Office of Evaluation and Oversight, OVE
Inter-American Development Bank

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RE-282

OVE´s 2002-2003 Annual Report and Proposed 2004 Work Program and Budget

Office of Evaluation and Oversight

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ACRONYMS

AFS	Audited Financial Statements
ARPE	Annual Report on Projects in Execution
AUG	Office of the Auditor General
BES	Bank Evaluation System
CIPE	Country Institutional and Policy Evaluation
CP	Country Paper
DAU	Disbursements and External Audits Office
DPP	Strategic Planning and Budget Department
EAR	Economic Assessment Report
ECB	Evaluation Capacity Building
ECLAC	Economic Commission for Latin America and the Caribbean
ERF	Emergency Reconstruction Facility
FSO	Fund for Special Operations
IAL	Institutional Adjustment Loan
IIF	Intermediate Financing Facility
MECOVI	Regional Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean
PAIS	Project Alert Identification System
PCR	Project Completion Report
PDPL	Performance Driven Program Loan
PMP	Portfolio Management and Project Monitoring
PPMR	Project Portfolio Monitoring Report
RES	Research Department
ROS	Regional Operations Support Office
SDS	Social Programs and Sustainable Development Department
SIS	Social Information System
SREL	Sector Reform Expenditure Loan

INTRODUCTION

A. Purpose and Nature of the Report

In response to the suggestion made by the Policy and Evaluation Committee, the 2002 Annual Report of the Office of Evaluation and Oversight (OVE) is being presented this year at the same time as OVE's proposed workplan and budget proposal for 2004. This Report is therefore divided into two sections: the first is a report on OVE activities and the current state of evaluation in the Bank, while the second discusses the proposed workplan and budget for the coming year.

Because of this change in timing, there was no formal Evaluation Annual Report for 2002. Part one of this document will therefore discuss OVE's output for both 2002 and 2003, focusing on contributions made during the 2002-2003 period toward the strengthening of the Bank's Evaluation System.

B. Background

In recent years the evaluation function at the Inter-American Development Bank has responded to the emphasis placed on results by its Governors and Executive Directors. It seeks to ensure that evaluation is fully integrated into the decision-making process and provides the means to measure institutional effectiveness, performance and accountability. Although substantial progress has been made in developing and implementing monitoring and evaluation systems, the Bank continues to face the challenge of measuring progress towards the development objectives of the programs and projects it finances. The Bank is not alone in this, for all of the heads of Multilateral Development Banks have made a joint commitment to: "*better measuring, monitoring, and managing for development results in their respective organizations' role in country development context, country strategies, evaluation and oversight work, and finally by supporting country capacity building in evaluation and results-based management."*

Meeting development challenges, especially those mandated by the Bank's Governors and depicted in the Millennium Development Goals, requires a coordinated drive to produce results in close partnership with key stakeholders as well as transparent and objective assessments of development performance. This makes evaluation an indispensable tool for asking difficult questions and for assessing what works and why. This renewed emphasis on development effectiveness in turn raises additional challenges for the Bank's Evaluation System and its stakeholders to improve the evaluability and effectiveness of Bank-financed programs and projects in order to enable transparency and accountability of results.

All of these explicit mandates underline the basic framework for evaluation in the Bank which was established by the Board of Governors in the IDB-8 Replenishment stating that *"The new Bank Evaluation System (BES) will aim at using evaluation as a tool for institutional learning and as an instrument for systematic assessment of the effectiveness of Bank development policies,* *of the results of Bank financed activities, and related processes."* [1] In response to this mandate the President of the Bank formed a task force for the recalibration of the Bank's Evaluation System (BES). The task force presented its recommendations in its report "Strengthening Oversight and Rebuilding Evaluation in the Bank," (RE-238) which was approved by the Board of Executive Directors in June 1999.

This definition establishes four critical principles to guide the evaluation work of the institution in general, and OVE in particular:

- First, it emphasizes that 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 Bank activities could theoretically be the focus for evaluation work, the Governor's mandate keeps the focus of evaluation work 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.

Following these principles, OVE undertook a broad range of activities in its multi-year workplan which are grouped under the six themes of its mandate: Oversight, Country Programming, Project Monitoring in Execution, Strategy Evaluation, Policy and Instrument Evaluations, and Evaluation Capacity Building. The next section of this report addresses accomplishments and contributions made by OVE under each of these themes.

