



RE-321

***OVE's 2005 - 2006 Annual
Report and Proposed 2007 Work
Program and Budget***

Office of Evaluation and Oversight, OVE

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ACRONYMS

ARPRE	Annual Report on Portfolio Management, Performance, and Results
BES	Bank Evaluation System
CABEI	Central American Bank for Economic Integration
CPE	Country Program Evaluation
ECB	Evaluation Capacity Building
ECG	Evaluation Cooperation Group
EIA	Ex-post Impact Evaluations
EPSA	Ex-post Performance and Sustainability Assessment
GDP	Gross Domestic Product
GMCs	Global Multisector Credit Operations
GN	Documents on General Matters
GPS	Good Practice Standards
ICT	Information and Communication Technology
IER	Impact Evaluation Report
IPEA	Brazilian Institute for Research in Applied Economics
LAC	Latin America and the Caribbean
MIF	Multilateral Investment Fund
NLF	New Lending Framework
OVE	Office of Evaluation and Oversight
PCR	Project Completion Reports
PPMR	Project Performance Monitoring Reports
PRI	Private Sector Department
RE	Documents of the Oversight and Evaluation System
XASRs	Expanded Annual Supervision Reports

I. INTRODUCTION

A. PURPOSE AND NATURE OF THE REPORT

- 1.1 This report constitutes the 2005-2006 Annual Report and the proposed 2007 work program and budget request of the Office of Evaluation and Oversight (OVE). The report consists of two sections: the first is a report on OVE activities during the October 2005-September 2006 period and the second a proposed multi-year program of work for the 2007-2008 period, along with a budget request for 2007.

B. EVALUATION AND THE RESULTS AGENDA

- 1.2 Over the past several years, the need to focus on results has become the central objective of the institution. The IDB joined other multilateral development Banks in supporting a management for results paradigm,¹ adopted a Medium Term Plan for Enhancing Development Effectiveness (GN-2324), and created a dedicated department within Management to pursue these objectives. In 2004, the Board of Governors adopted a New Lending Framework agreement that made the following institutional commitment:

The Bank will continue to implement measures to improve development effectiveness of its programs and projects, and to provide support to member countries to strengthen their own monitoring and evaluation systems. The progress observed in the area of development effectiveness is to be consolidated into a results-focused corporate system including baseline, implementation and outcome indicators to monitor projects and country programs.

- 1.3 OVE has a specific mandate, derived from the Board of Directors, to contribute to the consolidation of a results-focus in the institution through both the conduct of specific evaluation studies and the oversight of the Bank Evaluation System (BES) as a whole. The document creating the office (RE-238) established four principles to guide the work of the office:

- First, evaluation is *a tool*, not an end in itself. Like other tools, the evaluation must constantly be scrutinized to determine if it continues to be relevant to perform well, or whether it needs to be sharpened or modified to more effectively accomplish its basic tasks.
- Second, evaluation is focused *on institutional learning*, which should be the standard applied to assess the relevance and effectiveness of evaluation activity.

¹ Statement of the Heads of MDBs “Better Measuring, Monitoring, and Managing for Development Results”, Monterrey, March 19, 2002.

- Third, evaluation must focus on assessing the *development effectiveness* of Bank activities. This mandates a focus on those activities of the Bank which are directed toward contributing to the economic and social development of borrowing member countries. While all Bank activities could theoretically be the focus for evaluation work, the Governor's mandate keeps the focus of evaluation on the interface between the Bank and the borrowing member countries.
- Fourth, evaluation must focus on the *results* of Bank-financed activities. The Bank must look not only at its outputs (projects approved, funds lent), but also at the outcomes of its actions in the borrowing member countries. Evaluation work is thus an essential part of the process of moving the Bank toward a results-based operational style.

II. SUMMARY OF OVE'S WORK

2.1 To implement these principles, OVE conducts a balanced program of work grouped under five thematic areas: Oversight, Country Program Evaluation, Sector, Thematic and Ex-Post Evaluation, Policy and Instrument Evaluation, and Evaluation Capacity Development. Because all evaluation reports are made public once the Board has completed consideration of them, the following section will provide only brief summaries of the work concluded (shown with accompanying links to the final reports), along with some key findings of work that is completed in draft at the time of writing this report and that will be delivered to the Board in 2006.

A. OVERSIGHT

- 2.2 In 1995, the Board of Executive Directors approved the creation of a "Bank Evaluation System" (RE-200), and gave to the Evaluation Office the responsibility to "oversee the performance of the BES, and provide technical support in evaluation methodologies at various management levels, including Country Offices and Borrowers."
- 2.3 These responsibilities were re-emphasized in 2000, when the Board redesigned the evaluation function and created the new Office of Evaluation and Oversight. In creating OVE, the Board noted:

The original objective of the BES as envisaged in the IDB-8 mandate set forth by the Board of Governors was to improve the Bank's operational performance, strengthen institutional learning, and achieve better results from evaluation working together with development partners.... The guiding principles for BES implementation as stipulated in Document RE-200 was to make evaluation: an integral element of Bank management;

comprehensive and covering all the operational levels of the Bank including strategies, policies, programs, projects and systems; interactive and participatory, to facilitate the dissemination of learning; and capable of providing suitable means to assure that the experiences of borrowers are duly incorporated.

