OVE’s 2003 - 2004 Annual Report and Proposed 2005 Work Program and Budget

Office of Evaluation and Oversight, OVE

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ACRONYMS

ARPRE  Annual Report on Portfolio Management, Performance, and Results
BES    Bank Evaluation System
CABEI  Central American Bank for Integration and Development
CPE    Country Program Evaluation
ECB    Evaluation Capacity Building
EIA    Ex-post Impact Evaluations
EPSA   Ex-post Performance and Sustainability Assessment
GDP    Gross Domestic Product
GN     Documents on General Matters
ICT    Information and Communication Technology
IER    Impact Evaluation Report
IPEA   Brazilian Institute for Research in Applied Economics
LAC    Latin America and the Caribbean
PCR    Project Completion Reports
PPMR   Project Performance Monitoring Reports
PRI    Private Sector Department
RE     Documents of the Oversight and Evaluation System
I. INTRODUCTION

A. Purpose and Nature of the Report

1.1 Two recent changes have significantly altered the nature of OVE’s Annual Report. First, the Bank’s new disclosure policy, approved in November of 2003, provides for the full disclosure of all evaluation documents sent to the Board. This supersedes a prior policy requiring only the disclosure of the Annual Report, and means that OVE’s annual report does not need to provide a detailed description of the content of individual evaluation studies. This report therefore provides a thematic overview of the year’s evaluation effort, as well as links to individual reports available on the OVE website.

1.2 Second, in response to directions from the Policy and Evaluation Committee, the Annual Report of the Office of Evaluation and Oversight (OVE) is being presented at the same time as OVE’s proposed work plan and budget proposal for 2005. 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.

B. The Bank’s Enhanced Focus on Results

1.3 During the 2003-2004 period Management made a major commitment to improving the results focus of Bank operations, and launched a number of new initiatives aimed at furthering this objective. Management revised the guidelines for country strategy preparation to focus much more attention on indicators and outcomes; redesigned the two key project monitoring tools (Project Completion Reports (PCRs) and Project Performance Monitoring Reports (PPMRs) to incorporate significantly more information on results, created a new administrative unit to focus on Development Effectiveness of Bank operations, initiated a process of quality at entry assessment for projects, and significantly improved the results reporting in the Annual Report on Portfolio Management, Performance and Results (ARPRE). These and other Management initiatives in this area are described in the recently-approved Medium Term Action Plan for Development Effectiveness (GN-2324-1) prepared by the Office of Development Effectiveness.

1.4 This increased focus on results has significant implications for both self and independent evaluation in the Bank, as well as for the interactions between the Bank and its borrowing member governments. On the self-evaluation front, Management’s acceptance of results-based management will require the development and implementation of new systems of indicators to track the effectiveness of Bank interventions, to measure progress toward results, to benchmark institutional and organizational unit performance against external standards, and to monitor project execution in ways that contribute to improving the results obtained from Bank activities.
1.5 Of more importance to the ultimate success of the results agenda is the development by the borrowing member countries of their own systems for managing for results. Without a strong and well-institutionalized evaluation practice in the countries, the Bank will have difficulty translating its commitment to results into projects that are effective in consistently delivering results on the ground. The central role of country capacity for managing and evaluating results has been emphasized both by OVE, in its 2002 report on Evaluation Capacity development, and by Management in its recent discussion of the “external pillar” to the Medium Term Action Plan for Development Effectiveness.

C. Evaluation and the Results Agenda

1.6 The connection between evaluation and the results agenda 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.” 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.

1.7 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.

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1 Report on the Eight General Increase in Resources of the Inter-American Development Bank, AB-1704, paragraph 2.101, page 48
Following these principles, OVE undertook a broad range of activities in its multi-year work plan which are grouped under the six themes of its mandate: Oversight, Country Program Evaluation, Strategy Evaluation, Policy and Instrument Evaluation, Ex-Post evaluation and Evaluation Capacity Building. The next section of this report addresses accomplishments and contributions made by OVE under each of these themes.

D. Oversight Reports

The Board document creating the Office of Evaluation and Oversight (RE-238) assigned the Office the responsibility to "overseeing the quality of all evaluation systems involving program and project performance in the Bank." 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.

As part of its mandate, OVE performs periodic evaluations of supervision activities and the on the Bank’s overall oversight responsibilities. The following oversight reports were presented to the Board of Executive Directors for their considerations and approval during 2004:

1. The Project Supervision System: An Evaluation of use of its Instruments (RE-293)

Supervision at the IDB serves two main purposes. It provides the Board of Executive Directors and Senior Management with the means of managing the risks that affect Bank financed operations and determines the extent to which such operations contribute to the accomplishment of the institution’s development goals. The present evaluation focuses on the use of supervision instruments to assess the extent to which they comply with the requirements established in Bank manuals and standards, and to determine how these instruments relate to the management risks associated with the execution of operations and to the internal control systems.

The evaluation found that there is no single document that consolidates all information on supervision instruments and the functioning of the supervision system, a factor that militates against a general understanding of their use as well as their limitations. Supervision has been divided into separate instruments that are neither sequenced nor integrated. Moreover, there is no explicit methodology describing how these instruments are to be applied and how they relate to one another during project execution. Supervision instruments appear to have been designed to accommodate information requirements and not the requirements of the decision-making process associated with portfolio management risk evaluation.

Without an institutional risk management function, there can be no basis from which to monitor risk, thus making the supervision system inconsistent and ineffective, with a focus on mitigating, not anticipating, risk. The absence of a risk supervision approach means that the emphasis on mandatory supervision is the same for all operations. This makes the system less cost-effective. There is no independent and systematic internal
control to monitor project execution or the effectiveness with which official Bank supervision instruments have been applied.

