IDB's Ninth General Capital Increase: Implementation and Results

Office of Evaluation and Oversight

RE-515-4

CONFIDENTIAL
INTERNAL USE
PUBLIC UPON APPROVAL OR CONSIDERATION

BACKGROUND NOTE

ADOPTION OF RESULTS-BASED BUDGETING

January 2018

TABLE OF CONTENTS

This background note was prepared by Pablo Alonso and Heidi Hennrich-Hanson, as an input to the Evaluation of IDB's Ninth General Capital Increase: Implementation and Results.

I. INTRODUCTION

A. Mandate of IDB-9

1.1 In the context of the Ninth General Increase in the resources of the Inter-American Development Bank (IDB, or the Bank), the Board of Governors mandated that, to improve accountability and transparency, IDB Management develop a framework for results-based budgeting (RBB) and start implementing it with the 2011 budget. RBB was incorporated into the language of the Cancun Declaration (March 21, 2010) and into IDB Management's report in response to the requirements.[1]

1.2 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 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.

1.3 The requirement to create a "Balanced Scorecard Performance Management System" that incorporated results from an External Feedback System was dropped later. It would have meant a direct tie between budgeted inputs and outcomes, which is beyond a budgeting system. It was decided that this objective would instead be reported on through the Development Effectiveness Overview (DEO). The major goal of the RBB became one of linking Bank inputs to outputs and making other modifications to the four phases of the budget cycle to achieve the RBB objectives.

1.4 IDB developed RBB implementation action plans for 2011-13 and for 2014-16. The 2011-13 action plan[2] focused on (i) adjusting budget procedures, (ii) assigning resources to achieve key performance targets, (iii) measuring costs and data accuracy, (iv) adapting coding structures, (v) assigning institutional responsibility, (vi) modifying information systems, and (vii) reporting to the Board on results and resources.

1.5 The action plan for 2014-2016[3] had three components: (i) to strengthen the Bank's internal activities to integrate the RBB framework with the Bank's strategic guidelines, the CRF, and the full budget cycle; (ii) to implement further activities relating to the stages of the budget cycle, and (iii) report on the progress achieved in the 2011-2011 RBB Action Plan, and recommend actions for the 2014-2016 Action Plan.

---

1 *Report on the Ninth General Increase in the Resources of the Inter-American Development Bank*, 21 May 2012.

2 *Results-Based Budgeting at the Inter-American Development Bank*. Revised Version, 8 December 2010.

3 *Strategic Actions to Strengthen Results-based Budgeting Implementation: Action Plan 2014-2016*, May 19, 2014.

B. Past findings

1. OVE midterm evaluation

1.6 In a midterm evaluation of the implementation of the IDB-9 commitments undertaken in 2012-13,[4] OVE found that IDB had 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. The review found that RBB was still a work in progress and that RBB planners had underestimated the effort and time it would take to create an organization that uses data to manage for results.

1.7 Specifically, the evaluation found that many actions had been accomplished and others were still under way.

(a) Budget procedures were adjusted (within the existing budget cycle), a link to the Long-Term Financial Plan was put in place, and the budget document included a discussion of strategic directions and priorities.

(b) However, this did not lead to a direct link between CRF targets and RBB, but inputs and outputs were largely tied (except in the technical cooperation program).

(c) Data accuracy had improved significantly, with better time recording, but issues remained with regard to consultant time assignment.

(d) Coding structures had been revised, but issues remained regarding the relationship between multiple systems.

(e) Management accountability for RBB was acknowledged, but the effort was work in progress because the time needed for culture change had been underestimated.

(f) Too many unlinked systems remained.

(g) Timing issues continued to limit the usefulness of reporting to the Board.

(h) Regarding the efficiency improvements intended through RBB, there was only limited use of efficiency indicators in the CRF, with no link to the RBB.

2. More recent studies

1.8 More recent OVE studies relevant to this review include a 2016 study on the evolution of administrative spending in the IDB.[5] That study concluded that (i) new initiatives were still approved without in-depth cost analysis, (ii) the budget process continued to be incremental, resulting in only modest shifts in budget structure over time, (iii) there was still no proper cost accounting at the activity, organizational unit, and function levels, and (iv) there was a need for indicators with adequate monitoring and evaluation arrangements.