- 2.4 Oversight work in pursuit of these objectives involves the systematic review of those Bank systems and processes that have been designed to provide data on the results of Bank operations. The central evaluation questions concern whether Bank interventions are designed to generate meaningful information on results, whether they are monitored to deliver meaningful information, and whether supervisory and control processes are adequate to remedy problems as they occur and thereby improve the final results of the intervention. The 2006 work program had a heavy emphasis on oversight, given the challenges posed by the adoption of the New Lending Framework.
- 2.5 During the past year, OVE's work at design stage has concentrated on assessing the "evaluability" of projects and programs. Work on supervision has sought to validate the findings of the Bank's project reporting system, and has examined the content of country portfolio missions. Finally, a detailed country study has examined the adequacy of the Bank's control framework. In addition to these studies, OVE's oversight work has also sought to improve results reporting in both the MIF and the IIC.
- 2.6 **Evaluability of Country Strategies (RE-309).** Evaluability is a summary measure of how well a project or a country program defines the results it intends to achieve. Evaluable interventions analyze the current baseline situation, establish indicators that can be monitored to measure progress, and set targets against which future performance can be assessed.
- 2.7 The Bank adopted new Guidelines for the preparation of country strategies in 2002, and OVE undertook an evaluability assessment of 11 strategies produced under the new Guidelines. The report found that the Bank's country strategies presented over the past two years have made progress toward the improved evaluability envisioned in the *Guidelines*. It also shows, however, that the strategies comply with only the minimum standards set by the *Guidelines*. OVE's review found that many of the criteria established in the Guidelines were not met by the recently completed group of country strategies. In specific: (i) diagnostics are of poor quality and in many cases unrelated to the Bank's strategic objectives and programmatic response, (ii) there is little systematic assessment of the effectiveness of the Bank's past engagement with the country, (iii) the strategic objectives and the strategic response are in many cases not logically related, and (iv) the strategies generally do not provide an adequate treatment of risk.
- 2.8 The New Lending Framework document calls upon Management to re-examine the *Guidelines* themselves, in order to ensure that they are appropriately designed

to reflect the goals, objectives and instruments that are to be available to the Bank in the future. RE-309 was intended as an input to this process, and when new Guidelines are developed, OVE will revise its Protocol for the Conduct of Country Program Evaluations to reflect any changes.

- 2.9 **Evaluation of Country Portfolio Review Reports (CPR) (RE-314).** Country portfolio reviews are undertaken regularly as part of the Bank's system of monitoring the results of its operations in the Region. The evolution of CPRs has grown largely out of rising demands for supervision of the Bank's effectiveness in meeting the development objectives established in the country strategies. In the absence of other supervision instruments designed to track strategy results, the scope of the CPRs has evolved increasingly from their original profile, linked to operational considerations, to include strategic considerations.
- 2.10 The review found that these documents contain the minimum operational supervision information required to describe the execution of the Bank's portfolio, but generally do not provide a systematic set of metrics or targets, both of which are necessary to track performance over time and across countries. Furthermore, portfolio reviews do not contain the necessary elements to assist with the strategic supervision of the Bank's portfolio in terms of its outcomes and risks. Based on an assessment of the content of CPRs, it is clear that portfolio review reports do not contain information on outcomes required to either track the effectiveness of the Bank's strategy with the country or to identify the impact that the Bank supported operations are having in the each of the sectors in which the Bank is engaged. In terms of risk management, the CPRs do not systematically evaluate factors that can adversely affect the execution or scope of program outcomes.
- 2.11 The report recommended that Management use the country portfolio review process as a foundation upon which to build a more comprehensive system at country level for reporting systematically on results. It recommended that Management should standardize the performance indicators it tracks and the contents of the reports it produces.
- 2.12 **Validation of Project Completion Ratings (RE-315).** All development finance institutions have some system for reporting on both the execution and developmental results of their projects. The Evaluation Cooperation Group of the Multilateral Financial Institutions (ECG) has adopted best practice standards that call for independent validation of project completion reports. Validation exercises are designed to improve the quality of internal reporting by examining the evidence presented in such reports to determine if there is adequate support for the ratings assigned.
- 2.13 At the request of Management, OVE did not undertake validation reviews of the Bank's project completion reports (PCRs) until new Guidelines for these reports had been approved and implemented. In cooperation with Management, OVE

sought to validate the findings of the first 19 PCRs approved under these new Guidelines.

- 2.14 The evaluation found that the vast majority of PCRs lacked sufficient data on outcomes to support the ratings assigned by Management in relation to achievement of development objectives (DO), and long-term sustainability of benefits (S). OVE found sufficient information on achievement of development objectives in only 2 of the 19 PCRs, and sufficient information on sustainability in only 1 of the 19. This missing outcome evidence significantly constrains the Bank's capacity to manage for results and, if not addressed, will constrain the New Lending Framework's results-based corporate system. Given these findings, the report recommended that a future revision of the PCR Guidelines should address the weaknesses identified above in the context of the whole Bank Monitoring System.
- 2.15 **Validation of PPMRs.** Although not required by the ECG Good Practice Guidelines, Management requested that OVE perform the same sort of validation exercises on the periodic Project Performance Monitoring Reports (PPMRs) as was done for PCRs. PPMRs are issued every six months for all projects in the portfolio, and are designed to gather data on execution and results. For this exercise, OVE reviewed 25 operations which represented approximately 5% of the Bank's portfolio to ensure accuracy and timeliness of information contained in the PPMRs and their utilization as a tool for day-to-day project management. Results of the validation indicate that PPMRs are generally issued on time and comply with current Guidelines, but do not always contain meaningful data on the results of projects in execution.
- 2.16 **Project Evaluability.** OVE conducted a complete review of the evaluability of projects approved in 2001 (**RE-275**). This document established a baseline for institutional performance in this area. To measure progress from this baseline, OVE conducted a similar complete review of projects approved in 2005. The 2005 review allows comparisons with the 2001 benchmark, to see which dimensions of project evaluability show the greatest change over the period. The evaluation also examined how questions of evaluability are addressed in the course of project preparation.
- 2.17 **Compliance with Good Practice Standards for Evaluation of Private Sector Activities.** The Evaluation Cooperation Group of the Multilateral Financial Institutions (ECG) has developed good practice standards for the internal self evaluation of projects dealing with the private sector. A benchmarking exercise undertaken by the ECG found low compliance with these standards at the IDB, with PRI compliance very low and IIC performance considerably better. OVE has a contractual relationship with the IIC to provide evaluation and oversight services, and much of that work has assisted IIC management in improving their internal systems for project management. OVE validates management's Expanded Annual Supervision Reports (XASRs), and has observed marked improvement over time. Following the ECG benchmarking exercise, PRI also

decided to improve its compliance with the good practice standards. OVE worked with them to improve internal reporting and can also report very substantial progress over time.