1.14 The Bank’s present supervision system is not in line with the best practices of other multilateral development banks, bilateral aid agencies, and governments in the member countries. In recent years, these bodies have been incorporating various practices to improve the quality of management and internal control supervision as well as coordination of such controls with institutional objectives.

1.15 The report recommends that the Bank develop an integrated execution supervision system, based on a risk-based portfolio management approach that incorporates the best practices of other similar institutions. This will require that the Bank adopt an internal control framework model to improve governance within the Bank itself, along with an integrated reporting system as a key component of the supervision system. Finally the report recommends that Bank Management prepare a report, on a regular basis, to be presented to the Board of Executive Directors and Senior Management establishing the progress made in terms of: i) the effectiveness of operations in contributing to the institution’s strategic objectives and the extent to which its policies and standards have been observed; ii) management effectiveness based on risk evaluation and execution supervision; and iii) the cost efficiency of management control and institutional supervision systems.

2. Oversight Note on the Additionality of Resources of the C and D Action Plan (RE-290)

1.16 As part of OVE 2003 work program, the Board of Directors requested an oversight study on the “additionality” of the C and D Action Plan. This Plan was approved as an earmarked initiative for 1997 and 1998 intended to enhance the capacity of the least-developed borrowing member countries to design and execute effective development projects. The evaluation was carried out during 2003 but presented to the Board in January of 2004.

1.17 The concept of additionality has both a substantive meaning and a financial one. Substantively, it refers to the effects of the initiative in increased developmental impact (outcomes) while financially it means increased resources (inputs) provided to the development process. Both concepts assume a “counterfactual” situation in which some base level of either inputs or outcomes is anticipated, against which to compare the actual inputs or outcomes produced with the Plan.

1.18 For reasons of time and resource constraints, the OVE evaluation focused on only the second of these meanings, concentrating on evaluating the additional financial resource “inputs” applied through the plan to the C and D group countries. Even the limited task of assessing financial additionality was complicated, however, by the paucity of information, due to a variety of factors including: the lack of appropriate baselines; the complexity of the Plan (targeting different organizational units and funding sources); limitations of the current Bank budgetary information system; and the lack of mandatory reporting requirements on the Plan after 1999. Based on the limited data available, the
study attempted to estimate financial additionality for each of the four subprograms included in the Plan.

1.19 The study findings indicate mixed results with regard to financial additionality. Two of the four components of the Plan, indicate plausible additionality but for the most part for a limited period of time. In the case of the first Plan component, supporting project identification and execution for country offices with administrative funds, additional expenditures for C and D countries (in comparison to A and B) could only be demonstrated for the years the Plan was earmarked (1997 and 1998).

1.20 The second Plan component dealing with additional project preparation work at headquarters may have been responsible for the observed pattern of sustained project preparation work on C and D countries at the same time that project preparation effort was dropping in A and B countries. However, the clear difference in behavior between country groups cannot obviously be attributed to the Plan, since there may be other factors such as the higher number of countries in the C and D group. It is thus impossible to establish financial additionality with a high degree of confidence.

1.21 The third component, use of Technical Cooperation resources for consulting services in Country Offices showed an increase in funding during the earmarked period is related to the transfer of convertible currency resources from the Regional Cooperation (RTC) program. The training component-- aimed at strengthening the human resource base of national institutions responsible for preparing and executing projects--represented a substantive change in the type and nature of training provided. It is plausible that there was an additionality effect, but lacking information to construct a counterfactual, it is not possible to establish that the resources funding this training were over and above those that would have been available to these countries in the absence of the Plan.

1.22 The exercise of assessing financial additionality illustrates the difficulties encountered by the absence of baseline information. It may be advisable for future programs earmarked for specific objectives that attention is given ex-ante to the development of information systems that are capable of generating comparable data overtime, thus ensuring the collection of information for monitoring and evaluation.

1.23 Two additional oversight studies, one on risk assessment and mitigation in projects and one on country portfolio reviews have been largely completed during 2004 but will be presented to the Board toward the end of the year and will be summarized in next year’s annual report.

1.24 In addition to these studies, OVE is conducting ongoing oversight activities of two key self evaluation systems used by Management: Project Completion Reporting (PCRs), and Project Performance Monitoring Reporting (PPMRs). In compliance with the Core Standards for Project Completion Reporting endorsed by the Evaluation Cooperation Group of the Multilateral Development Banks, OVE is performing “Independent validation of completion reporting through two-stage performance review, utilizing “desk reviews” of all completion reports and “full reviews” of selected operations.” (See Annex IV of RE-247).
PPMRs are Management’s principal tool for ongoing project monitoring. At the request of Management, OVE is also conducting validation of these reports to offer an independent assessment of whether the information contained in these reports is sufficient to warrant the ratings in the documents on progress toward the achievement of project outcome objectives.

E. Country Program Evaluations

OVE has been asked by the Board to conduct country program evaluations in advance of the preparation of each new country strategy document. The Board-approved Guidelines for country strategy preparation require a new country strategy document whenever there is a major national election. This fixed timetable produces significant variation in the volume of CPEs required each year, as illustrated in Table 1.1 below. In 2004, electoral calendars in the region coincided to an unusual extent, creating the need for 10 CPEs in that year, double the number produced in any preceding year.

<table>
<thead>
<tr>
<th>Doc. Number</th>
<th>Document Name</th>
<th>Number of Recommendations</th>
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<tbody>
<tr>
<td>RE-256</td>
<td>Country Program Evaluation: Trinidad and Tobago</td>
<td>8</td>
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<tr>
<td>RE-259</td>
<td>Country Program Evaluation: Mexico</td>
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<td>RE-280</td>
<td>Country Program Evaluation: Colombia</td>
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* To be distributed.
1.27 The table above provides hyperlinks to the CPEs that have been publicly disclosed. Prior to 2004, the Bank’s information disclosure policy provided for the disclosure of only summaries of evaluation reports, but a new disclosure policy, approved in 2003, mandates full disclosure of evaluation documents.

