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***RE-345***

***OVE's Proposed 2009 Work  
Program and Budget***

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***Office of Evaluation and Oversight, OVE***

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## ACRONYMS

BES	Bank Evaluation System
CPE	Country Program Evaluation
ECG	Evaluation Cooperation Group
EPSA	Ex-post Performance and Sustainability Assessment
GN	Documents on General Matters
IER	Impact Evaluation Report
MIF	Multilateral Investment Fund
NLF	New Lending Framework
OVE	Office of Evaluation and Oversight
PCR	Project Completion Reports
PPMR	Project Performance Monitoring Reports
RE	Documents of the Oversight and Evaluation System
PRODEV	Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness
LACEA	Latin American and Caribbean Economic Association
MTAP	Medium Term Action Plan
SWAPs	Sector Wide Approach
PDLs	Performance-Driven Loan
IIC	Inter-American Investment Corporation
IEO	Independent Evaluation Office
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
PBL	Policy-Based Loan

## I. INTRODUCTION

OVE presents annually for Board approval a detailed work program for the coming year, and an indicative listing of planned evaluation activities for the following year. This work program is accompanied by a brief summary of evaluation work completed during the current year, and a budget proposal for the coming year.

### A. Components of the Work Program

1.1 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.
- 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.

1.2 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.

1.3 **Oversight Studies** involve 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.

- 1.4 **Country Program Evaluations** are mandated by Board Policy. OVE is required 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.
- 1.5 **Sector, Thematic and Ex-Post Evaluations**. 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.
- 1.6 **Policy and Instrument Evaluations**. Policies are explicit guidance for Bank action aimed at defining the space within which Bank actions are possible. Whereas strategies define approaches and priorities, policies define limits to action. Policies are always explicit and subject to approval by the Board. An important sub-set of policies is the one defining distinct instruments available to support development in the region. In 2004, the Board's budget committee requested that OVE conduct evaluations of budget "initiatives" as a sub-set of its work on policies and instruments<sup>1</sup>.
- 1.7 **Evaluation Capacity Development**. The strategic importance of building evaluation capacity was established by the Bank's Governors in the Eighth General Increase in Resources (1994) which urged the Bank to not only strengthen its own evaluation capacity, but also to "promote and support in-country capacity-building and facilitate cooperation in evaluation activities with other development agencies."<sup>2</sup> OVE undertakes capacity development work both within the institution, providing comment on indicators and evaluation methodologies for Bank projects, and in the region, through support for emerging networks of evaluation professionals.

## **B. Actions Completed and Work Program for 2009-2010**

- 1.8 Table 1.1 provides an overview of evaluation work accomplished in 2008, a detailed plan of work for 2009 and a more general proposal for work to be completed in 2010. Column 1 of the table shows the items which OVE has completed by September 2008 (marked C08), and those which are expected to be completed before the end of 2008 (marked TBC08). Studies initiated and substantially completed in 2008 but which will not be finalized until 2009 are moved to the 2009 work program and marked with an asterisk. Work that is a

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<sup>1</sup> The Report of the Chairman of the Budget, Financial Policies and Audit Committee on the Bank's 2004 budget asked that OVE "include in its future work program proposals the evaluation of any initiative whose expenditures are completed in 2004 or later, and whose total cost exceeds \$2 million."

<sup>2</sup> Inter-American Development Bank, 'Report on the Eight Increase of Resources'; AB-1683, page 48, 2.100 and 2.101; April 1994.

regular, ongoing activity of OVE is marked with an “O” in the table. Column 3 provides a listing of proposed work in 2009, while column 4 indicates some of the items to be included in the 2010 work plan.

**Table 1.1: Status of OVE’s Multi-Year Work Plan 2008-2010**

2008	Status	2009	2010
<b>Oversight Studies</b>			
Work Program and Budget	C08	Work Program and Budget	Work Program and Budget
NLF Review	C08	IDB Governance	Results of Realignment
Economic Analysis in Projects	C08	Integration of Info. Systems*	
Investment Policies	TBC08	Evaluability of Projects	
Evaluability of Initiatives	Ongoing	Evaluability of Initiatives	Evaluability of Initiatives
		Compliance with Paris Declaration	Compliance with Paris Declaration
		Validation of COMPAS Results#	Validation of COMPAS Results#
		Evaluation of OVE	
		Validation of PCRs	Validation of PPMRs/PCRs
Support to MIF / IIC / SCF	Ongoing	Support to MIF / IIC / SCF	Support to MIF / IIC / SCF
<b>Country Program Evaluations</b>			
Mexico	C08	Dominican Republic	Honduras
Ecuador	C08	Panama	Chile
Argentina	TBC08	El Salvador	Costa Rica
Brazil	TBC08	Barbados	Uruguay
Belize	TBC08	Paraguay*	
Guatemala	TBC08	Jamaica*	
Nicaragua	C08	Evaluability of Strategies	Evaluability of Strategies
Bolivia	C08		
Trinidad and Tobago	TBC08		
Bahamas	TBC08		
Revision of CPE Protocol	TBC08		
<b>Sector, Thematic And Ex-Post Evaluations</b>			
Compensating for Adjustment	C08	Financial Administration	Technical Education+
Tax Administration+	TBC08	Primary Roads	Water and Sanitation+
Housing+	TBC08	Educational IT+	Safeguards in Transportation
Social Investment Funds+	C08	Competitiveness+	Competitiveness+
Justice Sector Reform+*	TBC08	Safeguards: Water+	Empirics of Poverty Targeting+
Safeguards: Energy+	TBC08	Citizen Security+*	Synthesis of Ex-Post Findings+
Agricultural Sanitation and Health+	TBC08		
<b>Policy and Instrument Evaluations</b>			
IIRSA	C08	Regional Public Goods	Opportunities for the Majority
Plan Puebla-Panama	C08	Sustainability Initiative	SECCI
Local currency lending	C08	NSG Evaluation Cluster	Development Risk Management
		Risk Management Cluster	Concessional Resources
		Management of TCs*	Disaster Risk Management*
		Enhancing county studies*	KCP Products