- 2.18 **Support to the MIF.** The MIF has also decided to comply with the Good Practice Standards (GPS) in regards to its reimbursable operations. For that purpose, OVE was engaged to develop guidelines and a customized template for project self-evaluation, similar to the XASR. By the end of the year, it is expected that MIF will produce its first batch of self-evaluation reports, for them to be validated and summarized into a Report for the consideration of the Donor's Committee. Furthermore, this first year OVE has spent considerable effort in helping train some designated MIF staff members in the methodologies and requirements for compliance with the GPS.
- 2.19 **Review of the Bank's Capital Adequacy Model.** When the Board approved a new policy on capital adequacy and lending rate methodology in 2003, the Board asked that OVE conduct a review of the implementation of these changes after two years. While it is still too early to evaluate fully the new approach, OVE's review has found no major issues with the capital adequacy approach itself, but raises a number of technical issues which might contribute to the evolution of the model over time.

B. COUNTRY PROGRAM EVALUATIONS (CPEs)

- 2.20 OVE is required by Board policy to conduct country program evaluations (CPEs) as part of the process of preparing of each new country strategy document. The Guidelines for country strategy preparation require a new country strategy document whenever there is major national election. This fixed timetable produces significant variation in the volume of CPEs required each year, as illustrated in Table 2.1 below. The table provides hyperlinks in the leftmost column to the CPEs that have been publicly disclosed. CPEs marked with an asterisk are expected to be completed by the end of 2006.

Table 2.1: Country Program Evaluations: 2001-2006

Doc. Number	Document Name
Reviewed by the Board in 2001-2002	
RE-256	Country Program Evaluation: Trinidad and Tobago
RE-259	Country Program Evaluation: Mexico
RE-262	Country Program Evaluation: Peru
RE-263	Country Program Evaluation: Honduras
RE-266	Country Program Evaluation: Guyana
Reviewed by the Board in 2003	
RE-272	Country Program Evaluation: Nicaragua
RE-274	Country Program Evaluation: Haiti
RE-277	Country Program Evaluation: Costa Rica
RE-278	Country Program Evaluation: Bahamas
RE-280	Country Program Evaluation: Colombia
Reviewed by the Board in 2004	
RE-294	Country Program Evaluation (CPE) Paraguay: 1991-2002
RE-295	Country Program Evaluation (CPE) Ecuador: 1990-2002
RE-296	Country Program Evaluation (CPE) Belize: 1993-2003
RE-297	Country Program Evaluation (CPE) Bolivia: 1990-2002
RE-298	Country Program Evaluation (CPE) Brazil: 1993-2003
RE-299	Country Program Evaluation (CPE) Argentina: 1990-2002
Reviewed by the Board in 2005	
RE-304	Country Program Evaluation (CPE) Guatemala
RE-305	Country Program Evaluation (CPE) Panama
RE-306	Country Program Evaluation (CPE) Dominican Republic
RE-307	Country Program Evaluation (CPE) El Salvador
RE-310	Country Program Evaluation (CPE) Jamaica
RE-312	Country Program Evaluation (CPE) Uruguay
Distributed in 2006	
RE-313	Barbados
RE-318	Suriname
*	Chile
*	Peru
*	Honduras
*	Haiti
*	Costa Rica

* For distribution in 2006.

- 2.21 The CPEs are intended as input for the consideration by the Board of the next Bank country strategy. They are not designed as decision documents themselves, but rather as a mechanism for bringing to the attention of Management and the Board some critical issues relating to the past activities of the Bank in the

country. As such they play a dual role, providing an account regarding of results of Bank-funded programs to the Board, and creating an opportunity for reflection and lesson learning as a way to improve future programs.

- 2.22 With the 2006 group of CPEs, OVE will have completed at least one multi-year program evaluation for each of the Bank's borrowing member countries (the only exception is Venezuela, which will have its first CPE done in 2007). In light of this fact, it had been anticipated that the Board would review the scope, nature and method of CPEs during 2006 as part of the process of drafting new guidelines as to the form and content of Bank country strategy papers. OVE's 2006 work program had included revisions to the Protocol for the Conduct of Country Program Evaluations, but those have been postponed pending Management's sending to the Board the revised guidelines for country strategies. The review of the Protocol is thus expected to be completed as part of the 2007 work program.

C. SECTOR, THEMATIC AND EX-POST EVALUATIONS

- 2.23 One of the Bank's principal comparative advantages is that it works on similar issues across many countries. This gives the Bank a broad perspective on sectoral and thematic issues in the Region. This work naturally leads to the development of a Bank approach to common sectoral and thematic issues, sometimes but not always codified into a written sectoral strategy. Since OVE is mandated by the Board to carry out ex-post evaluations of completed projects, it has proven useful to group the individual projects into thematic clusters, thereby providing both individual project evaluations and a broader evaluation of the Bank's results across a given sector or theme.
- 2.24 In the 2005-2006 cycle of ex-post evaluations, OVE concentrated on three thematic clusters: science and technology, labor training and rural roads. In addition to this work, OVE also undertook a sector review of the Bank's interventions in the health sector (as a prelude to the 2006-2007 ex-post cycle which will look at individual health projects).
- 2.25 **Science and Technology.** The IDB has devoted and continues to devote significant resources to funding Science and Technology in the Region. These projects fit closely with the IDB's overall goals of promoting competitiveness and economic growth. Two vehicles have been particularly important in Bank operations in this area: (i) Technology Development Funds (TDF) aimed at fostering innovation activities; and (ii) Competitive Research Grants (CRG) aimed at financing basic research activities. The evaluation of both vehicles looked at their contributions to the growth rate of targeted firms as well as to firm productivity and patent production. For the Competitive Research Grant program, the evaluation also looked at contribution to scientific knowledge production in targeted firms and their capacity to establish research groups.