4 *Overview Report: Midterm Evaluation of IDB-9 Commitment*, March 2013, *and Mid-Term Evaluation of IDB-9 Commitments - Background Paper: Operational Performance and Budget*, 20 December 2012.

5 *An OVE Oversight Study: The Evolution of Administrative Spending in the Inter-American Development Bank*, 14 October 2016.

1.9 In 2014 OVE undertook an evaluation of Special Programs (SPs) financed by ordinary capital (OC),[6] which acknowledged that the Bank was moving toward RBB and emphasized the importance of transparent and accountable budget management. However, it also found that while allocating some OC) may be justifiable to fund a limited number of truly special initiatives or client-led activities (whether to support project preparation or capacity building, using SPs to fund the Bank's day-to-day work program obfuscated the true administrative cost of Bank products and made it more difficult to manage internal Bank resources efficiently. It recommended instead adjusting the administrative budget as needed to fund Bank upstream work and other activities that are the Bank's responsibility and are currently funded by OC SPs. It emphasized that in the interests of IDB effectiveness and good governance, it was important not only that administrative budgets be adequate to get the work done, but also that budget processes govern the use of all resources in support of the Bank's work program and that the cost of doing business be fully reflected in the budget. Moreover, the evaluation found that not all SPs had results frameworks from the beginning that would allow continuous monitoring over the program's lifetime, nor did they include outcome indicators that allowed the measurement of progress and regular reporting toward meeting program objectives.

C. Objectives, scope, and methodology of this study

1.10 The goal of this study is to assess IDB's overall progress in meeting the IDB-9 commitments regarding the adoption of an RBB process, as an input to OVE's broader evaluation of IDB-9 commitments.[7] The study consists of a desk review of pertinent documents regarding IDB-9 requirements and related past evaluations, IDB's budget policies and processes since 2011, and interviews with selected staff and consultants. It draws conclusions and provides suggestions for the future.

1.11 The study tries to answer the following three sets of broad questions: (i) What steps has IDB taken to address the IDB-9 requirements regarding RBB? Is RBB now fully implemented? (ii) Have these implementation steps had the intended impact? Have the implementation efforts had a material effect? (iii) What are options for the future regarding the RBB process?

II. Assessment of the Implementation of RBB

A. Completion of the 2011-13 action plan

2.1. The first RBB phase was implemented with the 2011-2013 action plan, which included (i) formulating four budgets (2011 through 2014), identifying products, indicators, and their execution; (ii) formulating business plans during the budget formulation phase; (iii) implementing training actions on RBB for all involved Bank units; (iv) implementing the Corporate Performance Console as a Program Optima output; and (v) institutionalizing in the budget department (BDA) an RBB team reporting directly to the Division Chief.

2.2. The OVE report of 2013 evaluated the first two years of this first action plan. Most items that remained to be completed at that time have been completed since then, or modified in the second action plan. Most significantly:

---

[6] *Evaluation of Special Programs Financed by Ordinary Capital*, Final Version, 17 December 2014.

[7] *Approach Paper: Evaluation of IDB-9 Commitments*, June 2017.

(i) Budget procedures were adjusted further in the four phases of the budget cycle. During budget formulation, the strategic context and priorities in the budget document are now based on the updated CRF of 2015,[8] linking with the Updated Institutional Strategy (UIS) of 2015.[9] The introduction of the Long-Term Financial Plan in the budget cycle links income and expenses at the Bank level as an anchor, and there is now a Budget Outlook Paper to start the budget cycle.[10] Business plans incorporate indicators for outputs and results. During budget preparation, common definitions are in place, budget and business plans are now articulated around RBB-based main business functions (MBFs), and MBFs are reflected in time recording and data processing and can be linked to individual performance objectives in Career Point. The availability of information on budget execution is also much improved, allowing better monitoring and reporting.

