

'16 ANNUAL REPORT

Office of Evaluation and Oversight



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© Inter-American Development Bank, March 2017
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Washington, D.C. 20577
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'16

**ANNUAL
REPORT**

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Evaluating what works is critical to learning, accountability, and improved performance. Multilateral development banks such as the Inter-American Development Bank (IDB) have key roles to play in improving lives, often those of the poorest and most vulnerable people on the planet. These roles are inspiring and promising, but they also carry a heavy burden of responsibility.

The Office of Evaluation and Oversight (OVE) is the independent evaluation office of the Inter-American Development Bank Group. Since its establishment 17 years ago, it has sought to provide accurate and constructive feedback on development effectiveness to IDB's Board of Executive Directors – and, more recently, to the Board of Executive Directors of the Inter-American Investment Corporation. OVE's work complements that of IDB Group management, which is responsible for working with client countries to design and monitor “evaluable” development projects and provide their own self-assessments of project results. OVE's evaluations are disclosed to the public and are available, together with their respective management responses, at www.iadb.org/evaluation.

This is the third annual report OVE has produced. Its purpose is to provide an overview of the evaluation work OVE undertook in 2016. I invite you to review it and help us to spread the word. It is imperative that the multilateral development banks, and the development community more generally, learn from experience and seek to avoid costly mistakes whenever possible. Relevant and high-quality evaluation is critical to this end.

I would like to thank the many staff and managers in the IDB Group and partner development finance institutions with whom OVE has interacted in preparing these evaluations, and the many counterparts in client countries who have shared their knowledge and perspectives. We are all committed to the IDB Group's mission of helping the economies and the people of Latin America and the Caribbean to grow and prosper.

Cheryl W. Gray
Director

OVE ANNUAL REPORT 2016

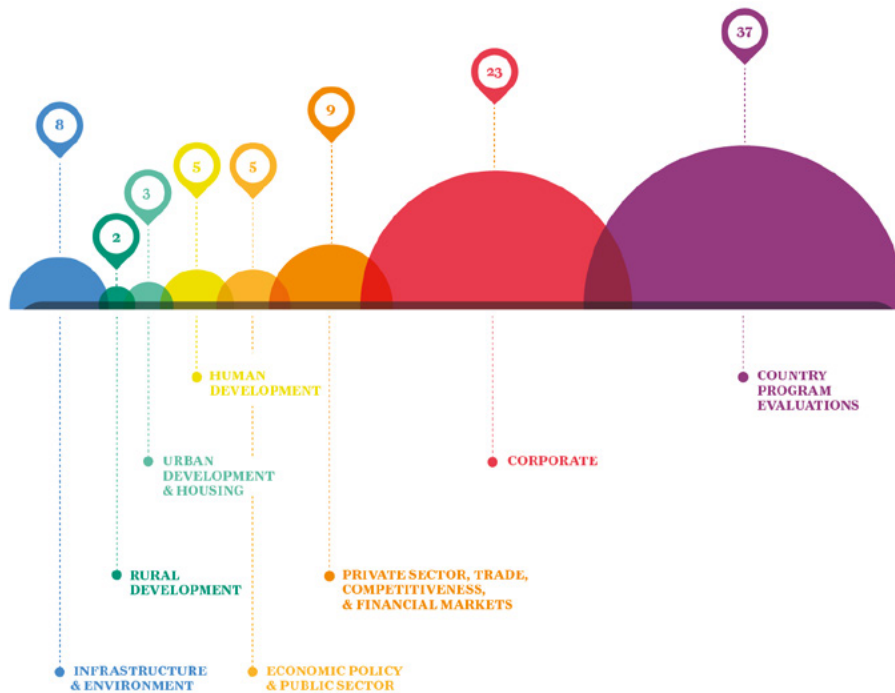
INTRODUCTION

The Office of Evaluation and Oversight (OVE) is an independent arm of the Inter-American Development Bank Group (IDBG or IDB Group), set up to promote the institution's development effectiveness through evaluation. OVE is situated within the IDBG but reports directly to the Board of Executive Directors – a structure that encourages objectivity while also allowing close interactions with other parts of the organization.