- 2.26 **Labor training.** The purpose of the Job Training Ex-Post Thematic Evaluation project was to determine whether the job training schemes promoted and financed by the IDB throughout the Region have met their core objective, which is to increase the employability of trainees. In total, OVE was able to provide rigorous assessments of the impacts of training for six countries (Argentina, Chile, Dominican Republic, Mexico, Panama and Peru), and in two others was able to perform a thorough institutional assessment (Paraguay and Colombia).
- 2.27 We find modest employment effects that are slightly better than those reported in the literature for OECD countries. The impacts are not homogenous but vary by age, gender and Region. Conditional on employment, OVE found positive impacts in terms of the quality of jobs that trainees get, measured either by access to the formal sector or through receiving benefits. In terms of wages – where the data is less reliable – the analysis also suggests a positive impact.
- 2.28 The second purpose of the evaluation was to understand the institutional and implementation features that seem to be systematically correlated with better results. Several lessons can be drawn from the analysis. First, in countries where a national training institution (NTI) exists, IDB projects have not paid enough attention to the political economy of such institutions, and have largely operated around them. Second, the participation of the private sector is critical to ensure that courses are effectively demand driven. It appears that the best way to achieve this is by sharing some of the costs with the private sector.
- 2.29 Finally, OVE also assessed the evaluation components of these projects. Three programs –Dominican Republic, Argentina and Peru– had solid evaluation components, while Chile also had specific evaluative criteria including indicators and methodology. In the other cases, however, the evaluation component was weak or non-existent. Although evaluations were mentioned at the design stages, there were no provisions for how an evaluation would actually be conducted. Thus, the programs effectively lacked an evaluation design.
- 2.30 **Rural Roads.** The Bank has developed a large number of rural roads projects, based on the theory that poverty is concentrated in rural areas and that the lack of adequate roads is a major constraint on growth in rural areas. However, the Bank’s information system in this area makes rigorous impact evaluation virtually impossible. The evaluation found that the system does not contain minimum information like geo-referenced rural road segments financed nor the investment cost of the segment financed and the duration time of expenditure nor geo-referenced information on markets and social infrastructure. Of the 14 projects reviewed, only one had information on the outcomes (goals and purposes) that the programs had set themselves.
- 2.31 Despite these limitations, the evaluation attempts to partially retrofit information for four operations in order to determine whether the expected access effects were positive, properly targeted, and cost-effective.

- 2.32 **Health Sector Overview.** The report presents an evaluation of the approach followed by the Bank in the health sector between 1995 and 2005. It assesses the conceptual and empirical basis upon which the Bank structured its interventions in the sector during this period, which were generally centered on measures aimed at reforming the health systems of the countries of the Region. The conclusions and findings derived from each of the main reform measures supported by the Bank indicate that the market-based approach followed by the Bank present sufficient limitations and drawbacks to suggest that, as a whole, it may not been able to improve efficiency, quality or equity of the health systems of the Region, as intended by the projects approved between 1995 and 2005.
- 2.33 The important divergences that mark the policy recommendations sector imply that there is no single or “right” model for the organization of health systems. The problems found by the evaluation do not invalidate the Bank’s focus on systemic issues. IDB’s comparative advantages rely on its ability to understand, prescribe and intervene upon system-related issues, which does not necessarily mean reform measures. Furthermore, the evidence shows that the Bank is competitive in the sector. Systemic issues that present potential for future Bank involvement include: a) interventions aimed at improving the health surveillance capacity of the countries; b) the design and implementation of health systems networks; and c) human resources development. The report finds that more sector work and analysis is clearly needed.
- 2.34 **Evaluation of the IDB’s Role in the Fiscal Sector.** The central focus of the evaluation was an assessment of the relevance of Bank actions in helping countries in the Region tackle fiscal problems (i.e., how closely the objectives of Bank interventions matched country needs, policies, and priorities) and the effectiveness of the products the Bank employed to that end. The evaluation found that many of the objectives of Bank operations were poorly specified, making the tracking of outcomes particularly difficult.
- 2.35 Prominent among the outcomes whose achievement could not be ascribed to Bank-funded interventions is the improved efficacy of public spending consistent with its sustainability in a context of intertemporal fiscal balance. Though the intervention model appeared to pursue that goal, no components or products significantly associated with its attainment were found.
- 2.36 The fiscal effects of business cycles, of contingent liabilities coming out of reforms, or of budget institutions were treated as external risks, not as components, so they were addressed only as items calling for mitigating measures when they occurred. These missing pieces reduced the relevance of the Bank’s contribution to the end-goal of its fiscal-sector intent.
- 2.37 The report recommends that fiscal matters should be identified as a specific working group within the Bank. This working group should produce an analysis of country-specific fiscal concerns, with particular attention to: multiyear budget and macroeconomic forecasting; contingent liabilities, particularly those

associated with Bank operations; and the quality of budget institutions in fiscal decision-making.

- 2.38 **Evaluation of Global Multisector Credit Operations (GMCs).** Since 1990, Global Multisector Credit Programs (GMCs) have accounted for 9% of total Bank lending, and 58% of all the proceeds that the Bank's group directs to private sector beneficiaries, making them the largest "private sector tool" of the Bank. The evaluation sought to determine if the very ambitious developmental objectives in the operations were able to be translated into actual results. Of particular concern was assessing the "additionality" of Bank interventions both in terms of financial flows and in terms of technical assistance and knowledge transfer. Finally, the evaluation looked into the institutional relationships within the Bank between GMC operations and the other tools the Bank is using to promote private sector development and financial market reform in the borrowing member countries.