[1] Report on the Eight General Increase in Resources of the Inter-American Development Bank, AB-1704, paragraph 2.101, page 48

I. OVE'S 2001-2003 CONTRIBUTIONS AND ACCOMPLISHMENTS

A. Oversight for Improving Project Execution

1.1 OVE basic document "Strengthening Oversight and Rebuilding Evaluation in the Bank" (RE-238) assigned the Office the responsibility to "overseeing the quality of all evaluation systems involving program and project performance in the Bank." To accomplish this task, OVE conducts periodic reviews, reports to the Board on the performance of the bank's Evaluation System (BES) and engages in a variety of discussions with Management on issues related to monitoring and evaluation.

1.2 A major change in the new monitoring and evaluation framework proposed in RE-238 is the shift towards outcome monitoring and evaluation. Traditionally, monitoring and evaluation has focused on assessing inputs and implementation processes and has been project or program based. The challenge is to link performance with outcomes with rigorous and credible assessments of progress towards and achievement of outcomes.

1.3 The focus is on assessing the contributions of various factors to a given development outcome. Such factors include the context in a given country, the country strategy employed by the Bank, and the effect of the outputs produced by IDB-financed projects, programs and technical assistance. Through this new framework, country office staff, project team leaders and managers are being asked to actively apply the information gained through monitoring and evaluation to improve strategies, projects and performance through informed decision-making.

1.4 OVE contributed to the restructuring of the BES framework through the findings and recommendations made in the three oversight studies:(i) the effectiveness and efficiency of the Bank's monitoring and evaluation system, (ii.) the "evaluability" of projects at entry, including the clarity of project goal definition, the relevance and strategic context of interventions and the building of solid performance indicators at the onset, and (iii.) the capacity to measure outputs associated with projects during the implementation, outcomes at project completion and actual project impacts.

1. Oversight Review of the IDB's Project Performance Monitoring Review, the Mid-Term Evaluation and the Project Completion Report (*RE-247*)

1.5 The Board considered this report in May 2001. It highlighted the need for the Bank to enhance its monitoring and evaluation systems in tandem with efforts to improve project performance, output and outcome indicators at entry and to enhance the monitoring and evaluation capacity of borrowers. In this regard Management made considerable headway in 2002, sharpening its monitoring and reporting systems with an eye on improving portfolio quality as recommended in **RE-247**.

1.6 In response to the recommendations made in **RE-247**, the on-line project Performance Monitoring System (PPMR) has been revamped to present a more realistic real-time snapshot of project implementation that provides information on: (i) the sustainability of the project objectives, (ii) lessons learned to further improve new operations, and (iii) historical information that should facilitate the preparation of the Project Completion Report (PCR). The enhanced PPMR system is designed to capture the inputs of mid-term evaluations and report on financial issues.

1.7 Likewise, the revamping of the PCR guidelines to gear it toward measuring results was a priority task for Management in 2002. The new PCR guidelines and on-line template will assess both Bank and Borrower performance, the project's contribution to institutional development and to the long-term sustainability of project benefits.

1.8 This first oversight report produced by OVE (RE-247)[2] made 12 specific recommendations for improving the system, all of which were approved by the Board and are in the process of being implemented by Management. A most recent evaluation of all the Bank's project supervision tools[3] concluded that substantial improvements had been made to its self-evaluation tool-kit, but that considerable improvements to the system could still be made. Management's 2001 ARPE presents an implementation summary of recommendations made in RE-247.

2. Report on Development Effectiveness (RE-260)

1.9 OVE's Report on Development Effectiveness **(RE-260)** which was considered by the Board of Executive Directors in March 2002 has contributed to the Bank's internal dialogue on improving the results focus of its activities. It outlined the problem of defining development effectiveness in light of the multiple and changing meanings of the term "development," and argued for more rigorous measures of outcomes in each of the Bank's interventions.

1.10 The report argued that the Bank remains primarily focused on documenting the production of planned project outputs rather than on reporting on actual results achieved, measured either by intermediate outcomes or eventual impacts. In light of these findings, the OVE report made a number of recommendations regarding both procedural and conceptual issues which should be addressed in pursuit of enhanced development effectiveness of the institution, including the creation of a new organizational unit tasked with the responsibility of improving the results

[2] OVE, "Oversight Review of the IDB's Project Performance Monitoring Review, the Mid-Term Evaluation and the Project Completion Report." (RE-247), April 2001, revised October 2001.
[3] OVE, "Project Supervision Tools" (draft) was reviewed with Management in June 2003 and is scheduled to be distributed to the Board on October 14

focus in Bank operations. Many of the actions suggested in the report have been undertaken by Management, including particularly the creation of a Development Effectiveness office and the initiation of a quality at entry review process to address some of the project design issues raised in the report.

