporting systems to provide expected efficiency gains have not yet been implemented (except for some Program Optima Tactical Projects). It will require resources, as well as time and effort, to achieve the anticipated benefits. Program Optima's past record has been uneven, with multiple stops and starts. Responsibility for the program is now with SPD; it is being actively managed and is currently scheduled to run through 2015/2016, and therefore it is not yet fully implemented.[11]

b) Assigning resources to achieve the key performance targets

2.22 There is no connection between the Corporate Results Framework (CRF) priorities/key performance targets and the RBB, especially at the lower levels of effectiveness and efficiency. Achievement of lending program targets—that is, percentages for the four areas identified—can be derived in part from counts of projects completed; but most of the other indicators cannot be derived from the

[11] See the OVE's IDB-9 Background Paper on Program Optima.

information/data contained in the RBB. For example, data on teachers trained or number of jobs added to the formal sector is not, nor should it be, an integral part of the Bank's RBB system. This type of information is captured in other operational systems/reports and is available when projects are completed. The assignment of resources to achieve performance targets is a Management function that can be aided by an RBB. However, as noted above, the linkage to CRF targets is limited at best.

2.23 Given this lack of a direct connection to the CRF priorities, the approach to RBB became much more modest than what was stated in the IDB-9 documents. It was decided that RBB would focus on the following broad goals to be achieved by 2013: (i) establish relevant metrics for performance information; (ii) apply performance metrics within the budget cycle; (iii) create incentives to achieve results; and (iv) ensure managerial capabilities to execute planned objectives. Accomplishing these objectives would be done primarily through modifications to the five stages of the budget cycle and planning and tracking of costs associated with specific outputs.

2.24 The IDB-9 document stresses achieving of outcomes and linking inputs to outcomes. However, outcomes are not part of the RBB, and instead are tracked through the Development Effectiveness Overview (DEO). Thus a key goal for RBB became one of tying inputs to outputs. At this point, this objective has been largely achieved for the key operational products from a quantitative standpoint—with the possible exception of technical cooperation, for which the tracking of outputs is somewhat problematic. Linkages from the RBB to lending program priorities, improvements in corporate efficiency and effectiveness indicators, and the Bank's contributions to regional development goals are not in place, and thus not fully implemented. This information is being provided through other means and reported annually in the DEO. Management has indicated that in 2013 there will be increased focus on incorporating effectiveness and efficiency indicators in RBB for operational VPs and VPF.

c) Measuring costs of achieving results—data accuracy

2.25 Output costs are not completely accurate because of issues with consultant-time recording and the failure of some operational units to report time accurately. These problems can directly affect the potential usefulness of cost coefficients as planning tools. Consultants are a significant part of the Bank's labor force, numbering over 2,700 in 2011, and often carrying out functions similar to staff. Workforce contracts specify the activities and projects that individuals will work on. If there is a change in plans and a consultant is asked to work on a new task, the consultant contract must be changed to accurately reflect his/her time against the new project. This is a manual process that is both time-consuming and tedious, and thus it may not be done. It does not affect what the consultant actually does or the payment he/she receives, but it represents a potentially significant issue of data accuracy, given the large number of consultants and the certainty that work plans will continue to change. At the same time, staff time

reporting has improved to about 98 percent, although there are still some units that are below organizational norms for missing time, and this affects the accuracy of the costs of their specific outputs. Overall, good progress has been made in improving the time reported, although some data accuracy issues remain and require attention.

d) Adapting budget classifications—coding structures

2.26 The RBB Framework included a reexamination of the Budget Program Matrix coding structure. Various efforts to revise the budget codes have made progress—for example, reducing the number of activity codes from 600 to 400 in 2012. This work needs to continue, as the budget coding structure is still complex and contains some redundancies. In addition, there has not been a fundamental reexamination of the Bank's budget coding structure. The Budget Program Matrix has evolved; it currently has 25 Budget Program categories—a large number, up from 14 in 2007. These categories in turn are grouped into seven broad areas[12] that are used primarily in Board-level documents. In addition to the Budget Program Matrix codes, there are 12 Operation (OPUS) Type codes and some 200 OPUS Sub-Type codes. There are also thousands of "activity/product codes" that identify specific tasks. The relationship between Budget Program Matrix Codes and OPUS-type codes is not clear; they overlap in at least two areas.[13] As noted above, work to reduce redundant and overlapping codes is an ongoing task, and the Bank needs to take every opportunity to simplify and rationalize its budget classification system. Program Optima should include a review of the Bank's full coding structure.

e) Assigning institutional responsibility

2.27 Institutional responsibility for resource usage and delivery of results—although it is included in the RBB implementation plan—is not a product of RBB, but an organizational function of Management. RBB can facilitate decision-making associated with allocating resources and monitoring the delivery of outputs/results and, in the process, help promote transparency and accountability. However, it is not RBB but Management that is responsible for making this happen. RBB can only gather and report on resources allocated/used to produce outputs. It is the Bank's managers who must ensure the appropriate level of resources, assign clear

[12] Knowledge Creation and Dissemination, Development Effectiveness and Evaluation, Operations Strategy and Programming, Operations Management (Design, Implementation and Administration), Corporate Management, Corporate Support, and Other Programs (which includes the Board of Governors, Executive Directors, Staff Retirement Plan, and Miscellaneous).