(ii) Some RBB indicators now link directly to broader IDBG indicators in the CRF (e.g., % of active operations with satisfactory performance classification), and such outcome indicators are tracked through the DEO.

(iii) Time recording improved significantly, with high compliance (i.e., very little unreported time); time recording is also said to have become increasingly accurate. Nonetheless, quality issues remain, in particular regarding the accuracy of individual recording of actual time spent on tasks versus up-front estimates.

(iv) Coding structures saw a massive revision that was burdensome but allowed all activities to be linked into a consistent framework along MBFs.

(v) Much additional training was devoted to promoting culture change toward RBB.

(vi) Operational and corporate systems were replaced or upgraded over the course of several years under a major capital budget program (Program Optima, including the introduction of SAP as the corporate solution, plus Oracle-Hyperion for budget planning and monitoring, and Convergence as the operational solution), leading to significant improvements in terms of functionality, systems linkage, and data availability, albeit with notable transition pains and delays. As with any big systems overhaul, adjustments will likely continue.

2.3. Regarding the efficiency improvements intended through RBB, it is significant that the CRF included two broad efficiency indicators at the institutional level—the "cost to income ratio" and the "cost to development-related assets ratio"—for both IDB and the Inter-American Investment Corporation (IIC). However, there has been no attempt to develop other efficiency indicators to be included in business plans or the budget document. Instead, efficiency gains are said to be evident from the fact that the Bank has seen high lending volumes and a notable increase in lending

8 *Corporate Results Framework 2016-19*. Revised Version, 30 October 2015.

9 *Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives*, approved by the Board of Governors in March 2015

10 Previously, Management used a document called Program and Budget Issues paper. Budget Outlook Papers are more strategic.

(depending on the base year used for comparison), an explosion in new mandates, and no decline in quality, while the budget has not increased commensurately.

B. Completion of the 2014-16 action plan

2.4. The action plan for 2014-2016 aimed to build on the progress achieved under the first action plan and to make a leap in the quality of the RBB framework and budgetary process. The plan had three components. The first, to strengthen the Bank's internal activities to integrate the RBB framework with the Bank's strategic guidelines, the CRF, and the full budget cycle, specified the importance of leveraging the implementation of Program Optima to improve the information systems. The second was to undertake activities relating to the stages of the budget cycle. The third was to report on the progress achieved in the 2011-2011 RBB Action Plan, and recommend actions for the 2014-2016 Action Plan. No formal review of the implementation of the second action plan has yet taken place.

1. Actions under the internal activities

2.5. Agreed actions in this category pertained to four areas and have been implemented to a large degree.

(i) *The organizational culture.* A more holistic and continuous training program was foreseen and has been implemented, as interviewees widely acknowledged.

(ii) *Institutionalization and resources.* As foreseen, the RBB team was strengthened through hiring and training. The Strategic Budget Committee, which was to be strengthened, now meets regularly to review the key strategic and budget-related documents. As stipulated, business plan contents were aligned with MBFs—for example, supervision, knowledge development, and so on—and templates in operational vice presidencies now include RBB Performance Indicators in addition to counts of Key RBB Outputs; this adjustment also seems to be under way outside operations (e.g., in Legal). However, business plans (both work programs and budgets) are not yet systematically aligned with the Bank's key institutional priorities as expressed in the UIS (e.g., social inclusion, gender, climate change), contrary to what was foreseen in the action plan.[11]

(iii) *Incentives for HR.* The relationship between HR incentives and the RBB framework was to be enhanced, starting with a pilot program. It is in fact now required to link individual performance objectives to MBFs in Career Point. But there is no indication that any official pilot program has been developed to create further incentives, as was foreseen in the action plan. Instead, some units have by themselves experimented with establishing and monitoring more explicit linkages among work program priorities, budgets, and individual performance goals. There also remains a timing mismatch as to when individual performance vs. work program execution and effectiveness is evaluated; this issue is said to be under review by BDA and HRD.

(iv) *Information systems.* Completion of the Optima project yielded enhanced systems that allow cascading of spending per MBF and inclusion of appropriate indicators in business plans. However, staff note remaining

[11] The 2018 budget proposal incorporates this concept.

weaknesses in the systems' reporting capacity; some reports are still being developed and require labor-intensive intervention.