3. Analysis of Project Evaluability, Year 2001 (RE-275)

1.11 In coordination with Management, OVE undertook a review of all projects sent through Management's Loan Committee and on to the Board of Executive Directors for approval during 2001. The purpose of the exercise was to look at the "evaluability" of the design of projects, so that once they are completed they can be evaluated and able to demonstrate their effectiveness. The final draft "Analysis of Project Evaluability Year 2001" (RE-275) was completed in December 2002 and considered by the Policy and Evaluation Committee on February 13, 2003.[1]

1.12 The principal finding of this review is that although the Bank has made considerable efforts since 1995 to train its project designers in the use of the logical framework, very few projects defined meaningful performance indicators, and very few had either baseline data or explicit targets and milestones. Where such empirical indicators and targets did exist, they tended to be applied to project outputs only, not to the subsequent developmental outcomes. This meant that subsequent evaluations could determine relatively easily whether anticipated outputs were completed, but could not easily establish whether the outputs resulted in meaningful positive changes in the circumstances which gave rise to the original operation.

1.13 The evaluability report presented a detailed methodology for the assessment of projects along eight dimensions, and OVE recommended that Management consider adapting this methodology to their own internal project review process. The report also indicated that OVE will conduct a second evaluability assessment exercise for projects sent to the Board in 2004.

4. Oversight Study on Tools for Project Supervision

1.14 Several of OVE's country program evaluations revealed some concerns related to the quality of project supervision, and the relationship between supervision and the ability of a project to achieve its developmental objectives. OVE conducted an oversight study on this subject which will be sent to the Board in October of 2003, and will be discussed in detail in next year's Annual evaluation report.

5. Oversight Note on Performance Criteria for Allocating Concessional Resources (RE-279)

1.15 In 2002, the Bank adopted new criteria for the allocation of concessional resources which integrated country performance measures with the traditional measures associated with need, equity and efficient resource utilization. The Board requested that this new allocation framework be evaluated in 2005, but a number of Chairs asked for OVE's initial views on the new mechanism as early input to Management's efforts to adjust the allocation formula.

1.16 For this review, there was not sufficient time to determine the actual impact of the new procedures on either resource allocations or country performance, so the note confined itself to a methodological review of the allocative criteria and to a comparative analysis of the approaches used elsewhere for the performance-based allocation of scarce resources.

1.17 The review found that although effort had been made to improve the method, a number of issues warrant further review, principally: (a) there is an unintended bias that works against high-need countries, (b) under similar performance, a high-need country gets a lower score that one with a lower-need, (c) the unintended bias creates a problem with incentives since a higher level of relative performance is required from high-need countries making it harder for them to increase their allocations, (d) the objectivity of the method can be improved. Objectivity is related to available published data that is widely accepted, (e) the process in not transparent and uses less reliable objective data than other institutions, and that (f) the original request from the Board calls for a method that is based on development performance as measured by outcomes and impact. To meet this request, the current approach should be improved placing less value on inputs and more on outcomes.

6. Management Actions to Improve Project Monitoring and Execution

1.18 At the Forty-Fourth Annual Meeting of the Bank held in Milan, Italy on March 24- 26 2003, the Governors were united in their desire for the Bank to become a results-based organization. Governors also referred specifically to the need for the Bank to align the new emphasis on results with an incentives structure that would spark better performance and a working system of self-evaluation for the IDB, with benchmarking against other multilateral development banks.[4]

1.19 Management has been working throughout the year to improve the process of portfolio management. The basic tool for this exercise is the Country Portfolio Review carried out in each borrowing country annually in order to keep track of the key countrywide issues affecting portfolio quality and determine with Borrowers appropriate actions that might have a positive impact on individual projects.

1.20 Management carried out 19 Country Portfolio Reviews in 2001 and 16 in 2002 and 11 Country Portfolio Mission Reports have been presented to the Management's Programming Committee as of September 2003. These reviews, and in a similar vein, Country Sector Portfolio Reviews, are carried out to address issues pertaining to specific sectors in a given country.

[4] Forty-fourth Annual Meeting of the Board of Governors of the Inter-American Development Bank and Eighteenth Annual Meeting of the Board of Governors of the Inter-American Investment Corporation. General Summary, AB-2284.