[13] One of these relates to Knowledge and Capacity Building Products—OPUS Code KCP and Budget Program Matrix code KCA. There is also an additional knowledge code KNX in the Budget Program Matrix, which is for internal use, specifically for the training and development of staff, which would logically fall under the code Human Resource Development, code HRM. In addition, OPUS code LON includes all Loan Operations, while the higher level Budget Program Matrix code OPD relates only to activities for the preparation, analysis, and approval of the Bank's lending instruments.

roles and responsibilities, and then hold individuals accountable for results. This is what managers are accountable for and should be judged on.

f) Modifying Bank information systems

2.28 Bank information systems capture and monitor RBB allocations and results, but it is still a complex operation. The Bank's budget systems tie inputs to outputs; however, many systems support the Bank's budgeting and planning processes (more than 13 different systems are listed on the BDA website, and this may not be a complete inventory). They have been modified over time to solve specific problems and accommodate changing needs and priorities. They are not fully integrated, and linkages are not seamless. While they work, ease of use is an open question; and, while a system can identify if a project/task is behind schedule or using more resources than planned, it is Management that must act on this information to effect change. Program Optima will need to address this task in the future.

g) Reporting regularly to the Board on results achieved and resources used

2.29 Management regularly reports on results achieved and resources used; however, when and how this information is presented affects its usefulness in influencing resource allocations. Reports on budget plans and results are normally sent to the Board in late August for the midyear report and March/April for the end-of-year report. Because their timing is late in the budget process, they are a topic for Board discussion only, rather than for evaluating results and supporting decisions on future budget allocations. The decisions on the allocation of budget resources for the next fiscal year are finalized in the latter part of the year. The Annual Approved Program and Budget Book, which draws on discussions/meetings running from October through December, is distributed to the Board in February. Information on the distribution of administrative budget between operational and support programs is reported to the Board once a year in March, in the DEO. It is not clear how these reports affect future priorities and budget. Thus, the Bank needs to reassess its budget cycle to ensure that RBB information is available for the decision-making process in an effective and timely manner.

h) The RBB Working Groups, alternatives, and early reporting

2.30 In early 2010 four RBB Working Groups—with representatives from the offices of SPD, the Vice President for Countries (VPC), Vice President for Private Sector and Non-Sovereign Guaranteed Operations (VPP), Vice President for Finance and Administration (VPF), and the Executive Vice President's (EVP) office—were formed to work on development of the RBB Framework.[14] They were also

[14] Each group had responsibility for one of the following areas: (i) Incentives to Manage for Results; (ii) Information, Tools & Managerial Flexibility, (iii) Use of Performance Information in the Budget Decision-making Process; and (iv) Taxonomy.

charged with discussing potential approaches to RBB. They were to present the RBB Framework, and a few alternatives, to what is now the Strategic Budget Committee. Over several months these groups refined their approach to implementing the RBB and produced the final RBB Framework document, which the Board approved in December 2010. While there may have been discussions of potential alternative approaches, a review of early drafts and of the final approved document shows no documentation on alternative approaches considered or the rationale for selecting the approach that was adopted.

2.31 The RBB Framework contained a detailed implementation plan, which was the roadmap for Management actions; however, the change management component of this plan has only recently begun addressing fundamental issues of structure and change. While considerable time and effort was devoted to training and to explaining RBB to staff, it is only recently—with help from the consultants from the Universidad de Chile—that the extent and depth of the organizational change that RBB entails has been realized. Until now the element of cultural and behavioral change was not substantively addressed.

2. Implementation of a Balanced Scorecard System

a) Balanced Scorecard

2.32 The IDB-9 mandate included a requirement to create a BSC Performance Management System that incorporated results from an External Feedback System (EFS).[15] Specifically the Report stated: "[use] the Balanced Scorecard (BSC) [as] a management performance system to align business activities to the corporate mission and monitor corporate results in an effort to meet the Bank's strategic institutional objectives." In addition, the BSC was to incorporate the results of the EFS which "collects information through a survey from civil society and public and private sectors on the[ir] perception[s] of the Bank's services and comparative advantages."

2.33 The BSC had been included in the Bank's 2008 CPF and in the Development Effectiveness Framework (DEF) before GCI-9. In May 2008, SPD had presented to the Board a proposal for the CPF, which would "allow shareholders to monitor the Bank's overall performance through articulated goals and measures." The BSC, with its specific indicators, was the methodology used to structure the dimensions of the CPF. The Bank would track performance using four strategic dimensions and 14 corporate indicators to assess progress in accomplishing the Bank's mission.[16] In August 2008, Management prepared the DEF to support the Bank's focus on development effectiveness and the impact of its interventions. The DEF drew on the CPF as the framework by which it monitored, each quarter,

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15 See Annex A for the specific BSC and EFS mandates.

16 See Annex C for the dimensions and indicators of BSC.

the achievement of strategic objectives through the performance indicators in the BSC.[17]

2.34 The BSC project started in April 2008. SPD was the project manager, reporting to the EVP as sponsor; they coordinated the training of additional Bank staff from VPP, VPS, VPC, and VPF, which would all have their own BSC when the project was completed. Once training and contractual arrangements for software licenses were completed in 2009, SPD worked with VPP as a pilot group to develop the BSC architecture for EVP

2.35 In December of 2009 the BSC pilot system for VPP was moved to "production status," but the linkages with other systems to provide input data were not in place. Therefore, manual data entry was required to operate the system, and targets were still pending. In 2010 SPD continued to work with the EVP on the BSC. In late 2010, the BSC as a project was discontinued.

2.36 Management has learned much from this effort, but stopping the implementation of a BSC in VPP (and discontinuing the Bankwide effort) meant that the project failed to achieve its key objective of providing the Bank with a Strategic Planning and Management system that would help ensure the alignment of business activities with organizational strategy and provide a focused and comprehensive perspective of the Bank's organizational performance. While the concept of a BSC envisioned by the strategic core went in the right direction, in implementation its structure became "too complicated," "cumbersome," and "[with] too much detailed data."[18] In total, some US$2.5 million was spent on this project—US$1.6 million in staff costs and the remainder in training and software, which is not in use. Without the BSC, the EVP and VPs now rely on custom "dashboards," the CPC, business plans, Enhanced Annex H Reports, and so on, and many of the BSC indicators are included in these reports. However, none of these instruments provides in one place the comprehensive picture of organizational performance that a BSC is designed to provide.