D. POLICY AND INSTRUMENT EVALUATION

- 2.39 **Regional Policy Dialogues (RE-316).** The evaluation follows the framework established by the Board for the assessment of network development. The evidence gathered indicates that attendance at the meetings is low; however, country government participants of the Regional Policy Dialogues meetings consider the networks to be a relevant instrument for improving policy making in the countries.
- 2.40 Findings also indicate that improvements in some key areas of the dialogue are still needed for increasing the relevance and effectiveness of the networks. Therefore, actions should be taken for: (i) increasing attendance (while maintaining or even increasing the appropriateness of delegates); (ii) increasing relevance of the products, particularly the promotion of cooperation; (iii) ensuring high quality dialogue; (iv) improving the quality of the studies; (v) maximizing the opportunities that arise from the existence of subregional meetings. Additionally, in the context of the new lending framework and the IDB's new business model, the Regional Policy Dialogues presents a unique opportunity for interaction with country authorities. Therefore, it should involve more comprehensively IDB staff so they can use the meetings to learn about client demands and identify business opportunities.
- 2.41 **Private Sector Action Plan for C and D Countries.** Low private-sector lending volumes in the Bank's C and D group countries led to the creation of a Private Sector Action Plan for C and D group countries, and OVE was asked to carry out an evaluation of that initiative. The evaluation found that most country action plans were not based on country specific needs assessments and that, as a result, the Action Plan generally did not meet its objectives to increase the quality, quantity and coordination of the private sector activities in C&D countries.

- 2.42 Based on the analysis of the Action Plan's experience, the evaluation recommends: (a) an Action Plan aimed at increasing the number of private operations should be built on country-specific strategies for private sector development (CPSD); (b) CPSDs should be based on an in-depth and specific diagnosis for each country before launch; (c) country strategies and programs should contain result frameworks with baselines, milestones and measurable targets; (d) the CPSD should promote the coordination between the IDB's private and public branches by containing a business plan for each C&D country displaying how the Bank will address the country's private sector priorities, with a clear assignment of responsibilities, budget allocation and a timeline for its implementation; and (e) the CPSD targets should also include the reduction of transaction costs of C&D private operations.
- 2.43 **Evaluating Studies.** The Bank's New Lending Framework assigns great weight to improving the quality and coverage of analytical work done in support of various country programs. This study looked at the programming of studies, the assignment of resources to the production of studies, and the storage and retrieval systems used to manage the results of studies. It also examined citations to Bank studies in the economic literature, and attempted to assess the quality of studies using a panel of external reviewers. Finally, the study conducted interviews with project team leaders to see what could be learned about the utility of Bank studies in the construction of lending operations.
- 2.44 **Evaluation of the Public Utility Policy in the Power Sector.** The Bank's Public Utility Policy has been applied broadly, with the two largest sectors being water and electricity. OVE evaluated the effectiveness of the policy as applied to water in 2002 (**RE-270**), and in 2006 carried out a similar evaluation in the power sector. The evaluation provides evidence on the effectiveness of Bank operations in promoting private investment, reducing power electricity losses, increasing generation capacity and improving transparency in the process of pricing. As was the case in the water sector, the Bank's Public Utilities Policy has demanding requirements in terms of the macro-institutional environment necessary for successful implementation, and thus is not uniformly effective in all countries.

E. EVALUATION CAPACITY DEVELOPMENT

- 2.45 Of more importance to the ultimate success of the results agenda is the development by the borrowing member countries of their own systems for managing for results. Without a strong and well-institutionalized evaluation practice in the countries, the Bank will have difficulty translating its commitment to results into projects that are effective in consistently delivering results on the ground. The central role of country capacity for managing and evaluating results has been emphasized both by OVE, in its 2002 Report on Evaluation Capacity Development, and by Management in its recent discussion of the "external pillar" to the Medium Term Action Plan for Development Effectiveness.

- 2.46 OVE can make only a limited direct contribution to this effort. Only about 5% of OVE's administrative budget is programmed directly for providing technical support for evaluation, and much of that is oriented toward supporting self-evaluation work inside the Bank itself. Through PRODEV, however, the Bank has substantial technical cooperation funds available to assist countries in improving their systems for public sector management, including evaluation and results reporting. OVE has cooperated with PRODEV in developing their approach to evaluation capacity development, and will assess the achievements of this initiative in 2007.
- 2.47 OVE's direct work in evaluation capacity development has concentrated at encouraging and funding evaluation work in the Region. OVE has established a network of evaluators (REDEVAL) with over 460 persons registered to participate. OVE tries to conduct most of its ex-post evaluations through competitive bidding to institutions in the Region. Bidding for projects within the ex-post 2005 and 2006 cycles were sent through REDEVAL, with a good response from professionals in most countries. Other invitations to participate in OVE projects, and search for consultants have been sent through REDEVAL.
- 2.48 As part of its outreach activities, OVE co-organized the second *Monitoring and Evaluation Regional Conference* -May 10th and 11th- with the World Bank, and the Administration (PRODEV). Experiences from Brazil, Mexico, Colombia, Chile, Peru, Argentina, Costa Rica, Honduras, Guatemala, and Dominican Republic were presented. Specific topics such as Evaluation at the Sub-National Level, and Evaluation of the Presidential Goals, were also discussed.
- 2.49 As a result of this interchange, OVE has been in direct contact with most of the offices of evaluation in most of the countries in the Region. In some cases specific technical assistance has been provided; such is the case of the Province of Buenos Aires on their proposal to create a monitoring and evaluation system.