OVE's evaluations have spanned a wide range of topics over the years. In working with the Board to define a work program each year, OVE aims to evaluate development topics and corporate issues that are likely to be of high relevance to the IDB Group and to Latin American and the Caribbean (LAC) countries in the future. It also seeks to ensure that evaluations are timed appropriately to be on the critical path of decision-making in IDB and its sister private sector arm, the Inter-American Investment Corporation (IIC).

OVE's evaluations are meant to foster both learning and accountability and to support management and staff in their operational roles and the Boards of IDB and IIC in their governance role. In addition, OVE supports evaluation capacity-building in the LAC region and reaches out to share evaluation findings with the Bank's member countries.

OVE EVALUATIONS BY TOPIC AREA, 2011-2017



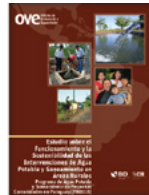
During 2016 OVE produced 15 evaluations and its annual report. In doing this, OVE's specialists traveled to 18 countries on more than 30 missions, interviewed more than 1,750 people, and analyzed more than 1,000 operations. This report provides brief summaries of the evaluations completed in 2016 and discusses some key themes emerging from them.

OVE 2016 EVALUATIONS

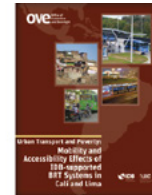
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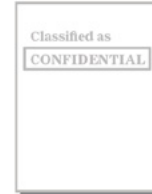
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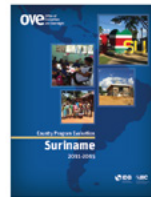
[Guatemala](#)



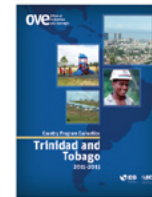
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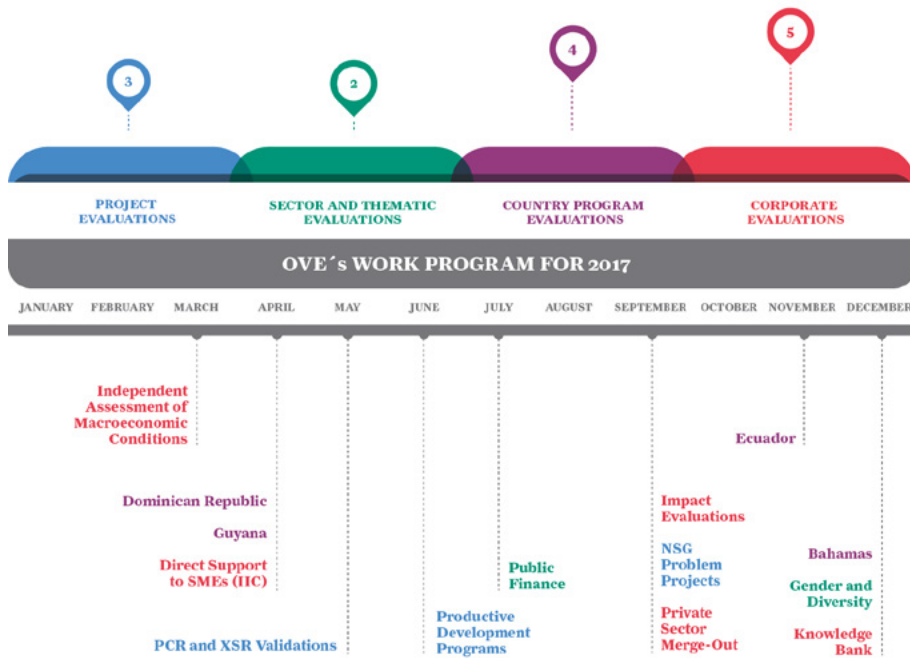
[Suriname](#)



[Trinidad and Tobago](#)

OVE's work program for 2017 includes 14 major evaluations and an annual report, as shown in the timeline below.

OVE's WORK PROGRAM FOR 2017



ASSESSING OUTCOMES AT THE INDIVIDUAL PROJECT LEVEL

OVE helps the IDBG assess outcomes of individual projects in two ways. First, it undertakes comparative project reviews to identify lessons related to project design and implementation. OVE completed three in-depth comparative reviews in 2016. One looked at the impact of [bus rapid transit systems in Lima and Cali](#) on poor people and examined how benefits for them might be increased. A second studied rural [water supply systems in Paraguay](#) that are supported by the IDB, seeking to understand the reasons for their success. A third reviewed the design and results of IDB-supported [housing programs in four Caribbean countries](#) – Barbados, Guyana, Suriname, and Trinidad and Tobago.