2.37 According to the Office of the Executive Auditor report on this project and OVE's assessment, the failure of the BSC resulted from weak internal processes, management deficiencies, and lack of project ownership.[19] Another indication of poor project planning was that funds for the project came from multiple sources—first from the administrative budget, then from Program Optima tactical project funds, and then from the capital budget. There was also a lack of clear

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[17] The BSC is defined in the literature as a set of quantifiable measures that are derived from an organization's strategy and used by its leaders to communicate to staff and external stakeholders the outcomes and performance drivers by which it will achieve its mission and objectives. This vision of an organization requires that performance be viewed from a broader perspective, not only measuring financial performance or production of outputs, but also taking into account processes, culture, and perceptions, both internal and external.

[18] Information from interviews with VPP staff.

[19] Balanced Scorecard Implementation Process Audit, July 18, 2011 (GN-2480 CPF).

accountability and clarity as to roles and responsibilities. Project ownership was not with the intended beneficiary (VPP); thus a key element of success was missing. The institutional deficiency in project management has now been largely rectified with the implementation of strengthened processes, procedures, and controls.

b) External Feedback System

2.38 The BSC was to include the EFS. While the Bank has made many attempts (Box 2), the EFS is still in the planning/early implementation stage. EFS surveys would be carried out through a combination of collection methods: online surveys, interviews with high-level officials, and public consultations. The basic indicators would be (i) percent of external partners satisfied with the Bank's delivery of services for Country Strategies, (ii) percent of external partners satisfied with the Bank's delivery of services for loan operations, and (iii) percent of external partners satisfied with the Bank's delivery of services for technical cooperation. To be useful, the survey data must be longitudinal to see trends, and must be analyzed in depth to determine reasons for satisfaction and dissatisfaction to inform appropriate actions. While prior work has been useful, it was done for a variety of purposes; at this point work on the EFS is restarting.

Box 2: IDB's Previous Partner Feedback Exercises

Year	Description	Purpose
2007	What Do You Think of the IDB?: Conclusions from an Opinion Survey of Latin American Leaders about Multilateral Organizations	Institutional Realignment Process
2009	Public Consultation Process in preparation for IDB-9: Survey of Stakeholders	General Capital Increase (IDB-9)
2010	External Fedback System (EFS): Methodological Survey Design and Testing	Develop EFS methodology and Survey Instruments
2007-2011	Partner Feedback exercises conducted bu some Country Offices (Particulary those in CAN)	Better align Bank's Actions with needs of Partners
2012	Review of Decentralization at the Inter-American Development Bank: Satisfaction with IDB	Diagnostic Report of the Decentralization Process

2.39 During the past year SPD has worked with other units to design a process, governance structure, and implementation plan to accomplish what IDB-9 asked for in the EFS. This work will be coordinated among VPS, VPC, VPP, SPD, and the Office of External Relations. The planning process will run from roughly September 2012 through February 2013, with a pilot involving all member countries (September to November) and the launch of the EFS in March 2013. In total some 900 to 1,100 partners are to be surveyed annually, with an initial November 2012 pilot survey covering 644 respondents. These numbers have recently been revised downward from initial plans, which indicates increasing realism. It is anticipated that the information gathered will support corporate reporting (i.e., the Results Framework), feed into the development of departmental goals and business plans, and also be reflected in Career Point. In

turn this is expected to result in targeted interventions to improve projects, processes, and strategies, and the development of improved and customized products/services to better meet partner needs.

2.40 The process to accomplish all these objectives will not be an easy one. Management recognizes the challenges this project entails—for example, reputational risks related to sharing unfavorable results, the scope of the effort, the resources required; and the creation of expectations about the Bank's ability to respond to partner needs and suggestions. Recently there has been some slight slippage in the project schedule. The EFS work is ongoing, so it is not possible to comment further on implementation at this point; however, expectations, including schedules, will need to be realistic and managed, given the project's visibility and the difficulty of designing and conducting a longitudinal survey, analyzing the data it generates, and then acting in response to the findings.

3. Continued improvement of operational efficiency

2.41 IDB-9 called for continuing improvement in organizational efficiency, using efficiency indicators to monitor the Bank's commitment to lowering transaction costs for project preparation and implementation, reducing documentation requirements, and decentralizing decision-making to country offices. Efficiency indicators regarding budget describe as a percentage of total expenses (i) the expenses allocated to lending, (ii) the expenses related to disbursements, and (ii) the expenses to support functions. Efficiency indicators are based on cycle times to address the commitment to responsiveness to the clients. (These indicators are contained in the CRF, Table 4.)

2.42 The RBB supports the planning and monitoring of work programs by tracking inputs (costs) associated with outputs, but these are not the only indicators needed to improve organizational efficiency. The RBB provides basic information that can support the calculation of some efficiency indicators—for example, expenses associated with specific outputs that, when aggregated, allow the calculation of operational and administrative expenses. These, however, are only a few of the efficiency indicators in CRF Table 4.5. Most of the other indicators are associated with cycle times and come from such other operational systems as OPUS. These indicators are calculated once a year for reporting in the DEO. Thus, as noted earlier, the RBB's linkage to the CRF indicators—and hence its ability to providing timely guidance on efficiency measures/performance—is weak.