III. PROPOSED PROGRAM FOR 2007-08

- 3.1 The Bank is in the process of seeking a better alignment of institutional arrangements to improve its capacity to deliver value to the Region. The precise details of the new Bank structure are not clear at the time of preparation of this report, but the broad thematic outlines of the emerging Bank clearly suggest a central role for evaluation activities. In paragraph 1.1. of its 2007 Budget Issues Paper, Management stated:

the Bank's medium-term vision, which rests on building a more performance oriented institution with enhanced levels of results measurement, flexibility, efficiency, responsiveness and transparency.

- 3.2 The task of “*building a more performance oriented institution*” has several prerequisites, as noted in a recent seminar sponsored by the U.S. Government Accountability Office. The seminar concluded:

*High-performing organizations have a focus on achieving results and outcomes and a results-oriented organizational culture is fostered to reinforce this focus. ... High-performing organizations in this context seek to develop data-driven understandings of how their efforts contribute to overall results... High-performing organizations continuously assess and benchmark performance and efforts to improve performance.*²

- 3.3 These two themes: building “*data-driven understandings*” and “*continually assessing and benchmarking performance*” will be the core principles organizing the work of OVE in the coming year. In keeping with Management’s approach to the 2007 budget, this initial work program is constructed without fully factoring in the consequences of realignment. As the contours of realignment become clear in 2007, it may be necessary to modify both the work program and budget to better support the process.
- 3.4 The 2007-2008 work program is constructed, as in prior years, around a balanced program of work in five areas: (a) Oversight of Evaluation Activities in the Bank, (b) Country Program Evaluation, (c) Sector, Thematic and Ex-Post Evaluations, (d) Policy and Instrument Evaluation, and (e) Evaluation Capacity Building.
- 3.5 Table 3.1 summarizes OVE’s accomplishments in 2006 and presents a detailed work plan for 2007 and a tentative plan for 2008. Column 1 of the table shows the items which OVE has completed by September 2006 (marked C06) and those which are expected to be completed before the end of 2006 (marked TBC06). Studies initiated and substantially completed in 2006 but which will not be finalized until 2007 are marked TBC07. Column 3 provides a listing of proposed work in 2007, while column 4 indicates some of the items to be included in the 2008 work plan.

² <http://www.gao.gov/new.items/d04343sp.pdf>

Table 3.1: Status of OVE's Multi-Year Work Plan 2006-2008

2006	Status	2007	2008
Oversight Studies			
Annual Report and budget	C06	Work Program and Budget	Work Program and Budget
Validation of PCRs/PPMRs	C06	Quality of supervision*	
Evaluability Assessment of	C06	Validation of PCRs	Validation of PCRs
Country Portfolio Reviews	C06	MIF/IIC	Budgeting for Results
MIF/IIC	O	Integration of Information Systems	
Capital Adequacy Policy	C06	PRODEV/MTAP*	MIF/IIC
		Economic Analysis in Projects	
Country Program Evaluations			
Suriname	C06	Ecuador+	Argentina+
Chile	C06	Nicaragua+	Brazil+
Costa Rica	TBC06	Guyana+	Belize+
Peru	TBC06	Bahamas+	Dominican Republic+
Honduras	C06	Colombia+	Guatemala+
Barbados	C06	Venezuela+	Jamaica+
Haiti	TBC06	Mexico+	Paraguay+
	TBC06	Bolivia+	
		Trinidad and Tobago+	
		Revision of CPE Protocol	
Sector, Thematic And Ex-Post Evaluations - EPSA's & IER's			
Science and Technology	C06	Health project studies	
Health Sector Overview	C06	Public service reform*	
Fiscal Sector	C06	Adjustment costs*	Reaching the Majority
Multi-sector credit operations	TBC06	Integrated rural development*	
Transportation	TBC07	Social Investment Funds	
Labor Training	C06	Early Childhood Programs*	
Policy and Instrument Evaluations			
Private Sector Action Plan for C and D countries	C06	Plan Puebla-Panamá	Programmatic lending*
Regional Policy Dialogues	TBC06	IIRSA+	Disaster risk management
Evaluating Studies (ESW)	C06	JSF TC Evaluation	Local currency lending
Public Utilities Policy: Energy	C06		Enhancing country studies+
Evaluation Capacity Development			

Status Codes: C06=completed in 2006; TBC06=to be completed by December, 2006; TBC07=to be completed first semester 2007; O=ongoing

+ Mandated by Bank Policy or prior Board Decision

* Described in prior year work program

3.6 As in past years, some slippage has occurred, with some evaluations planned for 2006 being pushed forward into 2007. Oversight studies reviewing the quality

of supervision and the implementation of the MTAP were delayed to allow Management more time to implement changes to both systems, and it is not clear whether the changes associated with the Bank's realignment will necessitate further postponement. The instrument evaluation of the use of economic analysis in projects is underway, but will not be completed until 2007 rather than 2006 as originally scheduled. Thematic evaluations relating to early childhood programs and public service reform were delayed as a result of greater-than-anticipated effort required for other studies done in 2006, and they are now scheduled for completion in 2007.

- 3.7 Because OVE operates in a multi-year planning framework, most of the work program for 2007 has been defined by prior year commitments or is mandated by policy or by past Board decisions. The nine country program evaluations scheduled for 2007 and the ex-post impact evaluations are both required by Bank policy. Initiatives evaluations (Plan Puebla Panama and IIRSA) were mandated by the Board's budget committee in 2004.

A. OVERSIGHT

- 3.8 The work plan outlined below continues the trend started in 2006 of maintaining a balanced program of work, but with increased emphasis on oversight activities as a way to support Management and the Board in the process of institutional realignment. Because the precise contours of the realignment exercise are not known at the time of preparation of this work plan, a precise evaluation work program in this area cannot be constructed. The announced intention to adopt a new business model for the Bank does, however, provide a broad framework within which to locate oversight activities.