1.21 A broad review of the portfolio as a whole is developed from the Country Portfolio Reviews and the PPMRs and is presented annually by Management as the Annual Report on Projects in Execution (ARPE). The ARPE, which is prepared by ROS/PMP, is the Bank's principal tool for reporting to the Board on portfolio performance, and is becoming an instrument more focused on results. It provides an opportunity for Management and for the Board to examine recent portfolio history, it takes stock of what went well and what went wrong, and provides operational lessons learned as feedback to improve the design and programming of new operations. The 2000 ARPE gave rise to a request from the Board for the preparation of a Portfolio Improvement Action Plan, which was presented to the Board in June of 2002 as part of the discussion of the 2001 ARPE. An updated version of the Portfolio Management Action Plan was distributed to the Board on February 6, 2003.

1.22 Management has also undertaken a number of other interventions designed to improve the monitoring of projects and to shift the focus of concern from tracking outputs to monitoring outcomes. Three critical innovations in monitoring practices are the implementation of the PAIS system; the development of new lending instruments that would be performance oriented and includes built-in monitoring and evaluation mechanisms. Among these new instruments are the flexible lending instruments, performance-based lending instruments, and the introduction of performance criteria into concessional resource allocation. Management has also undertaken initiatives for improving and updating the Bank's monitoring instruments (PPMR and PCR, as well as the Log Frame) in order to reflect progress in implementation with a view toward results and intermediate outcomes (as well as outputs).

1.23 Increased attention has been paid in this review process to the timely production of Audited Financial Statements. In several of its country program evaluations (see below), OVE has found that a significant number of audits are reported with qualifications. This finding has given rise to a recommendation that the Bank begin to track not only the timely production of such statements but also the percentage of statements offered with clean (unqualified) auditor's opinions.

B. Country Programming

1.24 At the Thirty-Second Annual Meeting of the Board of Governors of the Bank and the IIC held in Santiago, Chile from March 19-21, 2001, the Governors emphasized that, in order to implement the institutional strategy, the Bank needs selectivity, focus, and additionality in its action. Furthermore, it needed to strengthen the policy dialogue with the countries and the country strategy process. This should involve an in-depth analysis of the nature, incidence and causes of poverty and should be developed through a process of consultation with the country in question. In this regard, it was stressed that the country programming process should be the key mechanism for identifying needs, setting priorities, and defining the role of the Bank. This would require strengthening country papers and interagency coordination to ensure their relevance.[5]

1.25 Given the vital importance that country programming and country strategies have in the effectiveness of Bank interventions OVE undertook a review of Bank programming documents and presented a **Methodological Note on the Evaluability of Country Strategies (RE-253).**[6] The study concluded that: "… under current conditions, it is virtually impossible to evaluate the Bank's strategies. The primary reason is rather simple: Country Papers do not, in practice, define explicit strategies, i.e., they do not examine or determine the best alternatives for achieving specific objectives."

1.26 The note went on to offer a number of suggestions to improve the country programming process, including greater efforts to secure agreement with Borrowers on country program goals and objectives, increased use of performance indicators in country programming documents and the creation of country and sector-specific results frameworks as an aid to subsequent country strategy evaluation.

1.27 In February 2002, Management brought forward a paper proposing revised guidelines for Country Papers[7] (since renamed "IDB Country Strategies") to improve the linkage between country programming and development effectiveness. The new guidelines emphasize a more "strategic" approach, a sharper focus on issues and a greater consistency with the Bank's evolving core mandates. The new guidelines also call for more specific indicators to monitor the implementation of the country strategy in terms of actual performance towards the achievement of jointly set goals. The Board of Executive Directors subsequently adopted these new guidelines.

1.28 The revised country strategy guidelines call for the preparation of a new IDB Country Strategy whenever there has been a general election in the borrowing member country, on the theory that the start of a new administration represents the best time to take stock of the past and contemplate the future relationship between the Bank and the country. As part of this process, OVE is working to produce country program evaluations on the same timetable as country strategies.

1.29 The country strategy guidelines, in fact, ask that Management prepare a section of each new country strategy which "… assesses the Bank's strategic focus in the preceding programming cycle and evaluates the efficiency of strategy implementation." With regard to this focus, OVE assesses the appropriateness of the objectives and strategy selected, highlights the main areas of Bank activity, identifies principal accomplishments and obstacles encountered at the country level and assesses the effectiveness of Bank instruments employed. The main

[5] "General summary of the Annual Meetings of the Board of Governors of the IDB and of the IIC, held in Santiago, Chile, from 19 to 21 March 2001" (AB-2152).
[6] "Methodological Note: Evaluability of Country Strategies" (RE-253, September 2001).
[7] "Country Paper Guidelines" (GN-2020-6, February 2002).

purpose of this review is to uncover lessons at the strategic level that might be useful in improving the effectiveness of the Bank's strategy for the country in the forthcoming cycle.