D. Effective implementation

2.43 The Bank is in the second year of a three-year implementation plan for the RBB, and has made a considerable effort to institute changes. Progress has been made in improving data quality and in providing more planning and performance information and online access to data, but RBB is still a work in process. Taking into account all of its components, the RBB is not fully implemented; thus its effectiveness and realization of the potential benefits have not been attained and

will not be realized by the end of the planned three-year implementation period. We believe this is partly because of the complexity of bringing about behavioral change and the amount of time, effort, and incentives that are needed to make the kinds of cultural and behavioral changes that lead to an organization that "manages for results." Such change also requires a level of organizational sponsorship, commitment, and support that has not been present previously. That support must include a willingness to experiment, continually adjust, and learn from mistakes—not always an easy thing to do in a hierarchal organization such as the IDB.

1. Culture of managing for results

2.44 The underlying objective of implementing the RBB Framework is to shift the Banks culture toward setting objectives and "managing for results," which should bring with it both accountability and transparency.[20] This means that the budget must be based on producing the agreed results, which requires that outputs for each unit be established and that these outputs produce the intended results. Resources (inputs) are allocated through prioritization to produce agreed outputs. Management must ensure that managers and staff have the skills and capabilities they need to operate effectively in this new environment, with incentives to support behavior change and achieve the agreed outputs. This will allow the regular evaluation of performance against agreed performance indicators, ensuring accountability and transparency.

2.45 The way the RBB Framework has been implemented is not fully conducive to its objective of creating an organizational context and culture that manages for results with accountability and transparency. The implementation of RBB elements has been broken down into changes to the five phases of the budget cycle. This approach entails following predefined steps and making incremental adjustments to the five phases of the budget cycle to provide managers with more/better information and reports. This plan is mechanical and entails a piecemeal approach. A more holistic approach is needed to create a culture that sets objectives and manages for results.

2.46 A more holistic model for the implementation of RBB exists in the Bank—in the approach taken by the Country Department for the Andean Group (CAN). According to discussions with CAN managers, implementing RBB requires a managing-for-results culture, with the following elements: (i) leadership buy-in and political support; (ii) recognition that staff require considerable time to adjust to the new way of working; (iii) an organizational alignment consistent with results-based dynamics; (iv) real delegation of responsibilities and decentralization of the decision-making process as well as transparency and inclusiveness in that process; (v) education/training in project management focused on managing for results and made available to managers/staff at all levels

[20] "Results-Based Budgeting at the Inter-American Development Bank" (GA-245-12), December 2010.

of the organization; (vi) an inclusive planning process and tools that help translate strategy into clear, well-defined, and manageable deliverables; and (vii) feedback on results by all stakeholders, including from the Bank's partners. This model recognizes the time, training, and organizational changes an RBB-type implementation requires. While there has not yet been a formal assessment of the results of this approach, CAN is an operational unit and it appears to have successfully addressed a number of cultural/behavioral change issues. IDB Management would do well to consider this experience, and others like it, in their planning.

2. Organizational responsibility and ownership of the RBB

2.47 Management ownership and sponsorship at the appropriate level is key to moving the Bank toward a managing-for-results culture. RBB is intended not only to improve data/information and systems/processes, but, more importantly, to change how people think and work. But something that demands that kind of change triggers high levels of individual and organizational resistance. Resistance may not be obvious, but it is present and needs to be taken into account when selecting the project sponsor. Such changes always involve a learning curve and, with RBB especially, a very important cultural shift toward a philosophy of accountability, transparency, delegation/transfer of responsibilities, and ongoing evaluation and learning.

2.48 Placing the ownership of RBB at too low an organizational level—with BDA—has not provided the organizational traction needed to achieve a culture that manages for results and has made it difficult to effectively achieve RBB's underlying objectives. Changes in BDA itself during implementation also detracted from its ability to fully champion this effort and follow through on achieving core objectives and breaking with the status quo. RBB implementation should have been placed at an executive level, which has the ability not only to focus organizational attention but to educate, create appropriate incentives for good behavior, recognize achievements, and champion a long-term change process. Placing RBB at the executive level would also provide the opportunity to implement it along with complementary reforms that would directly support a managing-for-results culture, and would help ensure needed organizational coordination while reducing institutional resistance.

3. RBB use in decision-making

2.49 RBB's focus on improving the quality and availability of information has limited its ability to affect decision-making. While accurate and timely information is essential to RBB, the use of information in making decisions is the bedrock of an RBB and ties directly to its underlying objective of managing for results. If RBB is to be fully effective for the Bank, using information in decision-making needs to be done with transparency and accountability at successive levels of management, starting with senior Management and rolling down to task leaders.

At this time we do not have evidence to assess if this is being done systematically and consistently across all levels of the Bank.

2.50 Having the right information to assess past results in order to decide future budget allocations is key. However, this must be complemented with training on project management to help create open communication, transparency, flexibility, and accountability. CAN staff indicate that their RBB experience resulted in more delegation to their financial officers and a less hierarchical operation. Trial and error, experimentation, and continuous adjustment are how both individuals and organization learn, grow, and develop; but this takes time. At this stage of implementation, RBB cannot be assessed as effective in regard to having had a major impact on decision-making in the evaluation and control phase of the budget cycle, even though considerable effort has been invested in improving information availability. This is understandable when we take into account that the core change here is behavioral, specifically in systematically using managerial assessments of progress to inform and drive the allocation of resources going forward.

4. Focus on a limited set of key indicators

2.51 Measuring performance with key indicators has been a topic of Board and Management discussion since at least 2007. These key indicators need to take into account quantity, quality, effectiveness, and efficiency. For the IDB there is no lack of detailed data.[21] Like most organizations, IDB faces the problem of narrowing down the set of indicators to a manageable number that succinctly reflects performance and that Management can use to assess progress and guide needed changes. Up to this point BDA has used an enhanced version of a report format (Annex H) as the primary vehicle for showing plans and progress for the Bank's vice presidential units. Progress in creating new composite indicators and selecting a number of key performance indicators has been limited. Besides limiting the usefulness of RBB, this has resulted in a lack of focus on critical issues and poor use of managerial time.