2. Actions relating to the four stages of the budget cycle

2.6. Agreed actions related to the four stages of the budget cycle have also been implemented to a large degree, with gaps related to using existing analytics to inform budget decisions and developing additional analytical tools for efficiency and productivity measures.

(i) *Formulation.* Much work was accomplished to fine-tune RBB indicators, develop baseline calculations, and link RBB indicators to level 3 CRF indicators as measures of UIS implementation (e.g., percentage of operations with satisfactory performance). As a second action item, Service-Level Standards were to be developed for the organization as a whole rather than the Memoranda of Understanding/Service Level Agreements across departments originally planned under the first action plan and later recognized as overly ambitious. A limited set of Service-Level Standards are now in place between some corporate units (IT and HR, but not HR and other units) as well as between the Bank and IIC.

(ii) *Approval.* RBB performance information and evaluation results were to be included in the Program and Budget document. While such information is indeed now incorporated (in the form of RBB performance indicators and key RBB outputs), it is not presented with a view to informing proposed changes in budget allocations. It is unclear whether BUFIPOL discussions have materially changed because of the availability of these data.

(iii) *Execution.* Reports on budget execution were to include more analysis, inferences, and recommendations, and activity-based costing was to be used across the Bank. At this point, spending information is being provided, along with explanations of the activities on which money was spent in each MBF area, but it is difficult to see evidence of inferences and recommendations. The December budget execution reports were also supposed to report on progress on the RBB action plan, including the impact of reallocations and the cost-effectiveness resulting from RBB—reporting that is not evident.

(iv) *Evaluation.* The evaluation phase has become part of the budget cycle, with mid-year and full-year budget execution reports. However, there is no evidence that pilots were carried out to estimate coefficients of selected key institutional outputs and productivity measures as foreseen in the action plan.[12] The target of using such cost-efficiency and productivity ratios in formulating the budget has thus not been met. Instead, in 2016 and 2017 BDA has started to undertake separate cost structure analyses[13] and present them to the Board as a "complementary strategic perspective to the annual budget exercise." However, these analyses do not attempt to

---

12 Note that the RBB performance indicators that are now included in business plans and monitoring measure a variety of important results—including, e.g., timeliness and satisfactory ratings—but not cost-efficiency.

13 *Cost Structure and Determinants of the Administrative Budget*, 30 September 2016 and 29 September 2017.

identify areas for potential efficiency gains or to influence budgetary allocations.

C. Conclusions

2.7. Much has been accomplished since 2010, and significant further steps have been taken since the OVE midterm review. RBB, as defined in two consecutive action plans, has been implemented to a large degree, putting powerful tools in place that are ready to be used. This effort clearly took much longer than expected—the time needed was underestimated and IDB was not ready or organizationally mature enough to embrace RBB when efforts started. What is still missing in full RBB implementation as envisaged largely relates to three areas.

- **Business plans and key institutional priorities are not yet linked systematically.** MBFs do not tie work programs and budgets to strategic objectives. As the budget document states, MBFs facilitate Management's formulation, execution, and evaluation of the budget across operations and corporate functions; they represent the core production function of each unit of the Bank and link inputs and outputs. Business plans currently describe spending by MBF but do not systematically tie spending on specific work programs to the Bank's strategic priorities. This in turn makes it difficult to have strategic budget discussions at the corporate level and with the Board.
- **Analysis and evaluation are still limited at the institutional level and are not used to (i) drive or inform budget allocation decisions at the top level, and (ii) capture budget allocation decisions made at the lower level of the organization.** With regard to (i), the RBB section of the budget document talks about monitoring activities and accomplishments but not about issues encountered, lessons learned, and budget adjustments proposed as a result. That is left to (ii) the more decentralized level of the organization, where regular budget reallocation decisions use the flexibility built into the system to respond to changes in client countries or to lessons learned. These decisions are at the managers' discretion and are informed, to varying degrees, by information now available in the RBB system. However, such reallocation decisions do not appear to be captured through analysis at the institutional level. Because of this lack of analysis, the Bank is hampered in its ability to present a comprehensive picture of effective trade-offs being made across the Bank throughout the year.
- **Fostering efficiency and effectiveness across the institution was one component of the RBB mandate, but this is not yet implemented systematically.** There are currently no cost-efficiency indicators in the RBB or in the business plans and budget document. As has been mentioned, the only two efficiency indicators used are in the CRF. They are important to link income and expenses for the Bank as a whole, but they do not pertain to lower levels. The new revamped systems make the calculation of cost coefficients feasible—at the unit, country, activity, or function level—even if the remaining issues of time recording and report generation may still pose challenges to reflecting full costs. Systematic analysis of cost data across the institution would allow comparisons of efficiencies between entities and across time and the identification of areas for possible future efficiency gains or trade-offs.