- 3.9 **The New Business Model.** In the 2007 Budget Issues Paper, Management signaled a commitment to align the Bank to a "*new business model based on results and risk management.*" In implementing this commitment, the paper noted the conclusion of the 2005 Annual Report on Portfolio Management, Performance and Results that there remained "*substantial room for improvement,*" specifically:

(i) improvements are needed at the project design stage to prepare better results frameworks, collect baseline data, and establish/strengthen borrower monitoring and evaluation systems in order to track project progress in achieving results; (ii) linkages between Bank and borrower information systems need to be bolstered to improve reporting outcomes at the country, sector and project levels; (iii) country level and project risks need to be more explicitly identified, prioritized, and managed throughout the lending cycle; and (iv) heightened supervision is needed to proactively address risks and implementation problems in projects³.

³ GA-228 2007 Program and budget issues paper, footnote 2, page 8.

- 3.10 OVE's 2007 oversight work plan is designed to help support these commitments both within the Bank and in the relationships developed between the Bank and the borrowing member countries. Within the Bank, the **Quality Review of the Bank's Supervision system** which was included in the 2006 work program will be delivered in early 2007. It will include a section on **Risk Assessment** and mitigation, which had formerly been programmed as an entirely separate report. And the ongoing **Validation Reviews of PCRs and PPMRs** will continue to work on improving the quality of data on results in the Bank's internal monitoring reports.
- 3.11 **Budgeting for Results.** The 2006 work plan for OVE contemplated an evaluation of the Bank's movement towards budgeting for results as part of the overall move to a more results-oriented institution. That work plan noted that management had "...affirmed its intent to shift toward 'corporate business plans that are more focused on results, and provide the basis to request budgets designed to attain them'". Neither the 2005 nor the 2006 budget submissions, however, contained significant results metrics for most departments, so the oversight review was put on hold until the 2007 budget. In the 2007 Budget Issues Paper, it was noted that:
- Management is committed to introducing key corporate-level performance indicators to accompany the implementation of the 2007 Budget, which will include not only lending and disbursement targets, but also internal efficiency and portfolio performance metrics. These indicators, currently under development, will in turn help guide the redeployment of existing resources throughout 2007 and also will serve, in part, as an entry point for elaborating the triennial, results-based budget for 2008-2010.*
- 3.12 In light of this announced commitment, OVE intends to do an oversight review on the results metrics included in the 2007 budget submission and their monitoring during budget execution. This is designed to contribute to the introduction of a robust results-measurement system into the multi-year budget scheduled to be implemented in 2008.
- 3.13 Outside the Bank, OVE is currently conducting an oversight study on the **Implementation of the Medium Term Action Plan for Development Effectiveness (MTAP).** The purpose of this review is to support the development of specific standards for measuring and monitoring institutional effectiveness in the borrowing member countries. Standards and measurement are key methodological tools for keeping the Board informed as to progress in this critical area. An evaluation of PRODEV was originally conceived as part of this work, however it was agreed that Management would provide the Board with the evaluation framework of the impact of PRODEV including the appropriate baselines and performance indicators (benchmarks) that allow certification of the countries to eligibility for borrowing within more flexible instruments in the New Lending Framework (NLF) and evaluation of results.

- 3.14 Finally, as the 2007 budget issues paper noted, there is a need to improve “*linkages between Bank and borrower information systems ... to improve reporting outcomes at the country, sector and project levels*”. OVE has regularly reported to the Board on problems with the Bank’s internal information systems, and has sought to use country systems for the conduct of country program evaluations. An oversight study on this issue was initiated as part of the MTAP review, but the issue is of sufficient importance to the new business model of the Bank that OVE would propose to produce this review as a separate study on the **Integration of Bank and Country Results Information Systems** in 2007.
- 3.15 **MIF and IIC**. As part of its work plan, OVE has for the past three years provided independent evaluation services to the IIC. OVE reviews and attests to the quality of internal self-evaluation work done by the IIC and provides technical support in meeting the internal evaluation guidelines for private sector operations established by the Evaluation Cooperation Group of the multilateral financial institutions (ECG). For 2007 and 2008, the MIF has requested similar assistance in meeting internal self-evaluation standards, and OVE has agreed to provide it. As separate legal entities, both MIF and IIC contract directly with OVE for these services, and those payments are shown in OVE’s budget under the line “Administrative Income and Reimbursements.”

B. COUNTRY PROGRAM EVALUATIONS (CPEs)

- 3.16 Country program evaluations (CPEs) are designed to support the increased emphasis being placed on country programming by both Board and Management. These multi-year evaluations of the full range of Bank instruments provide an opportunity to examine the results of Bank activities at the level of an entire country program, not simply at the level of an individual loan or technical cooperation operation. CPEs are tied to the production of Bank country strategies, which, in turn, are tied to the electoral calendar in the Region. In 2007 OVE intends to produce nine CPEs, eight of which cover countries that have had prior CPEs.
- 3.17 The New Lending Framework recently approved by Governors continues to place a strong emphasis on improving the quality of the country programming process. Recommendation 6 of that document calls on the Bank to:

Strengthen country programming to enhance country focus. The programming system should play a key role in deciding the adequate mix of IDB instruments to be utilized by each country, taking into account its development goals, institutional progress, and financial needs. To this end, further efforts should be undertaken to strengthen the country programming process through the review of the Country Strategy Guidelines that the Board of Executive Directors will consider in 2005.

- 3.18 The review of the Country Strategy Guidelines contemplated in the New Lending Framework did not take place in 2005, and in 2006 there were

discussions between Management and Board but no proposed revision of the Guidelines has been submitted by Management as of October 1, 2006. Such a revision is in process, however, and OVE is committed to revising its Protocol for the Conduct of Country Program Evaluations to take into account any changes to the country programming process that the Board may adopt.