[21] A great deal of performance information is provided in periodic reports as well as the Annual Budget document—e.g., "RBB Monitoring Indicators" for operational VPs and VPF. Much of this information is also available online via the CPC. The RBB Working Groups also recognized the need to establish relevant metrics for performance information.

III. CONCLUSIONS

3.1 ***A culture change is needed in the Bank.*** It will take a culture change to achieve the RBB objectives of having the Bank manage for results. An organization's culture changes only when people change how they think and act. This was discussed and recognized in the RBB Framework, but the three-year implementation plan did not take into account the amount of time, effort, and actions that would be required to effect this kind of change—that is, influencing and changing people's behavior in addition to revising/improving systems or processes and creating new reports. The BDA change management process focused on providing training and briefings to staff on the elements of RBB and the changes in the budget stages, but not on what RBB meant from a behavioral standpoint.

3.2 ***You cannot change culture without incentives.***[22] A key element that was missing in the RBB implementation plan was incentives, even though this was the focus of one of the initial RBB working groups. There are no systematic recognition or rewards structures that provide this fundamental driver for changing behavior to achieve RBB objectives. This is a task that BDA cannot do alone; Human Resources needs to own this part of the RBB and work with BDA to create effective incentives.

3.3 ***Focus on the key drivers of the business.*** Without relevant metrics for measuring performance on key drivers of the business, Management can lose focus on what is important. One danger the Bank faces is an overabundance of information—the CRF, the Annual Budget document, budget execution reports, the CPC, Annex H, and many other documents have more information and detail than most managers can cope with. One reason the BSC failed to achieve its key objective was its lack of focus—it provided too much information and did not tie to the Bank's business in a meaningful and transparent way. Only recently, with the arrival of external experts in RBB, has it been more widely recognized that the key is focusing Management's and the Board's attention on a more limited set of key performance indicators that tie to what drives the business and that are linked directly to the Bank's strategy, priorities, and objectives. The development of these kinds of performance indicators is not an easy task, requiring time, the involvement and buy-in of Senior Management, and willingness to experiment and see what actually works and what does not.

3.4 ***Use information in decision-making.*** All of the work to implement the RBB will be of limited value if the RBB does not lead to better resource allocation decisions in the budget process. For good decisions to be made, several things need to be in place and understood at multiple levels of Management: the organization's strategy, its priorities, and clearly defined outputs and results. The budget climate

[22] The Bank has a system ("CareerPoint") to assess staff performance, but this is not directly linked to the RBB.

in which the Bank will be working as it moves forward will be more constrained than in the past, which means that the rationale and grounding for these types of decisions will come under greater scrutiny and examination, and trade-offs will have to be made. Managers make decisions, and their responsibility and authority to make a decision must be clear. For the Bank, more than one level of Management is involved in decision-making, and roles and responsibilities must be clearly understood. Information that supports good decision-making must be accurate, timely, of good quality, easily accessible, and focused.

3.5 ***Accountability and transparency are critical.*** For an organization to achieve accountability and transparency, several things must be in place. There must be a clear organizational strategy that translates into clear goals, objectives, and priorities. These, in turn, are the basis for the construction of unit work programs that include specific deliverables (outputs) that, when aggregated, show whether the goals have been achieved or, if not yet delivered, what their status is. Unit work programs are essentially contracts—they specify what the unit has agreed to deliver, and this is what the unit manager and staff are accountable for. The manager assigns specific tasks to individuals to deliver, along with the resources needed to complete the task. In the RBB world, this means delivering a quality product on time and within budget. In the real world, all plans change, and this is where good managers and task managers are essential. Managing for results is about managing and developing people and, at the same time, delivering on commitments. Accountability requires trust and open/clear communication channels at all levels, as well as people who are willing to truly listen—but this does not happen overnight. Once there is true accountability there is also transparency about what is happening and when, as well as where there are breakdowns and where progress is good.

3.6 ***RBB must fit with the business***. RBB cannot be just an add-on to an existing budget process; but this is how it was implemented in the Bank. The process should have begun with a consideration of what were the problems with the existing budget process, and where and how it did or did not support the Bank in accomplishing its objectives. There has also not been an examination of the different kinds of work the Bank does, and how the budget process supports the accomplishment of more standard ongoing projects (e.g., lending operations) versus one-time initiatives. Looking at how to overcome rigidities and introduce more flexibility in the budget process will be critical going forward. To date, RBB has had its greatest success when implemented by governments (e.g., Chile) to help budget and control specific programs. The budgets for these programs differ considerably from the Bank: while the Bank's budget is roughly 80% staff costs and 20% non-personnel costs, the reverse is true of government programs. This means the Bank has less flexibility than a government program manager, because making significant changes/reallocations in personnel resources is more difficult and takes longer. Thus IDB has undertaken a complex and difficult task in introducing RBB. BDA recognizes that the initial timeframe for its implementation was overly optimistic. Another problem for the RBB was that the project did not have separate funding; it was implemented using administrative

budget and capital funds. In 2013 a separate budget allocation will be requested to the fund the remaining work on RBB. In addition, 2013 plans call for increased focus on the control and execution phases of the budget cycle, particularly mechanisms to evaluate RBB performance and factor actual results into budget allocation/decision-making, while also monitoring more closely the implementation of business plans and budget execution for decision-making. While most of the international financing institutions operate using an annual budget with limited cross-year flexibility, most UN agencies use a two-year budget cycle. Since many of the Bank's activities can exceed a year, it may be worth investigating the pros and cons of a biannual budget cycle for the IDB as a way to better match its business to the budgeting/planning cycle and provide increased flexibility in dealing with longer-term activities and a rapidly changing external environment.