2.8. To achieve RBB to a fuller extent, it would be important to consider one additional area that was not explicitly included in the past two action plans. RBB currently applies to the administrative budget only and not to other resources. Capital budget and the use of OC for SPs are managed separately. These resources are to be used for separate and distinct purposes, they follow their own frameworks for decision making, and they are not to be mingled with the administrative budget. However, SPs may fund activities that overlap at least in part with those funded by the administrative budget. Thus some OC funding currently contributes to the achievement of outputs and results captured in the RBB and in the CRF without being fully incorporated in the RBB framework. To fully implement RBB, the contribution of these other resources also needs to be taken into account.

III. ASSESSMENT OF THE IMPACT OF RBB

3.1 While RBB implementation has largely been completed—with the three notable caveats discussed above: link with strategic objectives, deficiency in analysis and evaluation, and lack of efficiency indicators—it is more difficult to assess whether the large effort to put RBB in place has made a material difference in IDB's decision making.

A. Positive impact

3.2 There is clear evidence that the introduction of RBB – together with all the related systems and training efforts – has led to much greater data availability and consistency. Data are available to be used strategically when desired at all levels of the organization. While it remains impossible to calculate how much of IDB's funding has contributed to each of the results in the CRF, it is evident that corporate results and their link with unit activities are being discussed.

3.3 RBB has forced a narrative on limited resources and how they are to be aligned with broader development goals that are cascaded down from the CRF to each office. Anecdotally, this discussion now takes place regularly at all levels. RBB has provided a common tool, and MBFs have forced a consistent lingo across the institution and have helped units in operational versus corporate units to gain a better understanding of each other's work programs and contributions to the institution. The intended culture change has happened, at least to a degree.

3.4 Moreover, at the sub-VP and unit level rather than the corporate level, anecdotally, RBB indicators inform resource allocations. There is greater transparency and comparability among departments and products, which some departments have used in making strategic decisions and "cleaning up" programs to achieve better results.

B. Missing impact

3.5 Notwithstanding the positive impact RBB has achieved, there is not yet evidence that it has guided strategic budget reallocation and decision making to move budgets at the corporate level. RBB is generally described in the literature as having three components: (i) program formulation revolves around a set of predefined objectives and expected results; (ii) actual achievement of results is measured by objective performance indicators; and (iii) expected results would justify resource requirements that are derived from and linked to the outputs required to achieve such results. It seems that (i) and (ii) are carried out at IDB, even if imperfectly, but component (iii) is not yet carried out: there is no direct link from results to broad budget decisions.

3.6 While a link from outcomes to budget is commonly known to be extremely difficult, there is also no indication that outputs link directly with budgets. RBB indicators do not appear to be the key tool to make the case for a resource increase. Nor do Management or the Board appear to use them to make the case for structural shifts in resources within IDB (which arguably would require a greater use of activity-based costing). There is no apparent link between Bank units that over- or underachieve on their output or results commitments and their future budgetary allocations (e.g., increase in number of operations under execution justifying more transactional budget). In fact, the Program and Budget documents give no evidence of large year-to-year shifts in resource allocations (driven by RBB or other factors). For example, the 2017 budget document identified only US$3 million of internal reallocation (0.5%), and the 2018 budget document identified US$7.5 million (1.3%). Even in the difficult 2016 budget year, the 4.3% real reduction in the administrative budget was presented as being achieved through "reduction of lower priority activities and finding efficiencies," but the distribution of the cuts among Bank units was only broadly linked to data coming from the RBB; Management was given the flexibility to allocate the reductions.[14]