\* Carried forward from 2008+ Ex-Post Project reviews.# In the areas where OVE performs oversight

- 1.9 As can be seen from Table 1.1, in 2008, OVE has completed or plans on completing evaluations including: the Review of the New Lending Framework 2005-2008, several Oversight evaluations and Policy/Instrument evaluations, eleven Country Program Evaluations, five Sector/Thematic evaluations. In addition, OVE has an ongoing program of evaluation support to the MIF and the ICC, as well as ongoing validation exercises for the self-evaluation work of Management. All OVE reports are public and available on OVE's website ([www.iadb.org/ove](http://www.iadb.org/ove)). The remainder of this document will address the 2009-10 work program and budget proposal which requires Board approval.

## II. PROPOSED PROGRAM FOR 2008-09

### A. Context: The Challenge of Becoming a Learning Organization

- 2.1 The Bank is operating in a dynamic and changing environment. The external environment is changing rapidly in response to the financial crisis, technological change, the integration of global trade, and the changing expectations of the public throughout the region. To be an effective partner for our borrowing member countries, the Bank itself must become more dynamic. This goal has been accepted by both Management and the Board, and a number of fundamental institutional changes have been initiated, including the realignment and matrix management, the new project cycle and review procedures, and the forthcoming New Operational Framework.
- 2.2 At the core of these changes is the vision of the Bank as a learning organization. Such organizations are based on effective teamwork, deep reflection regarding mental models and assumptions, experimentation, feedback, and open conversations regarding what is working and what is not.<sup>3</sup> Each one of these characteristics depends upon an internal system of independent and self evaluation that provides the information flow required to support the learning process.
- 2.3 In addition to supporting the learning function, evaluation also provides institutional accountability by informing the Board of Executive Directors of the performance of the Bank in the discharge of its developmental responsibilities, as defined by the Charter and by subsequent decisions by both Governors and Executive Directors.
- 2.4 The present moment requires concerted work by both Management and OVE to ensure that the Bank Evaluation System supports both learning and accountability objectives with an adequate flow of reliable evidence as the Bank as moves toward a more innovative and experimental mode of operation.
- 2.5 In light of the Bank's new approach, OVEs work for the next two years is designed to concentrate on the following strategic objectives:
- 2.6 **Making explicit the logic of interventions.** Experimentation is not a random process. It requires clear specification of the underlying causal model (why things are as they are), together with an explicit hypothesis about what changes the proposed intervention is designed to bring about. Clear explication of project logic is a key dimension of evaluability, on which the Bank's programs and projects have scored relatively low in the past. OVE will continue to produce evaluability assessments of projects, country strategies, and Bank initiatives in pursuit of this strategic objective.
- 2.7 **Examining the way risk is assumed and managed.** The Bank's new strategic direction involves an explicit increase in the risks assumed by its activities. These risks include financial (non-sovereign lending, capital adequacy, investment of

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<sup>3</sup> This list of characteristics is derived from The Society for Organizational Learning at the Massachusetts Institute of Technology. <http://www.solonline.org>

the Bank's assets), operational (delegation, matrix management), environmental, reputational, and developmental (the risk of failure to produce desired results). Each of these risks has associated processes for assuming and managing them, and OVE will carry out a number of oversight studies to examine how these processes are working. Work in this area will involve an expanded review of the Bank's NSG portfolio and operations, an analysis of the effectiveness of environmental safeguards, a review of credit risk management, and an oversight study on internal quality control and risk-assessment systems.

- 2.8 **Promoting evidence-based decision making** in the past, the Bank undertook relatively standardized projects within a broad regional consensus on what was required for development. The strength of this consensus reduced the need for evidence in support of interventions. The new context is different, and an experimental approach requires much greater emphasis on evidence, both at the design stage and during project implementation. In support of this objective, OVE will carry out thematic studies in some of the new priority areas for the Bank (competitiveness, sustainability) as well as reviews of initiatives in the area of knowledge generation and capacity building.