In addition to undertaking its own project evaluations, OVE plays a key role in the IDB Group's larger project self-evaluation architecture. In 2014 IDB updated its system for ex-post self-reporting of project results for public sector projects through Project Completion Reports (PCRs). In 2015 the IDB Group revised its system for self-reporting on private sector project results through Expanded Supervision Reports (XSRs), and IIC is now using the revised system. In 2016 OVE began to validate the first set of PCRs and XSRs prepared under the new systems, and it expects to discuss the results with the IDBG Boards in the second quarter of 2017.

Monitoring and evaluating results at the project level is the bedrock of the evaluation system of any multilateral development bank (MDB). The important efforts made to strengthen IDBG's project-level results measurement system are beginning to bear fruit and need continued support.

OUR COMPARATIVE PROJECT EVALUATIONS: AN IN-DEPTH LOOK AT IDB GROUP OPERATIONS

Urban Transport and Poverty: Mobility and accessibility effects of IDB supported BRT systems in Cali and Lima. This evaluation studies poor people's use of bus rapid transport (BRT) systems in these two cities, following a previous evaluation looking at the broader effectiveness of these systems. It finds that coverage of poor areas and affordability is substantially better in Cali (mainly because of its integrated fare), while time savings is the key advantage in Lima. The evaluation suggests that IDB help these two cities increase the spatial coverage and improve the integration and quality of BRT routes, explore strategies for targeting demand- and supply-side subsidies, facilitate dialogue among stakeholders, and strengthen the technical capacity of BRT authorities.

Rural Water in Paraguay. This study on the functioning and sustainability of 100 rural water systems implemented in Paraguay with IDB support between 2004 and 2010 finds that the systems are functioning well, with high quality and few disruptions. This success is largely attributable to the capacity of the operators to respond quickly and efficiently to technical problems (particularly with the functioning and maintenance of pumps). The communities greatly value the service and are willing to pay sufficient fees for routine operations, but not for the initial investment or needed expansion.

In terms of sustainability, an econometric analysis shows that economic and technical factors are more important than social participation and environmental factors.

Low-Income Housing Programs in the Caribbean. The evaluation compares housing and neighborhood upgrading programs supported by IDB in Barbados, Guyana, Suriname, and Trinidad and Tobago. It finds that direct public intervention is necessary, as the private sector has little appetite for developing low-income housing. However, project designs do not seem to be informed by analyses of housing demand, and all four programs face challenges in implementation. While all four programs improve living conditions for beneficiaries, the evaluation points out several constraints – location, land policy, and planning – that need further attention. Ambiguities over property rights, low institutional capacity, and changes in government priorities are recurring themes in all countries.

REVIEWING IDB GROUP INSTRUMENTS AND APPROACHES

Most of OVE's reports have a broader reach than individual project evaluations, focusing on the development effectiveness of major IDB and IIC programs and initiatives, and complementing – and sometimes drawing on – project-level results monitoring. In the past year OVE has completed five evaluations that assess experience with specific IDBG instruments or modes of client engagement:

- [IDB Group's Work Through Financial Intermediaries](#)
- [Contingent Lending Instruments](#)
- [Equity Investing](#)
- [Public-Private Partnerships \(PPPs\)](#)
- [Emerging and Sustainable Cities Initiative \(ESCI\)](#)

These evaluations address topics of major importance to IDBG. Lending through financial intermediaries and lending for PPPs each accounted for a sizable amount of IDBG commitments during the decade reviewed – about US\$1.7 billion and US\$580 million on average per year, respectively. Contingent lending and equity have accounted for much smaller shares of IDBG commitments in recent years, but they have unique characteristics that are of interest to LAC countries and have potential to grow in the future. The evaluation of the ESCI program – which began in 2011 and has been financed entirely by grants – is OVE's first in-depth evaluation of a major IDBG program of technical cooperation.