3.7 Instead, budgets at the corporate level remain largely incremental rather than linked to shifts in outputs. The largest share of the budget (staff costs) is tied to the approved headcount—which has changed little—plus a price adjustment. It is not evident that the organization is using budgets to drive changes in its business at the corporate level. Moreover, the Bank's cooperative culture implies that there is little appetite to take funding away from one unit and give it to another on the basis of results.

3.8 Furthermore, it appears that strategy and CRF on one side, and budgets and RBB on the other, are overseen by two separate units, SPD and BDA. The 2018 budget outlook paper took a first step toward a combined presentation of strategic and budget parameters for the subsequent budget preparation.

3.9 Below the VP level, interviews give a more mixed assessment of the impact of the introduction of RBB. Indicators are used more by some managers than by others to inform decisions on resource reallocations. However, most staff note that the constraint to using RBB is the limited discretionary budget managers have at their disposal: with staff costs predetermined, the discretionary budget that can be redistributed only makes up one-third or less of resources. Personnel moves are hard to accomplish, given the headcount policy, and even temporary reassignments of staff require extensive negotiations and thus are not common practice. Therefore, some staff see RBB as a big work-intensive exercise to help with decisions on relatively small shifts of resources.

3.10 The link between RBB and individual performance results is still tenuous. While staff can and must link MBFs with their performance objectives, the timing of setting objectives is not in line with budget allocation decisions, and the Career Point system is not linked with time recording. Individual performance reviews could focus more on budget used (including staff costs) instead of only on outputs delivered.

---

14 *Impact of 2016 Board-Mandated Budget Reductions*, April 18, 2016.

3.11 An important question is whether the Board perceives the changes implemented to date as improvements in transparency. At this point, it is not clear how RBB has influenced BUFIPOL sessions or Board decisions and whether the frequently changing Board composition allows for enough in-depth understanding to drive more strategic decisions or greater selectivity based on RBB.

C. Outside comparison

3.12 A brief look at other organizations suggests that, despite all the challenges, many governments and other public organizations have moved to some form of results- or performance-based management since the late 1980s. Some form of performance- or results-based budgeting seems prevalent in the governments of most industrial countries, at the central and more decentralized levels, and international organizations have facilitated its introduction in many developing countries. These efforts have aimed to achieve improvements in the effectiveness of public services by shifting public sector budget management from inputs to measurable outputs and outcomes linked with strategic objectives.

3.13 The major issue organizations have faced, in addition to constraints in the measurability of some results, is similar to that encountered at IDB: the use of results data for decision making, especially to make trade-offs across budget functions, has been limited. Many decisions remain politically driven, at least to a degree, and they are sometimes overshadowed by the imperative to cut overall budgets.

3.14 The main lesson appears to be that there cannot be a mechanistic link between the results programs achieve and a future budget allocation. A simple system of "rewards and punishments" based on results would be neither politically defensible nor in the interest of the clients these public organizations are asked to serve. Performance measures can only be one factor to take into account when determining changes in budget allocations. But even if they are only one consideration in budgeting, they are credited with having led to more transparency and accountability in decision making, and they allow providing decision makers with important information for more evidence-based decisions.

D. Constraints to reaching higher impact

3.15 There are several constraints to RBB's achieving a higher impact at the IDB. Some lie within the RBB framework itself and relate to the implementation gaps identified above: definition of MBFs, systematic linkage of business plans with strategic priorities, systems fine-tuning, remaining time recording system (TRS) weaknesses, coverage of resources, and limited use of analytics as an integral part of budget preparation. Moreover, broader efficiency reviews have been limited in scope and have not yet made full use of the data that are now available through the improved systems. More analysis could inform more strategic allocation decisions.