## **B. Proposed Oversight Work**

- 2.9 OVE's proposed work on Oversight will focus on reviewing the effectiveness of the Bank's new structure, policies, and procedures. This will necessarily be a multi-year activity, as many changes are still in process, while others have been implemented but have not yet produced the data necessary for them to be reviewed. In each evaluation, a strong emphasis will be placed on evidence of results, one of OVE's themes for its 2009-2010 Work Program and Budget.
- 2.10 **Realignment and Monitoring of Results.** Management produces assessments of program implementation and effectiveness at various points of time in the project lifecycle, by using different review instruments. OVE has initiated a program of **validation of the key M&E instruments**, including, PPMRs, PCRs, and XPSRs. Validation consists of a desk review of a sample of PCRs and a sample of PPMRs to determine if there is adequate evidence to support the judgments regarding development outcomes contained in these reports. If there is adequate information, the validation exercise also reports on whether OVE is in agreement with the qualitative judgment made by Management. At Management's request, OVE had suspended these validation reviews in 2007 to allow for the development of new internal standards for PCRs and PPMRs for public sector projects. As of September 2008, these tools were being revised again as part of the Development Effectiveness Framework, and Management plans to train staff and implement the revised PPMR and PCR in 2009.
- 2.11 OVE proposes resuming these validation exercises for public sector projects in 2009. OVE proposes to review a sample of PCR documents as a way of supporting and validating Management's own quality control activities in the area of supervision and reporting. Given the substantial backlog of uncompleted PCRs, it is not practical for OVE to review 100% of these reports as they are completed. OVE will therefore continue to review a sample of these documents, and produce

- a brief overview report during 2009 that summarizes OVE's concurrence or disagreement with Management's project self evaluation work.<sup>4</sup>
- 2.12 OVE will also **review the results of the Bank's realignment** as reported by the Bank. The current realignment effort is touching all aspects of the Bank's work. At the request of the Board, OVE produced a suggested "Results Framework for the Realignment" (RE-329) which discussed goals, indicators and metrics that could enable to the Board to monitor the impact of the changes on the performance of the Bank. Management's proposed Corporate Performance Framework that incorporates some of these indicators, but does not specifically focus on monitoring the realignment changes. Therefore, in 2009, OVE intends to review the Bank's performance against selected indicators shown in RE-329.
- 2.13 **Quality of Bank Programming and Evaluability.** Over the last year Management has adopted new norms regarding how it will program and prepare operations. These include both new guidelines for project preparation and new guidelines for country strategy preparation. During 2009 OVE proposes to evaluate the effectiveness of these and other changes in producing programs and operations that are more evaluable. Evaluability refers to a strategy or operation's ability to logically express its desired results in measurable terms, and is at the center of project and program quality.
- 2.14 OVE developed a project evaluability instrument in 2000 and applied it to all projects approved in both 2001 and 2005. The instrument assesses the degree to which operations are able to articulate their expected results in measurable terms, and is key in assessing the ex ante quality of operations. The results of the 2005 review were sent to the Board in 2007. The 2007 document identified a series of problems in the Bank's oversight and quality review processes in project design, review and approval. In light of Management's commitment to improved project evaluability, and in light of the changes in the project cycle introduced by Management in 2007, OVE will review the **evaluability of Bank projects approved in 2009**. This review will document changes in how evaluable projects are, and will also critically review the Bank's quality review processes regarding their effectiveness at producing evaluable loans.
- 2.15 OVE has also developed and applied a tool for assessing the evaluability of country strategies. During 2008, the Evaluation Cooperation Group of the Multilateral Development Banks published Good Practice Standards for the evaluation of country strategies, which OVE will use to revise its own internal Protocol for the conduct of these studies (see below). Also in 2008, Management proposed both new Country Strategy Guidelines and a new Development Effectiveness Framework, both of which revise expectations regarding country programming. In light of these changes, OVE will carry out in 2009 an oversight

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<sup>4</sup> Management has indicated that it plans to replace the PPMR with a new instrument. OVE will postpone its corresponding validation exercise, which will resume on a date to be determined in the future..