These evaluations complement OVE's review of Policy-Based Lending – another important IDB instrument – completed in 2015 and summarized in [last year's Annual Report](#).

These five 2016 evaluations highlight many factors that influence the effectiveness of IDBG engagement with client countries. A key finding common across all of them is the need for a clear strategic vision. What does the IDB Group hope to achieve for its clients and itself? Under what conditions will the instrument add value in the country setting? What foundations are necessary for the instrument to succeed? What are the attendant risks and costs, and how can they be mitigated? Being able to answer these questions is essential to IDBG success.

CONTINGENT LENDING: WEIGHING TRADE-OFFS

Contingent lending aims at guaranteeing the availability of funds for an actual financing need, usually conditional on the occurrence of a certain state or event. While the IDB had traditionally focused on ex-post emergency lending in times of crisis, during 2009-2012 it adopted four contingent instruments that allowed countries to commit funds ex-ante to be available in the event of economic crises or natural disasters. OVE's evaluation shows that in practice, demand for these instruments has been limited, not only in IDB but also in partner institutions. Most countries have not been willing to pay a significant premium in front-end and standby fees for contingent products. Moreover, non-financial conditions affect demand if they reduce borrowers' certainty about the quick availability of funds when needed. Other factors affecting demand include limited knowledge of the products and uncertainty about resource availability, given the IDB's increasingly constrained capital. The poorest countries have little access to contingent lending for financial and economic crises: only the IMF has products for them. Finally, the evaluation points out that MDBs can

also add value by helping clients address risks in ways other than lending; one good example is the World Bank's success at helping clients access private insurance for natural disasters.

Drawing on these findings, OVE's review suggests that the IDB conduct careful stakeholder consultations to build a broadly shared strategic vision on:

- IDB's comparative advantage and capacity for countercyclical lending;

- Trade-offs between joint (in the form of a capital buffer) and individual (within countries' lending envelopes) saving for bad times;

- Options for lending instruments (including emergency vs. contingent lending, terms and conditions, and eligibility); and

- Demand and IDB capacity as a risk intermediary.

EQUITY INVESTING: A VERY DIFFERENT BUSINESS

Development Financial Institutions (DFIs) invest in equity to provide capital to companies with high developmental potential, to develop a local equity market, and to generate income for themselves. Through these investments, they can play a key role in developing private sector environmental, social, and governance standards. Over time many DFIs have achieved well-diversified portfolios, especially at the sector level. However, there are trade-offs between lending and equity investing that DFIs need to consider. Equity has provided DFIs with higher returns than loans, but with greater use of capital and higher volatility (particularly with direct investments as opposed to funds). Returns have been highly sensitive to macroeconomic conditions.

OVE's study draws several lessons for IIC in building an equity portfolio:

Clearly defining objectives up front is critical to success.

Understanding and managing trade-offs is also key. IIC will need to weigh the pros and cons of various timing options for expanding equity while also factoring in the fact that equity can lose up to 20-30% in any given year.

Equity investing is a specialized business, very different from debt, and requires specialized expertise. OVE estimates that IIC will need to originate an equity portfolio of

at least US\$200 million – or US\$300 million if it decides to do both direct investments and funds – over the next five years to attract and sustain sufficient expertise.

A long-term horizon, patient investing, and staying power are also central to successful equity investing. IIC needs to find ways to ring-fence its equity commitments over at least the next 10 years.

Transparency in valuations and other equity metrics is essential to align incentives over the longer periods inherent to equity investing. IIC will need to strengthen its current portfolio and risk management capabilities and revisit staff incentives. Cooperating with partners for training and technical assistance and/or bringing in secondees from leading DFIs can help as short-term measures.

A fundamental issue is the role and comparative advantage of the IDB Group. OVE's review of [contingent lending instruments](#), for example, asks whether and to what extent IDBG should play a countercyclical role, setting aside resources that could be used for current lending to preserve the ability to respond in a downturn. The International Monetary Fund (IMF) has a clear countercyclical mandate. To what extent can and should IDB and other MDBs duplicate that? This strategic question lies at the heart of IDBG decisions on the design and use of countercyclical lending instruments. OVE's review highlights relevant trade-offs and issues to bear in mind when considering this topic.