3.16 Other constraints limiting RBB's impact lie outside the RBB framework and its related data systems.

(i) It is hard to push for painful reforms in processes without clear outside pressure. Such pressure could come from income constraints—which currently appear absent at IDB—or from the Board's and Governors' insistence on greater efficiencies and effective use of resources. The latter is likely an increasing pressure point, so that now is an excellent time for preemptive work.

(ii) IDB does not traditionally use administrative budget allocations from the top through the normal budgeting process to manage the business. Broad envelopes are set, with minor year-to-year modifications, and flexibility at the lower level is emphasized, leaving managers to manage within their envelopes to respond cooperatively to real needs.

(iii) The current budget policies allow RBB – even if fully in place – to affect only a small share of resources, since personnel costs (82% of the budget including contractual workforce, and 66% staff only) are largely predetermined, with hiring remaining strictly controlled through the headcount policy. The relatively small transactional budget (US$33 million for operational support, an amount that has been unchanged in years) and savings from unfilled vacancies appear to be the main components that can be redirected to accommodate changes in funding needs. Related to this is the practice of using task team leaders to manage only their transactional budget rather than their full resources, including staff costs.

(iv) Other variations that are outside the RBB framework appear to have a larger impact on the resources that are actually available at the manager level than the formal budget decisions. Notably, exchange rate fluctuations make a big difference. Also, central funds are significant and not part of the budget distribution at the beginning of the fiscal year, but can be accessed later in the year for emerging needs. They are used as an escape valve when new demands emerge during the year, or are left unused instead of being strategically allocated up front based on RBB.

IV. RECOMMENDATIONS

4.1 In 2010 the Bank was not prepared for RBB, and it lacked the foundation to make RBB work within a short time. Now the foundation exists, and RBB is available to Management. It could become a tool for the Board as well to drive efficiency and effectiveness, making systematic use of results to improve prioritization of expenditures.

4.2 Most of the recommendations made in the OVE midterm review have been addressed. Some remain valid suggestions going forward or require a continuous process: attention to change management processes, the use of incentives to change culture, reexamining the budget processes to deal with key constraints (e.g., headcount).

4.3 Lessons from other institutions show that mechanistic links between results and budgets do not work, but that analysis of what worked and what did not and at what cost should inform decision making. Perfecting RBB may not be the best use of resources, especially if even full application would not be able to lead to large shifts because of other more binding constraints. But there is no doubt that the results agenda and measurement, as well as pressure to continuously analyze and increase efficiency, are here to stay, and a response is expected from organizations using public funds.

4.4 Several improvements in IDB's RBB system would make it more effective:

(i) Modify MBFs and continue to develop appropriate results indicators at lower levels that are relevant for internal decision making.

(ii) Enhance business plans by linking programs more consistently with strategic priorities; the new systems seem to make this possible.[15]

(iii) Add cost-efficiency indicators to templates for business planning across the Bank, and make their consistent use the norm.

(iv) Continue to enhance budget systems, by, for example, programming more analytical reports that could be used consistently across the Bank, instead of expecting individual units to develop their own reports.

(v) Further improve TRS accuracy—in particular, as follows.

1. Alleviate staff challenge to identify the correct budget codes for reporting by providing more limited appropriate options.
2. Institute TRS for consultants to give a more complete activity cost picture (this is said to start in 2018).
3. Incentivize higher accuracy through the way the data are used; the more they are used by departments to cost out activities (including both personnel and transactional costs) or feed into corporate efficiency analyses that in turn are used to drive changes in budget allocations, the higher the incentives for staff to record actual time and for managers to review accuracy.
4. Communicate the importance of sound recording practice by explaining how data will be used.
5. Revisit the timing of decisions in Career Point and RBB, with the goal of cascading strategic and budget decisions down to individual performance plans in a smooth timeline; also include accountability for resource management in Career Point for all task team leaders, not only as a managerial competency.

(vi) Work on greater inclusion of non-administrative budget resources in RBB where appropriate; for example, consider some of the SPs that link up closely with activities funded by the administrative budget.