C. SECTOR THEMATIC AND EX-POST EVALUATIONS

- 3.19 OVE undertakes sector and thematic evaluations under two basic modalities. Sectoral strategy studies look at the underlying theories and models used to organize Bank work in a sector across countries, while individual project ex-post evaluations are carried out in thematic clusters. Sectoral strategy studies programmed for 2007 and 2008 include **Public Service Reform**, and **Compensating for Adjustment**, both of which were described in the 2006 work program.
- 3.20 In light of the Bank's commitment to **Build Opportunity for the Majority**, OVE would propose to fold the housing sector evaluation proposed in the 2006 work program into a broader review of the results of this initiative which covers not only housing but also financial services, basic infrastructure, information and communications technology, training and employment, and citizen identity. OVE will work with management to design the evaluative framework during 2007, and will produce a summary evaluation of the initiative upon its completion.
- 3.21 In the area of ex-post evaluations, OVE is required by policy to produce two types of ex-post evaluations (EPSAs and IERs), and will make individual ex-post evaluation reports and thematic reports available on its website.
- 3.22 The thematic clusters identified for work in 2006-2007 include **Health**, (where a sectoral overview was produced in 2006), **Early Childhood Development**, **Integrated Rural Development** and **Social Investment Funds**. The early childhood evaluation, was originally scheduled for 2006, and was intended to be contracted to research institutions in the Region. Owing to insufficient bids for this contract, it was necessary to re-post the call for bids, meaning that the evaluation delivery date will need to be postponed to 2007. OVE is currently in the process of identifying detailed topics for ex-post evaluation in 2007-08.

D. POLICY AND INSTRUMENT EVALUATIONS

- 3.23 Instrument evaluations of expiring Bank initiatives were mandated by the Budget Committee of the Board in 2004, leading to a study of the regional policy dialogues in 2006, and reviews of **IIRSA** and the **Plan Puebla-Panama** for the 2007 work program. In 2008, OVE intends to evaluate the budgetary initiatives on **Enhancing Country Studies**, **Disaster Risk Management**, and **Local Currency Lending** approved as new initiatives in the 2006 budget.

- 3.24 An evaluation of the **Programmatic Lending** instrument was included in the 2006 OVE work plan for the 2007 calendar year. In order to allow time for more experience to accumulate with this instrument, OVE recommends that the evaluation be delivered in 2008 rather than 2007.
- 3.25 **Japanese Trust Fund Evaluation.** Finally, in following up with the evaluation of technical cooperation activities performed by OVE in connection with the comprehensive evaluation of the MIF performed several years ago, OVE has been requested by the Government of Japan to evaluate the operations of the different Japanese Trust Funds administered by the Bank. By the end of December 2005, Japanese trust funds (JTFs) administered by the Bank resulted in the funding of about 400 projects with nearly US\$225 million. JTFs are the single most significant source of flexible, untied, external funding for IDB technical cooperation activities, thus playing an important role in supporting social and economic progress in Latin America and the Caribbean (LAC).
- 3.26 The Government of Japan (GOJ) is committed to subjecting the JTFs to independent evaluation, so that it can be held accountable for the use of public funds and show results obtained to date. Moreover, JTF management team seeks to utilize the results of the evaluation to uncover and implement opportunities for future improvement in the application of existing and future resources. This evaluation will be fully funded by the Government of Japan.

E. EVALUATION CAPACITY DEVELOPMENT

- 3.27 The OVE work program has always included the provision of small amounts of technical support to both Bank project teams and evaluation units in borrowing member countries. OVE has developed a network of independent evaluation professionals in the Region, and has designed its ex-post evaluation activities to be conducted largely through contracts to individuals and institutions in the Region as a way to develop evaluation capacity through the actual conduct of evaluation studies. It is anticipated that these activities will continue in the 2006-07 period.
- 3.28 The New Lending Framework places great emphasis on the development and use of national evaluation capacity as part of the process of implementing a programmatic approach to development finance. In 2004, the Board approved a major new initiative (PRODEV) designed to provide resources to support the development of this capacity in the Region. OVE has been working with Management to implement the evaluation capacity development initiatives within PRODEV, and will conduct an oversight review of the efficacy of this initiative for the 2007 work program.
- 3.29 As in the past, it is likely that some of the items in the 2006 work plan will be carried forward into 2007, displaced by intervening requests from the Board for additional evaluation work, or as a result of unanticipated production or review delays in the process of producing other planned outputs. As a result, while it is

not possible to estimate in advance which studies will require more time, it is likely that some of the proposed reports for 2006 will in fact end up being delivered in 2007.

IV. BUDGET REQUEST

- 4.1 The work program for 2007 is designed to support the New Lending Framework approved by Governors with its strong emphasis on management for results. The Bank's realignment initiative may require some adjustments to the evaluation work plan, but there will be ample opportunity for the Board to examine this issue within the overall context of Bank realignment. Since Management intends to submit an original 2007 budget that does not factor in the costs of realignment, OVE has followed suit in its own budget presentation.
- 4.2 The budget outlined below is basically a continuation of the 2006 work at the same inflation-adjusted level. If changes are required in order to support the Board and Management during the realignment process, OVE will submit a supplemental budget request when Management presents its own supplemental request in 2007.
- 4.3 As in prior years, OVE will receive some funding for evaluation work from external sources. Service contracts with the MIF and IIC are expected to continue at prior year levels, and the evaluation of the Japanese Trust Fund programs will be funded by the Government of Japan. At the request of the GOJ, a budgetary account separate from OVE's administrative budget will be created, and all costs associated with the evaluation will be charged to that account.
- 4.4 The work program outlined above can be accommodated within a zero growth budget envelope. In keeping with Management's budget proposal, OVE is presenting an initial budget request that shows only a 2.3% growth from the 2006 base in personnel costs and a 3% growth in all other items of expenditure. Table 4.1 shows the details of this submission.