1.28 While the countries evaluated presented very different contexts for Bank action, some generalizations do emerge from this segment of OVE’s work. In terms of development challenges, all the CPEs found that the Bank emphasized the pace and distribution of economic growth, along with inequality, poverty and social exclusion as critical areas for intervention. Most also addressed political instability and/or problems in governance as challenges.

1.29 The CPEs consistently find similar issues related to the quality of Bank programming. Programming documents approved over the past 10 years lacked measurable goals and indicators of accomplishment, and contained development goals that were so general as to preclude the construction of a strategic and operational model for Bank activities. Goals lack good indicators of performance, and country strategy documents generally do not provide an extensive evaluation of the results of prior programming cycles. Similarly, every CPE reports problems with program and project reporting and monitoring systems, with the result that it is difficult to find sound data on program or project development outcomes.

1.30 CPEs find that programming is generally descriptive rather than analytic, and that the Bank invests effort more in managing disbursements than in doing in-depth studies of sectoral and institutional issues in the countries. There were some exceptions to this pattern: the Paraguay CPE finds that analysis of the economic context was sound, and the Bank’s contribution of knowledge and expertise in some sectors was noted in the case of Brazil.

1.31 CPE analyses of results show that outputs tend to be realized, especially in infrastructure and equipment - but the Bank has less information regarding its achievements in changing outcomes or institutions. Some data exists on outcomes (Ecuador realized improvements on between 25 and 75% of development objectives in the social sector, governance and competitiveness, while in Bolivia, there were important advances in health, education, and taxation), but this information is not available from the Bank’s data bases nor is it systematically available for all countries across the full range of development objectives cited in Bank loans and programming documents. The quality of indicators does, however, appear to be improving in more recent projects and country strategy documents.

1.32 The issue of debt dynamics figures prominently in a number of CPEs. The Bank is a major creditor to most of its borrowers, and debt to the Bank plays a significant role in shaping the options available for supporting future developmental interventions. Despite these realities, Bank programming documents generally do not analyze the country’s debt dynamics with the Bank, and in a few cases (Colombia, Argentina) the country’s debt profile with the Bank has had a large, but unanalyzed, impact on how the Bank’s program evolved.
1.33 Each CPE contains recommendations for the next programming cycle. Some of these are specific to the country, but a number have a more generic character: improve the results frameworks in programming documents; address debt dynamics; invest more in analytical work to understand the problems of the country; focus Bank interventions in a more strategic fashion. While these recommendations may be similar across countries, they point to persisting issues in how the Bank organizes itself to serve country needs and produce development results.

F. Sector and Thematic Evaluations

1.34 This category of evaluation work was formerly titled “strategy evaluation,” reflecting the existence in the Bank of numerous sectoral and thematic strategy documents that were thought to provide guidance to the Bank in how to proceed in a given area. During 2002 and 2003, OVE evaluated strategies in the areas of decentralization and citizen participation, support to indigenous groups, water and Sanitation, justice, delivery of social services through NGOs, small and medium enterprise, integration, education, information technology and development, poverty reduction, agriculture, and natural disasters. Three of these strategy evaluations were produced at the end of 2003 and did not appear in last year’s annual report. They are summarized below:

1. Evaluation Bank's Basic Education Strategy (RE-281)

1.35 Over the last decade, the Bank prepared two strategy documents that provide guidance for basic education activities in the region: “Supporting Reform in the delivery of Social Services,” approved in 1996; and the “Strategy for Reforming Primary and Secondary Education in Latin America and the Caribbean,” approved in 2000. A review of the projects prepared over the decade demonstrated that strategy documents were only partially reflected in the priorities revealed in project preparation, as loan project design only partially reflected strategic lines of action.

1.36 The evaluation concludes that the Bank’s Social Sector Strategy provides surprisingly little implementation guidance on the policy recommendations proposed, especially given the innovative content of policies such as those related to incentives and government financing of nongovernmental provisions. The Primary Education Strategy is more explicit in identifying tools and mechanisms for implementation, but falls short in specifying, for example, how to provide effective support for improving school management with school autonomy.

1.37 Moreover, at design, education projects show a low average level of evaluability on the achievement of the strategic developmental goals of the Bank. Thus the Bank’s project monitoring tools are not providing adequate information to judge progress in the achievement of strategic goals.

1. The report recommends that future strategies need to acknowledge the weakness of the empirical evidence supporting each specific policy recommendation and propose a robust learning process necessary to mitigate the risks associated with the adoption of policies under conditions of uncertainty about their impact. A part of this process is ensuring that appropriate mechanisms are put in place to
assess the implementation and effectiveness of its strategic process. Future initiatives in education need to further incorporate ongoing efforts in the region to develop integrated approaches with standards of learning and quality assurance mechanisms within departments of education. Finally, future strategies and projects which choose to propose non-government delivery of services, would benefit from a robust analysis of the rates of utilization of non-government providers, quality differentials between government and non-government providers, cost differentials, and differences in the geographical distribution.


1.38 This report provides an account of the results achieved by the institution in terms of poverty reduction, guided by policy statements that focus on two key variables: the capabilities of the poor to participate in the economy, and the opportunities provided by the economy for fostering the productive engagement of the poor. IDB interventions with respect to opportunities related largely to supporting economic reforms designed to increase overall growth rates and demand for labor, while capabilities interventions focused on nutrition, education and training of the poor.