List of Persons Interviewed

Name	*Title*	*Department*
Aleyda Debustamante	HR Sr. Associate	HRD/COB
Ana Molina-Mayorga	Accounting and Budget Sr. Analyst	BDA/BGT
Bernarda Romo-Leroux	Resource Planning and Administrative Sr. Advisor	CAN/CAN
Brad Basigner	Accounting and budget Sr. Specialist	BDA/BGT
Carlos Herrera	Resource Planning and Administrative Sr. Advisor	VPF/VPF
Cecilia Ruiz-Huidobro	Accounting and Budget Lead Specialist	BDA/BGT
Fernando Regalia	Division Chief Social Protection and Health	SCL/SPH
Gonzalo Afcha	Operations Sr. Advisor	PRE/PCY
Jaime Garcia Alba	Resource Planning and Administrative Advisor	EVP/EVP
Lori Kerr	Private Financial Operations Advisor	VPP/VPP
Luis F. Díaz	Operations Lead Specialist	SPD/SPD
Maria del Mar Cole	Accounting and Budget Lead Specialist	PSPD/OPT
Marlene Ray	Oversight Audit and Compliance Lead Specialist	AUG/AUG
Nathaniel Jackson	Private Financial Operations Sr. Advisor	VPP/VPP
Nestor Ares	Resource Planning and Administrative Sr. Advisor	HRD/HRA
Raul Tuazon	Resource Planning and Administrative Management Principle Technical Leader	SPD/OPT
Susana Sitja	Sector Principal Specialist	SPD/OPT
Sylvia Gabriela Andrade	Economics Sr. Specialist	VPC/VPC
Tracy Betts	Division Chief Strategy Monitoring	SPD/SMO
Veronica Zavala	General Manager	CAN/CAN
Yeshvanth Edwin	General Manager	BDA/BDA

ANNEX A. IDB-9 ACTIONS FOR RESULTS-BASED BUDGETING

A1. Results Based Budget

Action	Defintion
Adopt a Results Based Budgeting Process (RBB)	Transition to a comprehensive Results-Based Budgeting (RBB) strategy and methodology that: (a) assigns resources to achieve the key performance targets of the RF; (b) measures costs of achieving these results; (c) adapts budget classifications to link resources and outcomes clearly; (d) adjusts budget procedures to ensure that results are considered in a timely manner in the decision-making process; (e) assigns institutional responsibility for resource usage and the delivery of results; (f) modifies Bank information systems to capture and monitor results-based budget allocation and execution; and (g) reports to the Board regularly on results achieved, resources utilized and the percent distribution of the administrative budget between Bank operational and support programs. (R4.18) A Departamental Working Group headed by Budget Department will be established in early 2010 with participation from SPD, VPC, VPP, VPF and EVP's office. It will discuss potential approaches to RBB, define relevant taxonomy (e.g. definition of inputs, outputs, outcomes, results, etc.), and present, to PBCM members, a few alternatives to implement the RBB in the Bank for eventual adoption of the most suitable one. It will also fine tune and refine Bank activities currently available in departments, for timesheet reporting, and charging non-personnel (NPC) expenses. These activities capture Activity Based Costs and flow from the Operation Systems. (RRF7.1 and 7.2) Draw from international best practices in RBB implementation. Present the initial application of the RBB methodology in the 2011 Program and Budget Proposal scheduled for Board submission in October of 2010. (R4.18)
Align RBB with RF Priorities	The RF allows for the establishment of a Results Based Budgeting (RBB) framework, whereby Management can support both budget planning and budget execution so Management and the Board can monitor, on an ongoing basis, the flow of resources within the Bank and the corresponding achievement of results. The allocation of the budget resources will be based on institutional priorities which in turn are aligned to the RF. This alignment will help the Bank develop a RBB framework during 2010. (RRF7.1 and 7.2) A fundamental part of the RBB framework consists in introducing a set of metrics related to the RF indicators geared to quantifying the number of products (workload) and efficiency aligned to budget management, as well as accountability of its execution based on clearly defined targets, and milestones. The size of the operational budget will be based on the operational program. The consistency between operation program and budget will be reviewed annually. (RRF7.3) [Use RF as the basis] for an effective Results Based Budget (RBB) framework of the Bank. It establishes the priorities for budget planning and execution and the metrics under which to monitor the link between resources and outcomes. Management and the Board can monitor, on an ongoing basis, the flow of resources within the Bank and the effectiveness of their use in achieving the agreed results. Milestones, aligned with the RF will be established in the various units' business plans and their achievement will be monitored and subject to the Bank's performance evaluations. (R3.43)

A2. Balanced Scorecard

Action	Defintion
Apply a Balanced Scorecard Performance Management System (BSC)	[Use] the Balanced Scorecard (BSC) [as] a management performance system used to align business activities to the corporate mission and monitor corporate results in an effort to meet the Bank's strategic institutional objectives. Information in the BSC will be rolled down to lower levels (VPs, Departments, Divisions and Country Offices) and will be used in the Employee Performance Management Framework to link employee performance to organizational goals and promote a better alignment of performance with rewards. (RRF6.8 and 6.9) The monitoring instruments for following up on development effectiveness include the DEM, the PMR and the XPMR and other management instruments including the Balanced Scorecard (BSC) and the external feedback system (EFS). (RRF6.1)
Ensure BSC Incorporates Results from External Feedback System (EFS)	[One of the dimensions of the BSC will be] the EFS which collects information through a survey from civil society and public and private sectors on the[ir] perception[s] of the Bank's services and comparative advantages. (RRF6.7)