1.30 In order to fit in the new strategy guidelines, country program evaluations are to be carried out for each borrowing member country prior to each general election. During 2003, OVE developed, and the Board approved a **Protocol for the Conduct of Country Program Evaluations (RE-271-1).** During 2001-2003, nine country program evaluations were released to the Board of Executive Directors. In 2001 an evaluation note on the Bank's program in Argentina as well as a country program evaluation for Trinidad and Tobago were reviewed by the Policy and Evaluation Committee (PEC) of the Board. In 2002 evaluations the PEC reviewed evaluations of the Bank programs in Mexico, Peru, Guyana, and Honduras. Through September of 2003, the Board considered evaluations of the Bank's program in Nicaragua **(RE-272,)** Haiti **(RE-274**), Bahamas **(RE-278**), Colombia **(RE-280)** and Costa Rica **(RE-277).** Country program evaluations of Argentina, Belize, Brazil, Bolivia, Ecuador, Jamaica and Paraguay, will be completed in the final months of 2003 or the first part of 2004. Once considered by the Board, summaries of these evaluations are posted on OVE's website, and, where the country involved agrees, the full text of the evaluation may also be posted.

1.31 Country program evaluations are intended as input for the development of the next Bank country strategy. They are not designed as decision documents themselves, but rather as a mechanism for bringing to the attention of Management and the Board some critical issues relating to the past activities of the Bank in the country. As such they play a dual role, providing an *account* of Bank-funded programs to the Board and creating an *opportunity* for reflection and lesson learning as a way to improve future programs.

1.32 These evaluations present a new and complex challenge for the Bank as they focus on a reasonably long historical period; and they generally involve the evaluation of older country programs which were not designed with evaluation in mind. Many of these programs lack clearly-defined goals and measurable indicators of progress, relying instead on descriptions of areas in which the Bank was planning to act. Individual loans and technical cooperation projects within such programs also frequently did not specify clear and measurable outcome indicators.

1.33 As a rule, therefore, country program evaluations find little material in the Bank's records to verify the results achieved as a result of Bank activities. Results assessments must therefore either be based on country-level macro data (where the scope of the indicators involved makes it very difficult to attribute results to Bank action specifically) or on the subjective and unverifiable opinions of involved participants. It is anticipated that as Management moves to implement the new country strategy guidelines, future country programs will have more clearly-identified goals and more well-defined measurable indicators of achievement, both of which should make the task of future country program evaluation a more straightforward exercise.

C. Strategy Evaluation

1.34 In 1999, the Board of Executive Directors approved the recommendations of the document "Renewing the Commitment to Development: Report of the Working Group on Institutional Strategy" (GN-2077-1), which aimed at increasing the overall effectiveness of the Bank in pursuing its institutional mandates.

1.35 One of the recommendations of the Institutional Strategy report was to rationalize sector strategies and policies. It was pointed out that Management should develop,

> "*a comprehensive review of the Bank's sector strategies and operational policies on the basis of a rational structure of purpose-setting mechanisms that may provide clearer guidance to managers, staff, borrowers and the Board of Executive Directors on how the Bank intends to implement its institutional agenda. The main components of this structure should be sector strategies, policies and operational guidelines. Sector strategies should be concise plans of action created to help accomplish key institutional goals set in response to the mandates of the Board of Governors. The recommended review should thus involve updating, grouping and consolidating the current set of sector strategies, taking into account the activities of other development finance actors*."

1.36 Pursuant to this guidance, Management has developed a work program for the review of sector strategies in key areas. This work is the responsibility of the Bank's Social Programs and Sustainable Development Department (SDS), which has built evaluation criteria into the design of appropriate strategies. In their report to the Board on the sector strategy workplan, SDS noted that "all strategies will include a diagnosis with a clear analysis of the recent evolution and main challenges of the sector; a review of the accumulated Bank experience in the sector extracting, among others, lessons learned from past policies, strategies and lending activity; roles identified for the Bank; basic priorities for Bank action geared towards meeting the sector priorities and overarching goals; and lending and non-lending instruments. They would also include reference to resource allocations and implementation actions; and to activities that would support monitoring and evaluation."[8]

1.37 As an input to this process, OVE initiated several strategy evaluations during the period encompassed by this report. From the total of 53 formal guidance documents (30 operational sectoral policies and 23 strategies), evaluations were undertaken in the areas of decentralization and citizen participation, support to indigenous groups, water and Sanitation, justice, delivery of social services

[8] Profiles for sector strategies GN-2195, February 2002.

through NGOs, small and medium enterprise, integration, education, information technology and development, poverty reduction, agriculture, and natural disasters.