1.39 Available data in the region suggests that there has been some progress in improving capabilities, but virtually none with respect to opportunities. There has been a significant increase in unemployment rates in LAC during the last decade, and the incidence of unemployment is regressive, with the lower income quintile showing a higher incidence of unemployment. There has also been an upward jump in “unprotected” employment during the nineties: the informality rate has consistently increased during the period and self-employment has grown particularly among those in the lowest quintiles. Real labor incomes, which had fallen sharply during the eighties, have increased during the nineties. It must be noted, however, gains in real labor income obtained by the poor were mainly due to increases in participation rates and “efforts” rather than increases in the average remuneration received by the poor.

1.40 The patterns suggest that a serious decline in the Region’s poverty will require the countries and the Bank to follow a different path from that of the nineties if they are to achieve the poverty-reduction targets established in the Millennium Development Goals. The Report recommends that the Bank re-evaluate the resources assigned internally to poverty reduction work, cooperate closely with the borrowing countries in establishing data mechanisms to track the targeting of social welfare expenditures, and put a sharper focus on labor market issues in country programming documents.

3. From Awareness to Action: An Evaluation of the Bank’s Policy on Information Age Technologies and Development (RE-289)

1.41 The purpose of this report is to evaluate the Bank’s Operational Policy on Information Age Technologies (OP-711), which was approved in December 1998. The report establishes, first, that information age technologies are vital enablers of progress in each
of the pillars of the Bank’s 1999 Institutional Strategy and, second, that the technologies present important policy challenges that appear to call for public action, including, in principle, a considerate and dynamic response by the Bank, assuming that problems of information failure can be solved.

1.42 The report notes that the Bank’s policy poses appropriate and appropriately ambitious vision of development accelerated by the promises of ICT, but is not built upon adequate empirical work regarding the state of connectivity in the Region and the use of technology in public administration, public services, and private activity that would have been required to generate a benchmark against which to specify targets for action and prioritize specific kinds of interventions.

1.43 With respect to the question of results, the report concludes that results are unknowable because the ICT components of the projects that were reviewed are not evaluable: results frameworks are not specified ex ante and the project performance monitoring reports do not track progress in the projects’ ICT components. More fundamentally, the report finds that the Bank does not know how much it lends for ICT because the proposed investments are found to be incompletely justified and specified, and the budget tables in loan documents (as well as the budget categories in the Loan Management System) are not detailed enough to enable reliable ex ante and ex post knowledge of the amounts invested in ICT and of the breakdown of the investments according to meaningful categories.

1.44 Overall, the report concludes that the Bank should re-think its stance with respect to ICT. The topic is critical, given the pivotal role of technology and R&D for competitiveness, the terms of countries’ insertion into the global knowledge economy, the transformation of government, and the efficient delivery of client-oriented public services. ICT is a constantly evolving tool of the knowledge economy and the Bank, as concluded in this report, has been slow to deal with the systemic importance of the different elements that need to be in place.

4. Evaluation of the IDB’s Program in the Agriculture Sector (1990-2001) (RE-291)

1.45 In the past decade the IDB’s support for the agriculture sector, in relative terms, was the lowest in the organization’s history (4.5% of total lending versus 22% in the three previous decades), and trailed World Bank lending to this sector by US$1.2 billion. This is at odds with agriculture’s contribution to regional GDP and with its share of the region’s exports trade.

1.46 In the 1990s, the IDB supported early efforts to improve rural financial services through its Agriculture Sector Programs. However, this evaluation found that no parallel initiatives were fostered to develop alternative institutional frameworks that would fill the void left when existing systems were later dismantled. One facet of the reforms was the closing of State-owned agricultural banks in the region, which had large loan arrears on their books and often served mid-sized and large-scale producers who benefited the most from interest-rate subsidies. The Bank’s work on this front remained unfinished: one
serious distorting factor for agricultural credit had been removed but, on a practical level, there was little appreciable improvement in the availability of credit or financial services for small farmers.

1.47 Generally speaking, moves to liberalize agricultural trade—another aim of Agriculture Sector Programs—effectively dismantled protective mechanisms. However, there was little exploration of meaningful ways of compensating the hardest-hit groups. Furthermore, policy reform moves did not take into account the adverse effects of sharp exchange-rate appreciations once capital accounts were opened or of inflexible exchange-rate policy management. The Bank has developed a sizable Rural Poverty Targeted project portfolio encompassing most of the borrowing member countries. The Bank’s actions are consonant with the options and products identified in its Rural Poverty Reduction Strategy. The chief achievement of Agricultural Services Programs has been to further institutional reforms of research systems to improve their efficiency and help forge public-private partnerships. The center of gravity of Bank activities thus has shifted from capital-investment finance to research program funding, adopting new approaches to help pay for agricultural research via competitive funds and foundations.

1.48 Given agriculture’s weight in the regional economy and in the region’s export trade (accounting in many countries for over half of total export sales), the Bank should rethink its current allocation of resources to the agriculture sector. Likewise, the Bank should do more to incorporate the agricultural and rural dimension, with its unique features, when addressing such important issues as poverty reduction or competitiveness enhancement.

1.49 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 that were summarized in an overview report during 2003 (RE-286). 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 who 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 know whether the strategy is working at the scale or pace intended.

1.50 As a result of these evaluations, OVE has concluded that the evaluation of Bank sectoral strategy documents does not produce a high return in terms of institutional learning and direction-setting, and in the future will conduct evaluations on the content of actual Bank operations in sectoral and thematic areas, rather than evaluations of the Bank’s formal strategies.