A3. Operational Effectiveness and Efficiency

Action	Defintion
Continue Improving Organizational Effectiveness	[Organizational] effectiveness indicators are based on the DEF and aim to measure progress on setting clear standards and metrics for the evaluation of all of the Bank's development interventions, progress on Knowledge and Capacity Building Products (KCP), client satisfaction through the External Feedback System, and advancement on the targets established for the five principles of the Paris Declaration. (R3.42) Effectiveness indicators are divided in three groups: (i) country strategies; (ii) loans (SG and NSG); and (iii) Knowledge and Capacity Building Products (KCPs). (RRF5.3) Operational Effectiveness and Efficiency [targets are reflected in RRF Table 4]
Continue Improving Organizational Efficiency	[Organizational] efficiency indicators monitor the Bank's commitment to lower transaction costs for project preparation and implementation, reduce documentation requirements and decentralize decision making to country offices. (R3.42) [Efficiency] indicators regarding budget describe, as a percentage of total expenses: (i) the expenses allocated to lending; (ii) the expenses [related to disbursements; (iii) and the expenses on support functions. (RRF5.5) Efficiency indicators proposed are based on cycle times in order to address the commitment to responsiveness to the clients. (RRF5.6) Operational Effectiveness and Efficiency [targets are reflected in RRF Table 4]

ANNEX B. RBB IMPLEMENTATION PLAN

Summary of RBB Implementation by Year

Budget Stage	RBB concepts and practices being introduced	Planned			Completed as of June 15, 2012			Total
		2011	2012	2013	2011	2012	2013	Completed as of June 2012
Formulation	LTFP introduced into the budget cycle establishing a link between Income and Expenses, providing clearer pro-forma financial picture for the Board.	100%			Completed			
	Budget Issues Paper revised to serve as more medium term strategic document.	85%	15%		85%	Completed		Completed
Preparation	Taxonomy of RBB Terms providing a common definition of the Bank's Inputs, Outputs, and Results and grouping of the Bank's activities into Products, and Services.	90%	10%		90%	Completed		
	Increased focus on programbudgeting and execution.	60%	40%		60%	30%		90%
	Output and Results indicators measuring Efficiency and Effectiveness established at all business unit levels.	20%	50%	30%	20%	30%		50%
	New Business Plan introduced demonstrating direct link between Input, Output and Results.	20%	50%	30%	20%	20%		40%
	Greater flexibility in distribution of resources enabling prioritization of resources to institutional mandates.		50%	50%		20%		20%
	Activity Based Planning as a tool being introduced into the preparation cycle.	100			Completed			Completed
	Service Level Agreements to be developed for Operational and Non-Operational areas.	20%	60%	20%	20%	10%		30%
Approval	Presentations to BUFIPOL to focus on the Inputs, Outputs, and Results to be obtained and to report on the progress of current.	50%	30%	20%	50%	Completed		Completed
Execution	Availability and access to budget and performance information to be improved through enhanced systems, quality and completeness of data, and push-out reporting.	100%			Completed			
	Activity Based Costing as a tool being used to develop parameters for the Operational and Non Operational area to serve as input to the preparation phase in budget cycle.	50%	50%		50%	25%		75%
Control and Evaluation	Performance Management reporting being enhanced.	75%	20%	5%	75%	20%		95%
	Business Process Optimization reviews introduced to ensure continuous improvement and efficiency gains in the institution.		50%	50%		25%		25%

ANNEX C. BALANCED SCORECARD (CPF) INDICATORS

The IDB's Corporate Performance Indicators

1. Partner with clients that can have a positive impact on development	
Country Focus	1. % of country strategies that have satisfactory scores in evaluability dimensions
	2.% of country strategies that have results that can be validated for: *(i) identified priority areas* *(ii) financial envelope* *(iii) country system capacity building and alignment*
Development Results	3. % of new operations with satisfactory scores on evaluability dimensions
	4. % of completed projects with results that can be validated
	5. % of completed projects with demonstrated positive results
	6. % of projects with high environmental and social risks that are rated satisfactory in implementation of mitigation measures
2. Offer relevant products and services to our clients	
Client Satisfaction	7. Rank of IDB with respect to other development partners in terms of: *(i) Relevance of ideas and products;* *(ii) Responsiveness to client needs;* *(iii) Effectiveness as an implementation partner*
Market Share	8. Change of IDB Group's share of: *(i) Outstanding multilateral debt;* *(ii) Outstanding portfolio of NSG operations* *(iii) Concessional (grants, co-financing, TC Funds) resources delivered to the Region*
3. Use the Bank's Resources Efficiently	
Efficiency	9.Efficient allocation of the Bank's administrative resources: *(i)Total Expenses on Client Related Products/Total Expenses* *(ii)Total expenses on Corporate Products/Total Expenses* *(iii)Total expenses on Support Functions/Total Expenses*
	10. Capital Efficiency measures to be defined in the New Operational Framework
4. Foster an Institutional Culture that lives by its values	
Managerial Excellence	11. % of supervisors and team leaders that measure favorably in leadership competencies
Positive Work	12. % of staff that view that the Bank (engagement survey): *(i) has an ethical work environment;* *(ii) is a meritocracy;* *(iii) has opportunities for career growth;* *(iv) has an environment that promotes collaborative work across*
Diversity grades	13. % of females in management placements (E,R, Grade 1) and in Senior
	14. % of staff from indigenous and afro-descendant origins

Management Comments

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

Mid-Term Evaluation of IDB-9 Commitments
Background Paper: Operational Performance and Budget
Management Comments

Mid-Term Evaluation of IDB-9 Commitments
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I. INTRODUCTION

1.1 Management welcomes the Office of Evaluation and Oversight's (OVE) evaluation of the Bank's implementation of the Ninth General Capital Increase in Resources (IDB-9) commitment to adopt a results-based budgeting (RBB) system. The findings and conclusions of the evaluation presented in this background paper will contribute to the Bank's efforts to achieve its operational performance and budget objectives.