On the private sector side, OVE's [equity investing](#) review also emphasizes the need for IIC to carefully consider its comparative advantage and the trade-offs involved in building an equity portfolio. IIC has invested in equity since its creation, though the level of equity has been relatively limited – a total of 130 operations (on average about five per year) for US\$383 million since 1989. Looking forward, IIC's business plan allocates between US\$25 million and US\$50 million annually to equity investments. OVE's review finds that comparator development finance institutions (DFIs) have invested on average about 20% of their portfolio in equity, usually through well-diversified portfolios. Developing these equity programs was typically a gradual process that took several decades, during which they had to learn the business, and particularly learn how to manage equity alongside loans. IIC has potential to succeed in equity but needs to heed the lessons of its own and other DFIs' experience.

The question of IDBG's comparative advantage also arises in OVE's evaluation of [public-private partnerships \(PPPs\)](#). LAC faces enormous infrastructure gaps and will need large investments in the years to come. PPPs are a delivery model that can help overcome some traditional problems associated with public provision, though they also pose technical, financial, political, environmental, and social risks. In theory, with a mandate to engage with both the public and private sectors, MDBs have a strong potential niche in supporting PPPs. For IDBG to developing that niche in practice will require a clear strategic and organizational vision and an ability to collaborate across the institution.

OVE's evaluation of the [Emerging and Sustainable Cities Initiative](#) illustrates what can be achieved with a clear strategic vision and an appropriate model of engagement to achieve it. ESCI was launched in 2012 to help mid-size cities identify, prioritize, and initially finance sectors and actions that could lead to sustainable development. It applied a multidisciplinary methodology to develop and support the execution of city action plans. Though it is still early to assess the ultimate impact and effectiveness of city action plans prepared under the program, ESCI's achievements to date have been noteworthy.

PUBLIC-PRIVATE PARTNERSHIPS: BUILDING A NICHE FOR THE IDB GROUP

Multilateral Development Banks (MBSs) have a potential comparative advantage in supporting PPPs, given their ability to engage directly with both public and private sectors. How can the IDB Group strengthen its role and effectiveness in this area? This evaluation draws lessons from the IDB Group's support to PPPs over the past decade, focusing on six countries: Brazil, Colombia, Dominican Republic, Guyana, Peru, and Uruguay. During 2006-2015 the IDB Group approved 145 PPP operations for US\$5.8 billion, focusing on improving the enabling environment and on financing PPP projects (mostly in energy and transport), with only limited support for project preparation. The IDB Group portfolio has only recently begun to include less traditional sectors, such as education and health.

The evaluation points to both successes and shortcomings in the IDB Group's support. Objectives related to the enabling environment were mostly achieved, but projects focusing on financing had difficulties in countries with weak enabling environments. Basic conditions for successfully delivering infrastructure services through PPPs were absent in half of the projects examined. When different parts of the IDB Group acted independently from each other, inefficiencies increased and opportunities to provide overarching solutions were missed. IDB Group did not routinely conduct a value-for-money analysis in its early decision-making process, compromising its potential value-added. When it gave ad hoc project preparation support, it did so mostly at the financial phase, when it was difficult to change project conditions. And the longer-term sus-

tainability of IDB Group support was often uncertain, given environmental and social risks, shortages in long-term local currency financing, and limited transparency.

IDB Group has had particular success in a few countries (most notably Colombia and Uruguay) where it has had long-term engagements with governments, has been flexible and adaptable to changes in context, and has worked in new areas with high potential. Providing a recognized "seal of approval" early in project preparation and applying environmental and social safeguard standards are other areas where it can add value.

OVE's recommendations draw on the main lessons that emerge from PPP developments in the region and from MDBs' and IDB Group's own experience. The need for:

- A clear and focused PPP strategy;
- A critical mass of PPP skills and expertise;
- A coordinated and collaborative approach across all parts of the institution that are involved,
- An adequate set of PPP-related instruments (including knowledge, policy, and financing).

EMERGING AND SUSTAINABLE CITIES INITIATIVE: SUPPORTING URBAN DEVELOPMENT

ESCI started as a pilot in five cities in 2011 and by 2016 had reached 71 cities across all 26 IDB borrowing member countries. The evaluation attributes this fast growth to the development of strong partnerships (with over 70 counterparts from government, academia, and the private sector) and to the cities' high degree of acceptance of ESCI's planning methodology.