G. Policy and Instrument Evaluation

1.51 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. During 2004, three policy and instrument evaluations were completed:

I. Instruments and Development: An Evaluation of IDB Lending Modalities (RE-300)

1.52 For much of its existence, the Bank has followed a business model based on providing long-term debt finance for individual “projects.” Projects are seen as largely self-contained attempts to create productive assets for countries by providing significant net transfers of resources to finance a specific, pre-identified series of expenditures. Projects are designed by the Bank usually in conjunction with country authorities, and executed by the borrower. The project model is implemented through two broad families of lending instruments: “investment” loans that finance identified expenditures, (historically expenditures associated with public sector capital formation); and “policy based” loans that provide funds unconnected to specific expenditures in response to compliance with policy reform objectives.

1.53 Both types of lending instrument are potentially capable of making a positive contribution to country development, but this contribution needs to be defined and measured in the form of economic rates of return. Debt as a form of development assistance can prove problematic if future returns generated do not exceed the future costs of debt service.

1.54 The evaluation found that Bank lending instruments did not generally contain adequate safeguards to ensure adequate assessment of the future benefits arising from lending projects. Only a minority of Bank loans contained some form of rate of return or cost/benefit calculation. Safeguards in Bank investment loan instruments tended to concentrate on fiduciary issues related to where the money was spent, rather than issues related to what the money accomplished.
1.55 Policy-based lending instruments also did not attempt to define the future returns from their activities, and had the additional problem of combining two objectives in a single instrument. PBL operations combine country finance objectives (often in times of economic crisis) with policy reform objectives, making it difficult to discern ex-post precisely what objectives such loans were pursuing.

1.56 At the same time, the analysis found that country needs are evolving in a way that challenges the continued relevance of the project model of development finance. Fiscal restraints make it harder to manage the interface between domestic budgetary systems and internationally-financed, stand-alone projects, and the transaction costs associated with the project model make less sense in a world of increased fiscal accountability and transparency at the national level. Countries need for the multilateral development finance institutions to integrate more effectively with domestic budgetary and accountability systems, and to combine policy and institutional reform with the financing of specific expenditures required to make reform effective.

1.57 In light of these findings, the report recommended that the Bank deepen substantially the analytical underpinnings of all Bank operations. All proposed interventions, whether focused on new investment or on efficiency gains through policy reform, should describe clearly the future economic and financial returns anticipated, and compare those returns analytically to the future costs of the debt acquired to finance them. It also recommended that the Bank focus on countries rather than instruments and seek greater integration of Bank activities with those of the country through the implementation of program-focused rather than project-focused interventions. This could involve joining with other multilateral organizations in developing and applying best practices for assessing country fiduciary management capacity and delegating such functions to those countries whose oversight institutions are deemed adequate.

2. Synthesis of OVE Evaluations of Bank Action for Private Sector Development
(RE-287)

1.58 This report responds to a specific request made by the IDB’s Board of Executive Directors to the Office of Evaluation and Oversight in July 2003, as Management embarked on designing a Private Sector Development Strategy. Pursuant to that request from the Board, this meta-evaluation report summarizes the main points arising out of OVE evaluations of Bank actions in private sector development over the past three years. It contains no new evaluative insights; rather, it distills the principal strategic issues presented in earlier OVE papers that go beyond assessment of the impact of activities in specific areas.

1.59 The report outlines the private sector context over the past decade and the principal trends observed in each of the different evaluation reports. It also provides a summary of points of agreement found in the aforementioned evaluations of the Bank Group, aimed at providing insights and lessons that might prove useful for discussion of a private sector development strategy. The report concludes with a short review of a number of findings from the study of evaluations and analyses of best practices in strategic planning, yielding
methodological and structural insights for a strategy capable of effectively shaping and supporting the Bank’s efforts to bolster private sector development in the coming years.

1.60 During 2004, additional work was carried out to update the 2001 independent evaluation of the projects financed by the Bank’s private sector department (PRI). The first evaluation looked at projects shortly after approval, while the current review will look at how the Bank’s private sector lending program has matured over time. This report will be delivered to the Board by the end of 2004 and will be discussed in detail in next year’s annual report.

3. Evaluation of the Bank’s Policy and Operational Practice Related to Natural and Unexpected Disasters (RE-292)

1.61 This report evaluates the Bank’s policy (OP-704, approved in 1998), the IDB Action Plan on Natural Disasters (written in 2000), and operational and non-financial activities related to disaster prevention, mitigation and response undertaken by the Bank between 1995 and 2002. The report demonstrates that natural disasters pose great challenges to most of the countries in Latin America and the Caribbean (LAC) and consequently to the Bank itself.

1.62 While most of LAC is highly susceptible to damage from different types of natural disasters, the risks are distributed unevenly, making some countries more vulnerable than others. The report argues that there is rising awareness and some progress in natural disaster risk management in LAC. Risk transfer mechanisms, particularly those involving insurance markets and securitization through capital markets (for example, catastrophe bonds), are undeveloped in LAC, and, realistically speaking, will need time before they can play a significant role as part of the range of policy instruments that are available to manage disaster risk. The institutional and regulatory requirements for a functioning insurance and reinsurance market are demanding and far from being satisfied at the present time. As a result, governments find themselves in the position of having to accept more risk than they can and should, given their limited financial strength.

1.63 The challenges to the Bank in the face of intermittent natural disasters, historically, have not so much been in the nature of credit risk (i.e., the possibility that a borrower affected by a natural or unexpected disaster fails to repay principal and interest to the ordinary capital account on time) as they were developmental and in the nature of mission risk. Natural disasters compromise past investments by the Bank and its borrowers. The need to rehabilitate and reconstruct carries opportunity costs in terms of the pursuit of developmental goals necessarily postponed. The Bank does not evaluate these costs and the best courses of action available to deal with them. In fact, and this is a key conclusion of this report, the Bank fails to address the developmental and mission risk implications of intermittent disasters for its programming and financing strategies in highly vulnerable countries.