(vii) At the corporate level, develop and use more analytics in evaluating spending and results. Specifically:

1. Undertake more cost and efficiency analyses with available data across all units, operational and corporate, and all levels to get a better handle on the complete cost of doing business.
2. Change the perception that IDB's business is too complex to do this; simple traditional and more sophisticated modern efficiency analyses exist (e.g., frontier analyses) that could be used now that systems improvements have been accomplished.
3. Launch pilots for specific units, looking at activity costing by type of product, going beyond simple controls on end-year spending.

---

15 This is consistent with one of the recommendations coming out of the 2017 Deloitte study as reflected in their Board presentations: *Strengthening the IDB Budget Process via Multi-year Budget Approach, Expenditure Review and RBB Framework Review – Preliminary Findings*, 10 July 2017 and Final, 2 October 2017.

4. Mainstream the comprehensive analyses done in 2016 and 2017 in the context of BDA's special cost structure studies into the regular budget preparation process.

(viii) Capture in program and budget documents a deeper analysis of the trade-offs and efficiencies achieved across the Bank at different levels.

(ix) Require that new initiatives or mandates be fully costed out (including personnel costs) and reallocations or additional funding sources be clearly identified.

4.5 Implementing these changes will go a long way, but to move fully to a results-based management culture, additional broader changes beyond the RBB system should be considered.

(i) Embrace the culture change needed to make more deliberate use of the more complete data analysis that can now be performed, to drive budgets; there would not be a mechanistic link but a greater emphasis on efficiency and effectiveness data to inform budget allocation decisions to accommodate changing business needs.

(ii) Revisit the staff cap to allow more staffing flexibility after putting in place alternative measures to control costs. Staff costs constitute some 66% of administrative resources. It is difficult to achieve significant efficiency gains if two-thirds of resources are pre-allocated and largely "untouchable."

(iii) Revisit the management of carryover and treatment of unexpected exchange rate gains or losses as part of the strategic results-based resource allocation process.

(iv) Assign the more comprehensive analytics work to a specific office in the institution. Currently, strategy and results and RBB are managed out of two separate offices, SPD and BDA, and neither of their work programs includes this. A group of staff in one of them or a separate structure could take on the responsibility of overseeing the functions of bringing budget and strategy together in one place and undertaking costing and efficiency analyses for current programs and proposed new strategic initiatives. BDA would seem to be the appropriate unit for most analyses, allowing this information to directly inform budget preparation. Given the importance of HR data in addition to budget data for this exercise, another option would be to house such a group in the VPF front office, allowing a close link to both BDA and HRD's analytics unit.

(v) As a second step to (iv), consider the implications for the management of the RM function in the Bank. This function is currently greatly decentralized, with RM staff responding to their respective managers and presenting data and analysis based on decentralized demands. Greater Bankwide emphasis on efficiency analysis will also require RM staff to take a more coordinated approach and have a common set of skills.

APPENDIX I. LIST OF PERSONS INTERVIEWED

Name	Title	Department
Carola Álvarez	Division Chief, Strategy Development	SPD/SDV
Nestor Ares	Unit Chief, Analytics and Process	HRD/ANP
Juan Pablo Bonilla	Sector Manager, Climate Change and Sustainable Development	CSD/CSD
Tom Crowards	Alternate Executive Director	EXD/012
Luis Diaz	Resource Planning and Administration Advisor	BDA/BGT
Koldo Echebarría	Country Representative, Haiti	CID-CHA
Pablo Fleiss	Counselor	EXD/010
Isabelle Hennart	Head, Administrative Budget; Accounting and Budget Lead Specialist	BDA/BGT
Carlos Herrera	Division Chief, Budget	BDA/BGT
Brian Kenney	Resource Planning and Administration Senior Advisor	VPC/VPC
Gustavo Nevarez	Resource Planning and Administration Senior Advisor	VPS/VPS
John Scott	General Counsel and General Manager	LEG/LEG
Victoria Simons	Divisions Chief, Leadership and Employee Development	HRD/LDV
Therese Turner-Jones	General Manager	CCB/CCB
John Eric Uggen	Senior Manager	Deloitte Consulting
Yeshvanth Edwin	General Manager	BDA/BDA