1.2 Management is pleased to see that many of the detailed comments provided to OVE on an earlier draft of the paper have been incorporated in this final version.

II. OVERALL FINDINGS AND SUGGESTIONS

2.1 OVE's evaluation provides interesting insights into the Bank's progress in the three components of the RBB mandate: i) adoption of an RBB process; ii) implementation of a Balanced Scorecard (BSC) system; and iii) improvement of the Bank's organizational effectiveness and efficiency. Management would like to share the following comments on several of the points raised in the evaluation.

2.2 **Results Based Budgeting (RBB).** Management welcomes OVE´s finding that the IDB has expended considerable efforts in making changes to its budget process and that the Bank has advanced on a number of fronts, while recognizing that RBB implementation is still a work in progress. The background paper provides a good assessment of the inherent difficulty – in some cases the impossibility – of fully tying administrative budget inputs to outcomes (in this case, the IDB-9 Results Framework outcomes) in any budget system. Within this context, Management recognizes that moving into a Results Based Budgeting culture is, and will continue to be, challenging and that reaping the benefits of the new approach will take more time than originally expected. In that sense, Management agrees with OVE´s finding that Senior Management's "support going forward must include a willingness to experiment, continually adjust, and learn from mistakes—not always an easy thing to do in a hierarchal organization like the Bank."

2.3 The suggestions OVE offers in the background paper validate to a great extent the majority of actions that Management is already implementing in response to the IDB-9 mandates related to operational performance and budget. For example, Management agrees with OVE that Senior Management´s involvement is critical. Currently, the Executive Vice-President (EVP) is the chair of the Strategic Budget Committee (SBC) whose membership includes all four Vice-Presidents, the Office of the President, as well as the Managers of the Strategic Planning and Development Effectiveness (SPD), and Budget and Administrative Services (BDA) Departments. In addition, the BDA Manager is the chair of the Budget Coordination Group (BCG) whose membership

includes all the Managers and Unit Heads of the Bank. Both the SBC and the BCG resemble the structure suggested by OVE and are critical governance bodies for the budget process and RBB implementation.

2.4 In addition, greater involvement by the Office of the EVP and the Vice presidency of Finance (VPF) in the implementation since 2011has provided additional traction for the RBB change management process. This ongoing effort to better align institutional priorities to unit and individual work plans and performance assessments has helped strengthen the accountability and responsibility at all levels of the institution by establishing a finite (although extensive) set of performance indicators down to the individual work plans. With regards to Performance Indicators (PIs), drawing from the lessons learned in the past two years, the 2013 Business Plans incorporated qualitative and efficiency measures to complement the already existing quantitative ones for both the operational and corporate areas.

2.5 A new IT application has also been developed to automate the RBB-related calculations for more than 60 percent of the operational PIs, providing timely information for decision making and resource allocation, as suggested by the OVE assessment. Management's efforts to increase the focus on the RBB change management process will continue in 2013, with particular emphasis on training targeted at staff of all levels of the institution.

2.6 Management agrees with OVE's suggestion in favor of a more flexible "biannual budget cycle for the IDB as a way to better match its business to the budgeting/planning cycle." This topic is in the forefront of Management's 2014 budget discussion.

2.7 Management also agrees with OVE's suggestion on the need to evaluate the inclusion of both head count and dollar limits in the budget, the affirmation that the combination of a head count ceiling and a fixed annual budget limits Management's flexibility in dealing with a rapidly changing external environment. The proposal to eliminate the budget head count is also at the forefront of Management's 2014 budget discussion.

2.8 While Management welcomes OVE's conclusions and suggestions, and agrees with many of them, we believe that the paper could have benefited from a more thorough analysis of the challenges faced by multilateral institutions and national governments in their respective RBB implementation efforts. This would have provided valuable information to gauge and benchmark the Bank's efforts to date.

2.9 In terms of the intense culture change that RBB represents for the Bank, Management values the suggestions presented by OVE in this regard and will take the necessary steps to incorporate, to the extent possible, some of those suggestions that are not already under implementation.

2.10 **Balanced Scorecard System (BSC).** Management welcomes OVE´s finding that the Bank "has learned much from this effort". Management believes that the background paper understates the positive impacts that the process to develop a corporate Balance Scorecard (BSC) yielded, both in terms of learning and developing the tools currently

in use to manage for results, and in terms of the requisite culture change across all business units in the Bank. Management would like to underscore that many of the indicators from the BSC are now part of the RBB effort, Corporate Results Framework (CRF), "dashboards", and other reporting tools. For example, 70 percent of the CRF Table 4 indicators are the original BSC indicators, and roughly 80 percent of the Vice-Presidency for Private Sector (VPP)'s RBB indicators were derived from the BSC.

2.11 **External Feedback System (EFS)**. With regards to OVE's assessment of the External Feedback System (EFS), Management would like to point out that the pilot phase of the EFS has been successfully completed and the formal launching of the EFS is on schedule for the first quarter of 2013, as originally envisioned.

III. LOOKING FORWARD

3.1 In order to ensure the successful implementation of the IDB-9 mandates related to operational performance and budget, Management will put into action those items planned for 2013 that correspond with many of OVEs suggestions, and will incorporate some of the other suggestions put forth in the background paper to the extent possible.