1.64 The report recommends that the Bank revise its operational policy to place disaster risk management at the center of its activities, strengthen the incentives and capacities for risk management in highly vulnerable countries and to prepare the ground for efficient forms of risk transfer and financing. It also recommends introducing disaster risk management
into country programming for highly vulnerable countries, and develop guidelines for a transparent process of loan reformulation, including methods to make explicit the mission risk or opportunity costs associated with reformulation.

**H. Ex-Post Evaluation**

1.65 In 2003, the Board adopted a new policy on ex-post evaluation designed to strengthen the Project Completion Report as an early form of ex-post self-evaluation by Management, and mandated that OVE conduct two new types of independent ex-post evaluation: Ex-post Performance and Sustainability Assessments (EPSAs) and Ex-Post Impact Evaluation Reports (IERs). For 2004, EPSAs were to be conducted on 20 percent of projects completed during 2002 and were designed to provide a summary review of project performance and continuity of benefits. IERs were to be conducted on at least two projects completed in the previous four or more years. Such evaluations seek to establish the long-term flow benefits from the project, and to estimate the value added by the Bank to the long-term results obtained.

1.66 OVE had started in 2003 a pilot program on impact evaluation of Bank projects. With the cooperation and financial support of the three regional departments, 6 projects were selected for impact evaluation prior to the passage of the new ex-post evaluation policy. The pilot program was designed to provide information on the costs and benefits of impact evaluation in order to establish the resources required in the future to comply with the new ex-post evaluation policy.

1.67 During 2004, the 6 pilot impact evaluations were completed, along with briefer EPSA-level evaluations of 13 other projects. Projects were clustered in two thematic areas: neighborhood improvement and land tenure regularization. A full report on this exercise will be sent to the Board before the end of 2004, but the principal conclusion of the exercise is that the costs and benefits of ex-post evaluation are directly related to the quality of data collected and maintained by the project sponsor during the life of the project. Where data collection has been sound and consistent, the knowledge payoff of the evaluation is high and the costs of data analysis are relatively modest. When data collection has not been a principal focus of the project, the ex-post generation of data is very expensive and the knowledge payoff is lower because key data elements such as the pre-project baseline cannot be credibly reconstructed after project completion.

**I. Evaluation Capacity Building**

1.68 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.”

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1.69 Supporting the development of evaluation capacity in the borrowing member countries has been an integral part of the work program of the Bank’s Evaluation Office since 1994. As part of its 2004 capacity-building work, OVE subscribed to a Collaborative Agreement with CABI to support evaluation within that institution, and worked with evaluation agencies and universities in Peru, Brazil and Argentina to conduct evaluations of projects funded with funds originated from IDB funds.

1.70 OVE has maintained a long-term relationship with the Brazilian Institute for Research in Applied Economics (IPEA). 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 países da América Latina” (“Efficiency and Efficacy in Government: a Comparative Analysis of Evaluation Systems in Latin American Countries”).

1.71 In 2004, the collaboration with IPEA resulted in an international summit that convened ministry heads and evaluators from both public and private sectors to assess the state of evolution capacity in Latin America and the Caribbean. A product of the seminar was the proclamation of the Brasilia accord to continue a regional effort to strengthen evaluation capacities among governments academic and research centers and establish a regional observatory on evaluation capacities. There was also an agreement to continue developing evaluation networks in the region and broaden the base of awareness of evaluation techniques as an aid to public administration. OVE intends to expand and formalize this evaluation network as part of its 2005 work plan.

J. Tracking the Impact of Evaluations

1.72 As of September 2004, OVE had produced and forwarded to the Board of Executive Directors 45 studies that included a total of 251 recommendations for enhancing the Bank’s effectiveness. OVE studies are generally presented to the Board accompanied by written comments from Management, and Management is also invited to participate in the Board discussions of OVE reports. A review of these comments show that Management generally agreed with the thrust of OVE recommendations, and that disagreement has been voiced on less than 10 percent of the recommendations. To facilitate the tracking and follow-up on OVE recommendations, the complete list of such recommendations has been placed on the OVE website, along with a place for Management to comment on progress achieved. Once this matrix is completed, OVE will report in June of each year on recommendations it considers to have been fully complied with and those where action is either pending or incomplete.
II. IMPLEMENTATION REPORT AND BUDGET REQUEST


2.2 Table 2.1 summarizes OVE’s accomplishments in 2004 and presents a detailed work plan for 2005 and a tentative plan for 2006. Column 1 of the table shows the items which OVE has completed by September 2004 (marked C04) and those which are expected to be completed before the end of 2004 (marked TBC04). Studies initiated and substantially completed in 2004 but which will not be finalized until 2005 are marked TBC05. Column 3 provides a listing of proposed work in 2005, while column 4 indicates some of the items to be included in the 2006 work plan.

2.3 In the aggregate, by the end of 2004 OVE will have delivered to the Board 18 evaluation reports, and will have substantially completed work on another three reports that will be delivered to the Board early in 2005. Several ongoing activities (evaluability assessments of programming documents, validation reviews of PCRs and PPMRs, evaluation capacity building assistance to project teams) did not produce separate reports for the Board in 2004, but summary reports on these exercises will be delivered in 2005. The individual project evaluations which are carried out as part of OVE’s country, sector and thematic and policy evaluations are not sent directly to the Board but are available for inspection in the OVE archives.