1.38 While each of these strategy evaluations provided findings and recommendations regarding the specific subject area, the entire collection of strategy evaluations revealed some characteristics of Bank strategies in general. The principal general conclusions were:

- Bank strategies have few achievable goals, both because they are couched at too high a level of generalization and because they are designed for regional applicability where there is no public authority to commit to goal adoption or achievement. There are virtually no institutional goals set for the Bank at the outcome level by any of the strategies: at best there are output goals relating to share of projects meeting a certain criterion or volume of lending.
- Bank strategies frequently specify action plans to be followed after their adoption, but such action plans are rarely executed, monitored or followed up upon.
- Strategies rarely specify instruments and resources to be devoted to the strategy. The Bank lacks a process for assigning resources to strategic objectives, and instead budgets by organizational unit. This leads to a pattern of incoherent and dispersed effort, with resources disconnected from the goals, objectives and priorities established in the strategy. Dispersion of effort results in failure to establish a critical mass of interventions in a given sector in a given country.
- The assignment of responsibilities for strategy implementation is rarely clearly specified and where specified, responsibilities tend to be assigned to small units in central departments that lack sufficient authority over operational activities to ensure that operations comply with strategies.
- Strategies do not have timeframes for their implementation or evaluation, nor do they contain clear criteria to demonstrate whether the strategy is working at the scale or pace intended.

1.39 In response to these findings, OVE recommended that the Bank consider some modification to the way it approaches the strategy formation process. Recommendations include: linking strategies to specific clear and measurable goals, either for the Bank or for individual countries; shift the focus of strategy work from broad generalizations to country specifics, and link the research workplan of various departments to country analytical needs; build region-wide databases to provide indicators and benchmarks to project and country teams; provide resources and objectives to strategy implementation; and focus more attention on documenting the results of past operations in a sector.

D. Policy and Instrument Evaluation

1.40 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 2001 OVE undertook policy and instrument evaluations on Lending for Financial Emergencies, (**RE-251**), Economic Assessment Reports and High Level Consultation Missions (**RE-255**), and on the Social Information Service (**RE-254**).

1.41 In 2002 and 2003, policy and instrument evaluations were produced dealing with the Public Utilities Policy as applied to water and sanitation (RE-270), the Emergency Reconstruction Facility **(RE-264),** the policy related to Information Technology and Development, and the natural disasters policy (the last two studies will be completed in 2003. In addition, OVE responded to a request from the Board to provide a summary of its several separate evaluations on Bank group instruments in support of the private sector. These included evaluation of PRI projects, Bank activities related to small and medium enterprise, and the evaluation results obtained from contract evaluation work performed for both the MIF and the IIC.

1.42 **Evaluation of Public Utilities Policy Potable Water and Sanitation Sector (RE-270**). Water is a key development problem for the Region and the World at large, it is for this reason that one of the Millennium Development Objectives is to halve the proportion of people who are unable to reach or to afford safe drinking water by 2015. Yet Bank lending for this sector has dropped precipitously in the past few years, and the evaluation study was designed to explore the reasons for this decline. The study found that fiscal constraints in the public sector and the domestic prioritization of water investments were important contributors to the decline in water lending, but also found that the Bank's strategic approach to the sector contributed to diminished lending.

1.43 The Bank's approach emphasized the separation of production from regulation, and favored the incorporation of private investment into the sector. This approach required local conditions (adequate regulatory capacity, appetite for water investment in the private sector) that did not exist in many parts of the region, particularly smaller cities and towns. The result was that projects could not be developed in line with the policy approach, resulting in either no lending or a waiver of policy conditionality. The report recommended that specific guidelines be drawn up to recognize the economic and institutional realities of the water sector in the region as a way of bridging the gap between a generally sound theoretical framework and the practical task of helping the region meet the Millennium goals for adequate coverage of water and sanitation.

1.44 **Emergency Reconstruction Facility** (ERF) **RE-264**. The ERF was created in 1998, along with Operational Policy Guidelines for addressing emergency situations arising from natural and unexpected disasters. The Board requested that the Facility be evaluated 36 months after the approval of the first operation. The ERF was created with an initial approval authority up to US$100 million from which individual loans capped at US$20 million under the Ordinary Capital Account were to be financed. This authority is fully committed to five loans extended to four countries. The ERF's objective was the immediate provision of liquidity to initiate the disaster recovery process: clearing away debris, restoring basic services, and taking other eligible measures to expedite the return to normalcy. As such, the ERF was neither about disaster prevention nor reconstruction. It was designed to play a supporting role by making available timely financing to assist the affected country in coping with the challenges of the emergency during the first days and weeks after the occurrence of the disaster, and prior to the initiation of the reconstruction process.