- review of the **evaluability of country strategies** prepared under the new Guidelines.
- 2.16 Finally, OVE has been requested by the Board to evaluate Bank “initiatives” that are presented as separate items in the Bank’s administrative budget. Because initiatives have explicit resource allocations, it is important that they also have well-developed evaluability frameworks that define clearly the results they intend to achieve. Many past initiatives have lacked such frameworks. To address this issue, on an ongoing basis, OVE will produce evaluability assessments of each new initiative approved by the Board during 2008 and 2009 (if any are proposed). In 2008, evaluability assessments were/will be produced for the following initiatives: Water, PRODEV, Building Opportunities for the Majority, and the Sustainable Energy and Climate Change Initiative. New initiatives included in the 2009 budget, due to be presented in October, 2008, will also receive evaluability assessments.
- 2.17 **MIF, IIC and SCF.** For 2009-010 OVE will continue providing evaluation support to the MIF and IIC. As separate entities, these two organizations contract with OVE for evaluation work. OVE’s work consists of validating findings of their expanded/extended supervision reports and monitoring compliance with good practice standards for the evaluation of private sector projects, as defined by the ECG. In 2009, OVE will also assist the IIC in developing a system and guidelines to assess development effectiveness and additionality, and will work with the MIF to undertake ex-post evaluations of selected MIF operations. This will provide a periodic ex-post understanding of the effects of the different modes of intervention / products utilized by the IIC on a regular basis. The resulting methodology will be shared by OVE with the private sector windows of the other Multilateral Development Banks, with the aim of developing a common standard. Similarly, OVE will provide evaluation support to SCF by validating findings of their expanded supervision reports and monitoring compliance with good practice standards for the evaluation of private sector projects as defined by the ECG.
- 2.18 **IDB Governance.** The Independent Evaluation Office (IEO) of the IMF has recently completed an evaluation of IMF governance. OVE invited the IMF team to give a presentation on this study to the Board of Executive Directors during 2008 as a way of laying the groundwork for a similar governance study of the IDB that is proposed for 2009. OVE has initiated and will complete in 2009 an evaluation of IDB governance, focusing on the issue of Board supervision of Management. This evaluation would look both at the compliance costs of current oversight mechanisms, and the effectiveness of these mechanisms in meeting the Board’s expectations.
- 2.19 OVE will conduct two other oversight activities. For the first, OVE will work with Management to measure a baseline for the IDB in terms of the Paris Declaration for Aid Effectiveness. This baseline will enable OVE to monitor the results of the Bank’s **Compliance with the Paris Declaration** on an ongoing basis beginning in 2010. Monitoring these results will be especially important, as the upcoming High Level Forum for Aid Effectiveness is expected to be held within the region. Furthermore, OVE will initiate a **Validation of the Bank’s**

- COMPAS Results** for the areas where OVE performs oversight. OVE will build off of its past informal support for the Bank's efforts related to the MDB Common Performance Assessment System (COMPAS) with an ongoing formal validation of the COMPAS results as tracked by Management.
- 2.20 **Review of OVE.** Independent evaluation offices such as OVE are accountable to Boards of Executive Directors in the Multilateral Development Banks. To exercise their oversight responsibilities, from time to time Boards of Directors have commissioned external reviews of the performance of their independent evaluation units. The evaluation unit at the World Bank received such a review in 2004, and the IMF's evaluation office was reviewed in 2006. While these efforts were ad hoc and commissioned based on circumstances in the individual institutions, there is a general agreement in the evaluation community that periodic review of independent evaluation units should be part of good practice. Accordingly, the Evaluation Cooperation Group of the Multilateral Development Banks (ECG) has developed a proposal for institutionalizing external reviews of such units. The proposal suggests a mechanism and a set of evaluative questions that could form the basis for such an exercise. This draft has been circulated to Board members as background for discussion of this item in the work program.
- 2.21 As the draft document notes, external reviews should be commissioned by Boards directly, as they are the final authorities regarding the work of independent evaluation units. The cost of the review is dependent upon the scope of work desired, and resources should be allocated from the evaluation budget for such a review. Because this activity requires a specific decision from the Board, funds to carry out such an independent review have not been included in OVE's 2009 budget submission. The scope and funding for any such evaluation exercise would need to be decided by the Board in the course of reviewing OVE's 2009 work program and budget.
- C. Proposed Country Program Evaluations**
- 2.22 OVE has carried out country program evaluations based on a Board policy that integrates such evaluations with the Bank's programming cycle. That cycle has, in turn, been linked to the electoral calendar in borrowing member countries. These decisions define in advance a significant portion of OVE's work program, as shown in Table 1.1. 2008 saw an unusually large number of CPEs, while 2010 is set to produce a much smaller number.
- 2.23 In 2008, OVE has or will deliver CPEs for the following countries: Belize, Brazil, Nicaragua, Trinidad and Tobago, Bahamas, Guatemala, Mexico, Ecuador, Argentina, and Bolivia. In 2009, OVE will deliver CPEs for El Salvador, Panama, Barbados, Jamaica, Paraguay, and the Dominican Republic. In 2010, OVE anticipates CPEs in Honduras, Chile, Costa Rica, and Uruguay. And CPEs for Suriname and Colombia will be initiated in 2010 for delivery in 2011.
- 2.24 OVE has discussed with the Board the Good Practice Standards for country strategy evaluation produced by the Evaluation Cooperation Group, and will use those standards in a revised Protocol for the conduct of country program

evaluations that will be sent to the Board for approval in 2008. The revised Protocol will be used for all country program evaluations in 2009.