2.4 Table 2.1 also presents a proposed work plan for 2005. It includes 19 anticipated reports, and 4 ongoing items (validation of PCRs, validation of PPMRs, evaluation capacity building work, and evaluation services to the IIC). Four of the items (health, taxation and fiscal policy, and in-country economic and sector work) were included in the original 2004 work plan and have progressed substantially during the year but will not be delivered until 2005. Four other studies, (country portfolio reviews, evaluability assessment of projects, transportation and energy) were postponed from 2004 to 2005 in order to make room in the 2004 work program for a major but unanticipated evaluation on the Bank’s lending instruments.
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**Status Codes:**
- **0:** Ongoing
- **C04:** Completed prior to Sept. 04
- **TBC04:** Expected completion in 2004
- **TBC05:** Work started in ’04, delivery ’05
2.5 **Oversight reports** provide an independent evaluation of the systems and processes used throughout the Bank to provide ongoing monitoring and feedback to Management on Bank operations. These reports are designed to support Management’s efforts to fulfill the Governor’s mandates to increase the results focus of the institution’s activities. An oversight review of project evaluability was scheduled for the 2004 work program (to update the results obtained from the 2001 exercise), but was postponed to 2005 in order to accommodate the Instruments and Development evaluation. Summary reports on the validation reviews of PCRs and PPMRs are scheduled for 2005, as is a summary report on the evaluability of country programming documents and an oversight study of country portfolio reviews.

2.6 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.” Five initiatives in the 2004 budget meet the cost threshold: (i) the human resources strategy, (ii) the Trade and Integration initiative, (iii) Enhancing the Bank’s Economic Intelligence; (iv) IIRSA; and (v) the Plan Puebla Panama. The last four initiatives are included as continuing items in the 2005 budget proposal, and OVE has tentatively included evaluations of those initiatives in its 2006 work plan. An evaluation of the Regional Policy Dialogues was already scheduled for 2006, and is discussed below under policy and instrument evaluations.

2.7 The Human Resources Strategy is set to expire in 2004, and in response to a request from the Board, OVE has included in its oversight work plan an evaluation of the Bank’s use of human resources. This is a potentially major undertaking, and at the time of submission of this report, OVE has circulated a proposed methodology for the evaluation to be discussed by the Board’s Human Resources Committee. The methodology contemplates a two-phase evaluation, the first phase establishing baseline data on the use of human resources to provide services to countries, and the second phase contemplates a benchmarking effort to align Bank products, processes and human resource deployments to the service needs of its clients. Phase 1 can be accomplished within the current budgetary request for OVE, but if the Board wishes to authorize work on Phase 2 in 2005, resources in addition to those contained in this budget submission will be required.

2.8 For 2006, OVE has included an oversight study on the implementation of the Bank’s new capital adequacy policy. The Board requested this study when it approved the new capital adequacy model, and will focus on the impact of the new approach on the Bank’s lending framework and the use of risk assessment techniques in Bank operation. The 2006 work plan also includes a proposed oversight review on the implementation of Management’s Action Plan for Development Effectiveness.

2.9 **Country program evaluations** are designed to support the increased emphasis being placed on country programming by both Board and Management. These multi-year evaluations of the full range of Bank instruments provide an opportunity to examine the results of Bank activities at the level of an entire country program, not simply at the level of an individual loan or technical cooperation operation. Country program evaluations are tied to the production of Bank country strategies, which, in turn, are tied to the
electoral calendar in the region. 2004 saw the delivery of 10 CPEs, an unprecedented number, due to a coincidence of elections in a large number of borrowing member countries. For 2005, only four CPEs are scheduled (Panama, Dominican Republic, Surinam and Uruguay), but 6 additional countries are due for delivery in 2006. In order to smooth out the work program, substantial work will be done on at least two of the six CPEs scheduled for 2006 delivery as part of the work program for 2005.

2.10 At the time of preparation of this work plan, OVE has circulated a review paper on the practice and method for country program evaluation, and is anticipating a discussion with Management and the Board regarding revisions to the Protocol for the Conduct of Country Program Evaluations. It is not anticipated that this review will alter the timetable for the production of CPEs, and OVE’s budget submission therefore includes resources for conducting 6 CPEs during 2005, two of which will be delivered in 2006.

2.11 Policy and instrument evaluations are intended to provide evaluative input to Board decisions regarding the design or modification of basic institutional products, services and policies. In 2004, three major studies fell under this heading: Instruments and Development; Policy for natural and unexpected disasters; and a review of experience with the Bank’s private sector lending instrument. In 2005 OVE intends to carry out policy and instrument evaluations on: the private sector action plan for C and D group countries; the application of the public utilities policy to the energy sector; and the continued provision of evaluation services to the IIC (all items included in 2004-5 work program).

2.12 One new policy and instrument evaluation is proposed 2005: a follow-up study to the Instruments and Development report that examines in greater detail the use of economic analysis in Bank lending instruments. OVE’s conclusions in that report echoed an earlier study by the Bank’s Controller’s Office regarding inadequate attention being paid to systematic and rigorous economic analysis in the justification of Bank lending operations. The proposed study, to be done in parallel with the planned evaluability assessment of projects, would examine the quality and depth of economic analysis contained in all lending operations sent to the Board for approval in 2005.

2.13 For 2006, a policy and instrument evaluation is proposed on the Bank’s program of regional policy dialogue. This evaluation is the result of a request from the Board at the time of approval of this initiative that its impact be evaluated in 2006, prior to any decision regarding possible continuance of the program.

2.14 Sector and thematic evaluations. During 2002 and 2003, OVE evaluated 10 sector and thematic areas, and produced a summary report on sectoral strategies in the Bank. Because of the extensive demands for country program evaluation during 2004, only one sectoral evaluation (legislative strengthening) was produced, and substantial progress was made on three others. The legislative strengthening work yielded insights that were primarily useful for lesson learning, and the results are being presented as a technical seminar on the issue rather than a formal evaluation report. The remaining three studies (taxation, health and energy) are scheduled to be presented to the Board as formal report in the first part of 2005. Additional sector and thematic work planned for 2005 include
previously anticipated studies on public service reform, audit and control entities, and early childhood interventions.