1.45 The evaluation found that the Bank has largely fulfilled the mandate to process ERF loans rapidly to the point of approval and beyond. Nevertheless, "immediacy" in the provision of assistance was achieved in few loans. Generally, the lack of institutional capacity to organize spending on the ground in the first weeks and months, and delays in ratification and processing on the part of Borrowers, hampered the efficiency of deployment of the instrument.

1.46 The study recommended that the Bank explore alternatives to the project approach for providing short-term liquidity and budget support in the event of disasters, coupled with investment in prevention and preparedness under both the Bank's Disaster Prevention Sector Facility and Country Programming. It further recommended that the Bank: Limit funding for disaster response to expenditures incurred in the first three to six months after the disaster; clear up differences between the Policy guidelines and ERF guidelines with respect to the definition of eligible expenditures; cancel emergency loans if not ratified and signed within three to six months from Board approval; cancel uncommitted balances 12 months after eligibility; and use Bank programming process to foster investment in prevention and preparedness as an ex-post requirement of utilizing the ERF.

1.47 **Private Sector Instrument Summary**. OVE provided an evaluation of the Bank's PRI portfolio in 2001 and in 2002 and 2003 undertook a major evaluation of the MIF, provided evaluation services to the IIC, and undertook a strategy evaluation on Bank lending for small and medium enterprise. These evaluations revealed the following findings with regard to Bank interventions in support of the private sector in the region:

1.48 The Bank Group has concentrated primarily on the financing of individual projects dealing with the private sector, either in the form of direct project finance or in the form of broader multi-sector credit operations directed to the financial system. PRI projects generally involve partnerships with experienced sponsors and co-financers and thus have strong credit structures and good risk assessments on origination. IIC projects work with an inherently more vulnerable group of clients, and the institution has experienced significant credit problems in the past. Both PRI and IIC borrowers are being stressed by the current economic downturn in the region, which is an inherent risk in lending to the private sector. In 2004, OVE will take a second look at PRI projects to determine how they have withstood this difficult environment.

1.49 Beyond individual deals, the Bank has had difficulty in developing either a comprehensive diagnostic of the problems of the private sector in the region, or a detailed assessment of private sector issues in individual countries. The SME strategy called for such assessments at country level, but few were performed.

1.50 Partly as a result of the lack of common diagnostic, there have been important coordination issues related to the various Bank instruments for private sector support. OVE has encountered cases where both the Bank and the IIC have carried out operations with financed institutions in the same country at the same time, but with different terms and conditions. In the evaluation of MIF capital markets and financial reform projects, OVE found that synergies between Bank and MIF projects were unclear.

1.51 The Bank and the MIF jointly have achieved considerable success in the area of micro-finance, both in launching innovative financial institutions and in helping them move up the ladder of formalization as financial intermediaries. This is an area where the Bank had a diagnostic, specific plans of action, and effective coordination among instruments. This experience is thus a potential model for the Bank to follow in addressing other aspects of the private sector development problem in the region.

E. Evaluation Capacity Building

1.52 The strategic importance of building evaluation capacity was enounced in the report on the Eighth General Increase in Resources 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."[9]

1.53 More recently, President Iglesias and the other heads of the Multilateral Development Banks assembled at the High Level Forum on Harmonization (Rome, February, 2003) reaffirmed this commitment by issuing a statement in support of: "better measuring, monitoring, and managing for development results in their respective organizations' role in country development context, country strategies, evaluation and oversight work, and finally by supporting country capacity building in evaluation and results-based management."

[9] Inter-American Development Bank, 'Report on the Eight Increase of Resources"; AB-1683, page 48, 2.100 and 2.101; April 1994.

1.54 At their 83rd meeting, held from July 2-3, 2001, the Board of Governors asked the Board of Executive Directors to continue providing them with information and analysis on "mechanisms to improve dialogue with and monitoring of borrowing countries, and evaluation of the effectiveness of lending instruments." As input to this process, OVE prepared a **Report on Evaluation Capacity Building (RE-252)**, which located evaluation activity as part of the process of building accountability within democratic forms of government. Prior to the publication of this report, OVE had been actively supporting country-specific and regional evaluation capacity building activities in its workplans dating back to 1995.