#### **D. Proposed Sector, Thematic and Ex-post Evaluations**

- 2.25 OVE's work in this area is defined in large part by the Bank's ex-post evaluation policy (OP-305), which requires that OVE annually review 20% of closed projects. To integrate these project reviews with broader themes, OVE seeks to place individual ex-post evaluations in the context of either country program evaluations (as recommended in the EGC Good Practice paper) or sectoral and thematic overviews.
- 2.26 The agenda for 2009-10 reflects the changes in the institution regarding project approval and sector emphasis. Recently the Bank has seen an increase in the participation of sectors related to growth, productivity, and the private sector. In particular, there has been a significant increase in projects financing infrastructure and projects financing firm-level competitiveness programs in the institution's lending portfolio. Along with these two areas, the Bank is also increasingly involved in natural resources and the environment. This emphasis is not limited to operations. In 2009 RES will be looking at competitiveness as the major theme of their report on social and economic progress (IPES).
- 2.27 Given these sector and conceptual shifts, OVE proposes to expand its ex post review of **competitiveness** projects. Past evaluations in this area have related to science and technology projects (2007) and agriculture entrepreneurship and extension projects (2008). For 2009-2010, OVE proposes ex-post evaluations on several types of interventions commonly used to improve the productivity and growth of Micro, Small and Medium-sized Enterprises. OVE also proposes an ex-post evaluation of selected **MIF Private Sector Development** approaches. This evaluation will be performed in consultation with MIF and will progressively transfer OVE's impact evaluation technology and practices to MIF, under a learning-by-doing training approach.
- 2.28 OVE also proposes to accelerate its review of infrastructure. This involves continuing the office's thematic review: in 2006 the office reviewed rural roads, in 2007 it reviewed energy. For 2009 OVE proposes to review **water and sanitation** projects (with the overview report in 2010), as well as finalize the review of **primary roads**.
- 2.29 OVE also proposes to continue its ongoing reviews of the **effectiveness of environmental and social mitigation measures**. The first review focused on the effectiveness of mitigation measures in energy, and in particular in hydro-electric and thermal energy. The assessment, which highlights both the importance of these activities as well as the methodological challenges involved in assessing environmental impact, will be completed early in 2009. OVE will also build on the framework developed in this assessment to continue to look at mitigation measures. Taking advantage of synergies involved in its proposed review of water and sanitation, for 2009 OVE will look at mitigation measures in this sector also. In 2010, OVE will review mitigation measures in the **transport sector**.

- 2.30 Although productivity and environmental mitigation are the themes for 2009 ex post activities, the office will also continue work on topics related to social sectors and governance. In 2008 the office reviewed projects in **information technology for education, housing, early childhood and citizen security** (Overview reports for these topics will be delivered in 2009). In 2008, OVE also reviewed **tax administration** projects as well as **justice reform** projects and wrote their Overview reports.
- 2.31 In 2009 OVE proposes to continue activities that review the social sector by assessing the development impact of **technical education**. This evaluation is timely given the region's questioning of the adequacy of skills acquired in technical education vis-à-vis skills demanded by employers. To the extent that labor is the single most important productive asset, the evaluation is also complementary to the thematic review of competitiveness.
- 2.32 Following up on OVE's review of the impact of adjustment policies on poverty, prepared in 2008 and included as part of the office's review of the New Lending Framework, OVE proposes to review in 2009 the role of **poverty targeting** in Bank-supported projects and programs. This assessment will look at the degree to which the Bank is able to target operations based on poverty, how it reports on the success of these efforts in its monitoring and evaluation instruments, and how it uses this information to inform clients and its own policy decisions.
- 2.33 In 2009 OVE also proposes to continue its review of sub-national governance via ex-post assessments. In 2008 the office completed work assessing social investment funds, and looked at the relationship of these funds to local governance. In 2009 OVE proposes to look at projects that promoted **regional transfer funds** to states and municipalities. As decentralization has taken hold, and as sub-national entities have taken on more responsibilities, they have also received increased funding.
- 2.34 **Synthesis Review**. OVE's assessment of ex post projects is disseminated by its seminar series and by publication on its website (see below). However, OVE has not in the past presented results of its ex post activities to the Board of Directors. In 2009 OVE will review the results of its project-level ex post reports from 2006-2008, in the form of a synthesis to be presented to the Board for information. OVE proposes that this synthesis be a bi-annual publication.
- 2.35 **Financial Administration Systems**. The Bank's has a long experience supporting financial management systems of the countries in the region. It has focused mainly on promoting an integrated view of the administration of the core functions of public finance (budget, accounting, treasury and public debt) and attempting to reduce the gaps and obsolescence of information systems in order to have reliable and transparent financial statements for decision-making. The vast majority of LAC countries have independently developed and incorporated much of this progress. In recent years new issues have been identified by the countries, such as: more emphasis on the quality and the composition of public expenditure; the quality and responsibilities of budgetary institutions; budgeting frameworks for the medium and long term; identifying synergies and overlaps among central

and subnational entities, risks; results based budgeting; and the harmonization of financial management systems in the region for the goal of reliance on domestic financial systems for the financial management of the Bank's interventions. It is possible that the focus on these new areas has crowded out attention on the traditional areas of financial administration. Based on the analysis of the Bank's recent related financial and non-financial products, as well as field work to be developed, this 2009 evaluation will assess how the challenges observed in the region on this topic have been dealt with by the Bank's activities, and to learn what results occurred and why, and to identify constraints for the Bank to overcome in the future.