2.15 New for 2005 is a proposed study on financial sector reform, which will also include a review of the Bank’s multi sector credit operations. This had originally been part of the evaluation on the private sector carried out in 2004. The range of issues involved, and the intersection of both private and public activities has led to the conclusion that this topic would be best handled with a free-standing report to the Board on this issue.

2.16 For 2006, OVE is proposing an evaluation of the Bank’s science and technology operations. The development and dissemination of scientific and technological knowledge has been an important element in the Bank’s strategy for development of the private sector, and renewed attention to this topic is being proposed by Management for future lending operations.

2.17 **Ex-post evaluation.** In 2003, the Board adopted a new policy on ex-post evaluation designed to strengthen the PCR as an early form of ex-post assessment and mandated the creation of two new ex-post evaluation products: Ex-post Performance and Sustainability Assessments (EPSAs) and Ex-post Impact Evaluations (EIRs). The new policy mandated that OVE conduct EPSAs on 20% of the universe of projects completed during or after 2002 that had been closed for a minimum of two years. It also directed OVE to conduct two EIRs per year. For 2004 OVE requested funds to carry out 10 EPSAs, while completing work on 6 pilot EIRs that had been started in 2003 with the financial support of the Regional Operations Departments.

2.18 The 2004 exercise generated considerable new information regarding the conduct of ex-post evaluations. The key to successful ex-post evaluation is data collection by the project. Where data has been reliably collected since the start of the project, the analytical costs for ex-post evaluation are relatively modest. Where data is absent, however, the costs of new research to generate the information required for evaluation can rise rapidly. On the basis of the 2004 experience, OVE calculates that EPSAs cost, on average $40,000, while EIRs cost $200,000. Using these figures, OVE has included in its budget for 2005 a request for funding to comply with the policy requirement of 20 EPSAs and 2 EIRs.

2.19 In 2005, the ex-post evaluation exercise will focus on two thematic areas: financial sector reform and active labor market policies. In each area, a range of projects will be selected for ex-post evaluation including, where possible, investment, PBL and emergency operations.

2.20 **Evaluation capacity building.** Working with Bank staff and borrowing countries to improve evaluation capacity in the region has been a function of the Bank’s Evaluation Office since 1994. OVE has pursued this element of its work program through providing technical assistance upon request to project teams, reviewing and commenting on Management initiatives in evaluation and results-based management, providing consulting services to the Central American Bank for Integration and Development, funding evaluation studies by CABEI and the Caribbean Development Bank, and
working with the Brazilian Institute for Research in Applied Economics (IPEA) in the design and implementation of a regional technical cooperation operation (ATN/SF-5574-RG) to promote awareness of evaluation issues in public sector institutions through the Inter-American Roundtable on Evaluation and Performance Management. This TC produced various studies on the state of the evaluation function in the region and established the basis for expanding and formalizing a network of evaluators (REDVAL) in the region.

2.21 In 2005, OVE intends to contribute to formalizing this network (REDEVAL) by providing a web-based clearinghouse for news, comment and information on evaluation activities in the region. Participation in the network will be open to staff in government agencies, universities and non-governmental organizations, and OVE will publish on the network webpage summaries of evaluations done by participants.

2.22 OVE has also found that the conduct of ex-post evaluations can have an important secondary benefit of building evaluation capacity in the region. In the pilot exercise on impact evaluation, OVE contracted public entities in Argentina and Brazil, and a private research institute in Peru to perform the bulk of the evaluation work on Bank projects in those countries. This approach results in both completed ex-post evaluations and a substantial increase in the experience base for evaluation work in the countries. OVE estimates that over half of the total budget request for ex-post evaluation will be spent in 2005 through contracts to agencies in the region. To the extent possible, and in compliance with Bank procurement processes, OVE will endeavor to contract future evaluations through the REDEVAL network.

2.23 During 2004, OVE also provided evaluation services to the IIC. This contract is expected to continue in 2005, at a somewhat higher level, in response to a request from the IIC for evaluation services going beyond the past emphasis on validation of internal self-evaluation activities.

2.24 As in the past, it is likely that some of the items in the 2005 work plan will be carried forward into 2006, displaced by intervening requests from the Board for additional evaluation work, or as a result of unanticipated production or review delays in the process of producing other planned outputs. As a result, while it is not possible to estimate in advance which studies will require more time, it is likely that 6-7 of the 21 proposed reports for 2005 will in fact end up being delivered in 2006.
in 2005. The first of these is an adjustment needed to compensate for the difference between budgeted and actual annual salary adjustments in 2004. At the time of budget preparation, departments were required to budget for a salary adjustment of 3.6%, but the actual adjustment provided in 2004 was 5.3%. Larger departments with significant turnover can absorb these differences, but OVE was fully staffed throughout 2004 and had to apply the 5.3% increase to its full complement of staff. This gives us an end-year salary base that is $53,130 larger than the base shown in the table for 2004. The anticipated 3.7% bankwide increase for 2005 needs to be applied to this larger base, accounting for an additional $1,965 in personnel costs for 2005.

2.27 The second adjustment relates to rotation. OVE and Management are committed to a program of rotation to staff, but because OVE is a separate line item in the budget, differences in the salaries of rotated staff cannot be transferred to OVE’s budget. For the 2004 exercise, OVE received two new staff members whose combined salary base was $40,273 higher than the salary base of the staff rotating out of OVE. To keep the rotation exercise budget neutral, OVE is requesting the additional funds to cover the salaries of the new staff. If in the future the salary base of incoming staff is lower than that of outgoing, OVE will request a corresponding reduction in its budget base.