1.55 In the context of accountability, evaluation activities can be seen as the mechanism for generating information regarding the performance of government agencies; this information is essential for making both horizontal and vertical accountability effective. If evaluation systems function well, both the hierarchical chain-of-command and the public at large, are provided with timely and accurate information on how effective agencies are being in achieving the goals they have set for themselves.

1.56 Despite the theoretical attractiveness of evaluation as an essential tool of democratic and transparent government, the actual practice of evaluation in the region falls well short of its potential. Most agencies do not articulate their mission in evaluable terms and most do not manage themselves to produce results. Public service personnel do not have incentives to improve the performance of their organization, nor is their own performance judged in relationship to the performance of their organization. Formal institutions of horizontal accountability are few in number and often confine themselves to the narrow focus of verifying the financial accounts of public sector entities. The public does not have ready access to information on the performance of public institutions and there are few formalized channels of communication between government and the public.

1.57 This broad assessment of the state of evaluation in the region is shared by Management, which noted in the 2001 Annual Report on Projects in Execution that "*unevenness of monitoring and evaluation frameworks, and results-based performance systems at the national, and provincial levels also constrained the Borrower's capacity to manage, measure and monitor outcomes, which was also mirrored at the project level. For example, project performance reports indicated that in 2001, 21% of Borrowers were not maintaining adequate information on project performance indicators*."

1.58 As part of its capacity-building work, OVE subscribed to Collaborative Agreements with the Evaluation Offices of the Caribbean Development Bank, of the Central American Bank for Economic Integration and of the University of the West Indies to carry-out joint evaluation capacity building activities.

1.59 The purpose of these Agreements was twofold: (1) to conduct evaluations of projects funded with funds originated from IDB funds, and (2) to provide the opportunity for joint evaluations conducted by teams composed of evaluators from the two participating Universities as well as evaluation professionals from the funding and beneficiary institutions. Annex III lists the 12 evaluations produced by these Collaborative Agreements.

1.60 For a number of years, OVE has been working with the Brazilian Institute for Research in Applied Economics (IPEA) to develop evaluation networks in the region and broaden the base of awareness of evaluation techniques as an aid to public administration. In 2001, this collaborative effort began to compile an inventory of basic evaluation institutions and processes in each of the borrowing member countries, along with a narrative of recent significant changes in each country's approach to evaluation. This information, along with links to relevant national Internet sites, is assembled and published on the website of the Inter-American Roundtable on Evaluation and Performance Measurement (http://www.iadb.org/roundtable).

1.61 OVE's partnership with IPEA produced three comparative studies of the use of evaluation as a tool for public sector administration in Argentina, Brazil, Chile, Colombia and Costa Rica. The findings of these studies were published in April 2003 in a compendium of these experiences titled *"Eficiência e Efficacies da Ação Governamental: uma Analise Comparativa de Sistemas de Avaliação nos paises da América Latina"* ("Efficiency and Efficacy in Government: a Comparative Analysis of Evaluation Systems in Latin American Countries").

F. Evaluation as a Tool for Institutional Learning

1.62 In the 2001 Annual Report on Evaluation, OVE noted:

> *The OVE evaluation work described in this report has been offered as an input to the Board and to Management in an effort to contribute toward the improvement of the outputs of the Bank with a view to improving outcomes for the development process in borrowing countries. While there is evidence that OVE evaluation has influenced Bank outputs (new guidelines for country strategies, changes in the monitoring system at the project level, and increased results monitoring, to mention but some examples), it is important to continue monitoring the situation in the countries and to ask whether OVE's efforts (and the Bank's self-evaluation) are having their intended effect of contributing to improved developmental outcomes.*

1.63 This issue remained an ongoing concern during 2002 and 2003. Internal measures of the impact of evaluation on institutional learning continue to suggest a strong positive impact. Virtually all of the recommendations made in OVE reports issued during this period were accepted by Management and endorsed by the Board. There has been steady improvement in the self-evaluation systems employed by Management, and there are new internal processes designed to ensure that the results of both self and independent evaluation are fed back into project design.

1.64 The assessment of how these changes internally have contributed to better development outcomes in the region, however, continues to be hampered by the persistent lack of data on the results of Bank-funded operations. This lack has been noted in every independent evaluation report produced over the last two years, and Management continues to provide very little information on results in its various self-evaluation reports on the portfolio. Lacking a baseline on development results, it is difficult to determine whether the obvious institutional changes noted above are leading to measurable improvements in results obtained.

1.65 This suggests that an important task facing the Bank in the coming year is the development of a baseline assessment of the institution's development effectiveness, along with specific indicators to measure future improvements from the current baseline. This is a complex task, and will involve the active participation of OVE, Management and the Board.

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