## **E. Proposed Policy and Instrument Evaluations**

- 2.36 **Policy Evaluations.** Policies are explicit guidance for Bank action aimed at defining the space within which Bank actions are possible. Whereas strategies define approaches and priorities, policies define limits to action. Policies are always explicit and subject to approval by the Board. In recent years, the Bank has relied more on indicative strategies rather than explicit policies for organizing its work with borrowing member countries. However, a number of new policies have been approved recently, and OVE proposes to review these new policies within a few years of adoption to see if they are accomplishing their intended objectives. For 2010, OVE proposes evaluations of the following Policies: **Agricultural Sector, Involuntary Resettlement, and Public Utilities.**
- 2.37 **Budget Initiatives.** Instrument evaluations of expiring Bank initiatives were mandated by the Budget Committee of the Board in 2004, leading to several reviews completed in 2008 (**IIRSA and Plan Puebla Panama**) In 2009, OVE will evaluate the budgetary initiatives on: **Enhancing Country Studies; Sustainability; and Regional Public Goods.** In 2010, OVE will evaluate **Building Opportunities for the Majority and Disaster Risk Management**, and begin its assessment of **PRODEV** for completion in 2011. Most of these Initiatives fit within OVE's themes for the 2009-2010 Work Program and Budget. The evaluations will be described in detail throughout this section.
- 2.38 **A Series of Non Sovereign Guarantee Evaluations:** In the past, OVE has analyzed the Bank's private sector operations, and as stated above, OVE maintains an active validation of reports for the MIF, the IIC and the Bank's private sector lending arm. Yet recently, the Bank's NSG portfolio has become especially important. In fact, during the last year the volume of private sector loans increased 144%, i.e. more than five times the growth rate of the rest of the IDB's portfolio. Furthermore, improving the Bank's risk management, as well as its participation in private sector financing of developmentally relevant operations are major goals of the realignment. In general, little is known about the effectiveness of the Bank's newly-emphasized NSG activities. In 2009-2010, OVE proposes a series of four evaluations that examine the Bank's NSG activities after the realignment:
- a. **Origination of Private Sector Operations.** A critical issue for the Bank is how private sector loans are originated and brought to financing in the

context of an increasingly competitive financing model. For 2009, OVE proposes to examine the Bank's origination process of private sector operations. The origination process includes operations that led to Bank financing and operations that the Bank pursued and did not ultimately lead to Bank financing. A review of the deal flow in a given year would provide insights on IDB processes, costs and perceived value in the marketplace that could help improve the Bank's participation in private sector financing activities.

- b. **Subnational Lending.** Since 1990 the Bank has approved loans directly with subnational governments in seven countries in the region, mostly concentrated in Brazil and Argentina. The objective of this evaluation will be to analyze the relevance, coherence and effectiveness of these operations by contrasting the Bank's experience in subnational lending with and without Sovereign Guarantees. To do so it is necessary to consider not only the operations in an isolated manner, but also to take into account the constraints to indebtedness and the institutional and financial capacity of the subnational governments, among other factors. And because financing is fungible, the evaluation will examine if subnational lending is associated with the crowding out of federal transfers to departments. Finally, this 2009 evaluation will conduct an analysis of the political economy that includes the identification of the actors involved and their incentives regarding the indebtedness of the subnational governments.
- c. **Opportunities for the Majority:** This initiative, launched in June 2006, had approved only one project as of September 2008. OVE will wait for additional projects to be approved and implemented, and thus delay the corresponding evaluation to 2010. The Initiative was to have the following criterion for its projects: development impact and majority focus (including evidence of value added for the target population), innovation, scalability, additionality, and environmental and social impacts. OVE will analyze if the projects of this initiative were selected according to the criterion, and any results achieved by the activities of the initiative.

2.39 **Series of Risk Management Initiatives.** Because the realignment stated that a key objective was to improve development effectiveness through better risk management, OVE's 2009-2010 Work Program and Budget proposes a series of Policy and Instrument evaluations that gather evidence of how effectively the Bank anticipates and manages various types of risk. A key question is if the Bank's actions are strategic and intentional or merely reactionary to changing circumstances and crises. In the past, OVE's CPEs and Evaluability assessments have discussed the risk management of specific Bank activities. The following proposed evaluations are intended to provide more systemic assessments:

- a. **Oversight of Credit Risk Management.** Considering this rapid expansion of the private sector portfolio and the fact that the project supervision process and the credit risk classification are done by the Bank's private sector lending officers, in some cases under the supervision of RMG; OVE proposes an external and independent oversight report of the complete process of credit

risk management. In particular, the project will review the adequacy of the risk management environment; the soundness of the credit granting process, credit administration, risk measurement, and monitoring processes; the quality of the control system over credit risk; and the quality of the risk classification of the individual components of the portfolio. This assessment, which combines OVE's focuses on Risk Management and NSG, will include a detailed evaluation in 2009 and yearly updates thereafter.

- b. **Development Risk.** As a Development Bank the IADB has a dual mandate that encompasses Developmental Impact and Financial Soundness. In the execution of its mandate the Bank, therefore, incurs in two broad categories of risk. The risks that originate in its financial decisions and are directly reflected in its financial statements, namely credit, liquidity or market risks; and, on the other hand, the risks that originate on the quality of its operations and are reflected in their developmental outcomes. The risk of negative developmental outcomes is closely related and can even be considered a form of operational risk that, as with other types of operational risks, has to be managed using limited and qualitative event information. OVE proposes a comprehensive study of the developmental intent of the Bank from a risk management perspective. Building off of OVE's prior and ongoing work in evaluability and validation of the Bank's M&E instruments, this 2010 evaluation will focus on the adequacy of the current processes and its ability to produce sound policies, mitigation measures and control actions in the origination, control and monitoring of this particular type of risk.
- c. **Disaster Risk Management.** The Bank Action Plan for Improving Disaster Risk Management: 2005 – 2008 (GN-2339-1) was endorsed by the Board of Executive Directors in March 2005, and gave rise to a budgetary initiative that is set to expire in 2008. In 2008, OVE provided a Decision Support Note to the Board on this topic. In 2010, OVE will conduct an evaluation of the Bank's work in the area of disaster risk management with the objective of determining results in the three areas defined by the Action Plan: Improving country programming and portfolio management; incorporating proactive disaster management into Bank operational policy; and strengthening the staff capacity of the Bank to support borrowing member countries in this area.

2.40 **A Series of Environmental Evaluations:** As Environment is another central theme of OVE's 2009-2010 Work Program and Budget, the following series of related Policy and Instrument Evaluations are proposed. They are intended to compliment OVE's ex-post work in Environmental Mitigation:

- a. **The Sustainability Initiative** was approved in May 2006 to develop the basic capacities and systems for sustainability screening, tracking, training, and reporting. A three-year Sustainability Implementation Initiative was adopted in 2007 to carry out implementation activities. During 2009, OVE will evaluate achievements against the objectives of the initiative, which were to: (i) comply with the new Environment and Indigenous Policies; (ii) strengthen the application of the Involuntary Resettlement Policy and

safeguards of the Bank's sector policies; (iii) address the evolving demands of the Bank's clients' legal systems, international obligations, and constituencies; and (iv) comply with the Blue Ribbon Panel recommendations, including actions to enhance the Bank's corporate responsibility and ecological footprint.

- b. **SECCI.** One outgrowth of the Sustainability Initiative was the creation in 2007 of a special fund for sustainable energy and climate change (DE-82/07). The document establishing this fund has a proposed set of expected outputs and outcomes (paragraph 4.6, GN-2435-6), which OVE intends to use in an **evaluation of the Sustainable Energy and Climate Change Initiative**, that will be initiated in 2010 for delivery in 2011.

2.41 **A Series of Evaluations of Knowledge-based Activities.** As a theme of the 2009-2010 Work Program and Budget, OVE proposes several evaluations that examine the Bank's Knowledge-based Activities. These activities, including various studies and technical assistance provided by the Bank, have become increasingly important as the IDB attempts to learn and deliver expertise to its client countries. OVE will build off of its prior work in this area with the following evaluations:

- a. **Enhancing Country Studies.** This initiative was approved as part of the 2006 budget, and was "...aimed at supporting dialogue processes with the countries and strengthening the analytical underpinnings for preparing country strategies and designing programs, operations, and projects, such as (a) programs based on sector-wide approaches, (b) performance-driven loans, (c) conditional credit lines for investment projects, (d) policy-based loans (PBLs, both traditional and programmatic), (e) and specific projects that use the new policy on expenditure eligibility, requiring the definition of country financing parameters." (GN-23-81-3). Although the original initiative was designed before the Bank's realignment, Management has asked for additional funds in the 2008 budget to continue the initiative. In light of ongoing interest in this activity, OVE would propose to provide a mid-term assessment of the results achieved from the initiative between 2006 and 2008. This would be completed in 2009 and contribute to future decisions by both Board and Management regarding the issue of enhancing country studies and the specific mechanism of this initiative.
- b. **Review of Knowledge and Capacity-Building Products:** OVE will review a sample of KCP in 2010. Building off of the methods and findings of OVE's 2006 'Evaluation of IDB Studies,' OVE will evaluate Knowledge and Capacity Building Products according to their objectives, contribution to the Banks' strategic goals and evidence of development outcomes and effectiveness. OVE will also assess the quality of the KCP, as well as other dimensions such as relevance, ownership, collaboration, dissemination, utilization and the systems associated with KCP.
- c. **Management of Technical Cooperation.** In addition to loans, the Bank has a substantial amount of non-reimbursable technical cooperation funding

available to assist member countries in meeting their development challenges. OVE has approached the TC issue in a number of ways in the past: It produced a stand-alone study of several individual TC projects; includes evaluation of selected TC operations in its country program evaluations, has done a comprehensive evaluation of technical cooperation assistance provided by the MIF, and has completed an evaluation of activities financed by the Japanese Trust Fund (JTF). In the JTF review, the evaluation found a number of likely positive accomplishments, particularly in the areas of relevance, effectiveness and sustainability, but these results were generally not well documented with detailed and credible information. While the study focused exclusively on JTF-funded projects, the evaluation also found indication that similar problems also affected other trust funds managed by the Bank. As a follow-up to the JTF evaluation, the 2009 work program proposes a study on the IDB's system for managing and monitoring TC activities.

- 2.42 **Regional Public Goods.** The Board approved in March of 2004 a special initiative to finance regional public goods. (GN-2275-3). This initiative contained a specific provision for an OVE evaluation of the results of the initiative between 3 and 5 years after initiation of operations. In discussions with Management, OVE has suggested that at least one cycle of fully-implemented projects under the initiative would be required as an adequate empirical basis for such an evaluation. It is currently estimated that sufficient RPG projects will have concluded by the end of 2008 to permit an evaluation of the program as a whole in 2009.
- 2.43 **Concessional Resources.** In 2003 OVE prepared an Oversight Note (RE-279) to assess the criteria that the Bank had been using for its allocation of concessional resources. In it OVE raised some questions regarding the methodology used and presented some recommendations. Since then, the Bank's concessional funding initiatives have gone through important changes and the future and sustainability of its main instrument, the Fund for Special Operations (FSO), is being discussed. OVE proposes to evaluate the changes introduced; discuss their relationship, if any, with the findings and recommendations presented in RE-279; and present recommendations regarding debt relief and concessional finance at the IDB. In this regard, the evaluation would assess, to the extent possible, to what degree concessional matters for development and its relationship with different distributive justice criteria (from existing literature and empirical evidence available), and use it as a basis for its recommendations. This Evaluation would be delivered in 2010.

## **F. Evaluation Capacity Development**

- 2.44 The Bank's principal vehicle for developing evaluation capacity in borrowing member countries is the PRODEV initiative, where evaluation systems are connected to the improvement of country capacity to manage for results. OVE will be evaluating PRODEV in the context of the NLF review mentioned earlier, but because of the existence of PRODEV the Office has concentrated its evaluation capacity development work on the encouragement of local capacity to

supply evaluation services to the public sector, and on providing technical assistance to Bank project teams regarding the evaluation components of projects.

- 2.45 In 2008, OVE’s principal activity to encourage local supply was the continued management of an activity joint with CEDLAS - Argentina to maintain an Impact Evaluation Network within the Latin American and Caribbean Economic Association (LACEA). The main purpose of the Network is to provide for the yearly presentation and exchange of academic research on impact evaluation in Latin America, bridging the knowledge between this research and public policy. The second meeting of the Impact Evaluation Network will take place at LACEA at IMPA in Rio de Janeiro, Brazil, in November 2008. This initiative complements OVE’s past work in developing networks of professional evaluators throughout the region.

**G. Disseminating Evaluation Findings**

- 2.46 All completed OVE evaluations are made available on OVE’s internet web page ([www.iadb.org/ove](http://www.iadb.org/ove)). OVE has also published seven ex-post working papers and has another five in the pipeline for 2008. These papers are also listed in the online networks of RePEc (Research Papers in Economics) and IDEAS, and Abstract Views and Downloads are increasing each quarter (see Table 2.1)<sup>5</sup> Furthermore, as of August 2008, OVE has conducted frequent brownbag lunches to discuss initial findings and improve the quality of its ex-post evaluations. Seven have occurred and another four are expected to be delivered in 2008. These seminars are open to staff from across the Bank and to the public, and are well attended.

	<b>Abstract Views</b>	<b>Downloads</b>
2007 Q3	46	21
2007 Q4	183	102
2008 Q1	431	169
2008 Q2	674	182
2008 Q3	763	271

- 2.47 One of the concerns expressed by Board members in past reviews of OVE work plans has been the adequacy of systems for feeding back the lessons of evaluation into the current decisions being made by Management and the Board. To be an effective form of decision support, the lessons learned from past evaluations need to be brought to bear on the substance of current decisions. While Management can reasonably be expected to review all relevant evaluation work prior to the development of a new operation, Board consideration of an item could be enhanced by timely reminders of evaluation findings that bear on current decisions.

<sup>5</sup> Source of Data: <http://logec.repec.org/scripts/seriesstat.pl?item=repec:idb:ovewps>

2.48 To address this concern, in 2008 OVE initiated a new element in its work program: evaluation **decision support notes** on selected issues. These brief notes (less than 2 pages) provide comments on the lessons of past evaluation for matters on which the Board is required to take a current decision. In 2008, OVE produced notes on issues such as **Local Currency Lending** and **Disaster Risk Management**. For 2009-2010, list of topics for such notes may be agreed upon with the Board on a quarterly basis.