The evaluation also pointed out several other positive aspects of the ESCI approach. ESCI developed a strong brand, and its urban planning process fostered cooperation and coordination among stakeholders both inside and outside participating cities. The prioritization exercise was evidence-based and credible. The model for knowledge generation and dissemination, combined with a culture of openness and transparency, was particularly valuable

and novel. Moreover, ESCI seems to have facilitated cities' access to technical assistance and other support from national, bilateral, and multilateral sources.

The evaluation also pointed out some areas for improvement in the ESCI methodology, noting that the program generated significant expectations of investment in the cities without providing an "exit strategy." Relatively few cities have been able to mobilize financing to implement action plans. OVE recommended that the IDB maintain the "ESCI" brand with some minor adjustments, develop mechanisms to channel investment resources to finance action plans developed under ESCI, reassess ESCI after more time has passed, and explore ways to use the ESCI model of partnerships and knowledge sharing in other initiatives.

OVE's evaluations also emphasize the need for a strategic vision at the country level. In the case of **financial intermediary lending**, for example, the evaluation stresses the need to understand what is constraining access to finance in a borrower country to help design the most appropriate program of support. In many countries, the major constraint may not be liquidity, but rather a weak legal and regulatory framework, the lack of banking competition (leading to high interest rates), or underdeveloped financial infrastructure (such as collateral registries). The traditional approach of providing liquidity to financial intermediaries may be ineffective in increasing access to finance in such settings. A shared IDB Group vision for financial intermediary lending would help prioritize interventions and determine under what conditions lending to public sector banks with a sovereign guarantee is warranted vis-à-vis lending to private sector banks without such guarantee.

FINANCIAL INTERMEDIARIES: EVALUATING 10 YEARS OF IDB GROUP LENDING

This evaluation looks at 10 years and US\$17 billion of IDB Group lending to financial intermediaries (FIs) for credit lines for small and medium-sized enterprises (SMEs), housing (mortgages), “green” investments, leasing and factoring, and trade finance. The findings fall into three main areas.

First, the evaluation documents the largely uncoordinated and non-strategic approach taken to date, both within the IDB Group and at the country level. Separate IDB Group windows have had different strategies, objectives, and operational processes. IDB has sometimes indirectly funded banks and private firms (through its loans to second-tier public development banks) that its private sector windows would not have funded directly. At the country level, IDB Group’s operations often fail to address key constraints to access to finance, and have tended to support the largest banks without considering the effects on competition in the financial sector.

Second, FI lending has not been well designed to foster meaningful change at the FI level. IDB Group has focused on “following its money” – that is, identifying a list of projects that were reportedly funded by IDB Group resources. This is futile, given the fungibility of money, and it incentivizes banks to “cherry-pick” the easiest or best loans to include on IDB lists. A more effective approach would be to encourage FIs to expand the size of their relevant portfolios – such as SMEs or mortgage lending – and to improve their management systems overall.

Third, though IDB Group’s monitoring and evaluation frameworks have been strengthened over the past few years, incentives for team leaders and investment officers are still oriented primarily toward achieving lending volumes rather than development effectiveness. Also, the IDBG rarely uses its structuring and incentives for FIs to improve development results. The evaluation identified practices of other development financial institutions that IDB Group may want to consider to strengthen both types of incentives.

The same type of country-level strategic thinking is needed for PPPs, which may or may not be a cost-effective approach to the funding of needed infrastructure in a particular country setting. PPPs have both costs and benefits vis-à-vis traditional public sector provision of infrastructure and social services, and a conducive legal, regulatory, and business environment is critical to their success. When designing a PPP program, it is important for the IDBG to carefully assess these costs and benefits and understand the characteristics of a country’s business environment.

A successful PPP strategy also requires appropriate organizational structures and incentives. The need for public-private collaboration in implementing PPPs in client countries is mirrored in the need for IDB-IIC coordination within the Bank. Such collaboration is also critical for financial intermediary lending, given the key importance of legal and regulatory frameworks for the financial sector and the presence of both public and private sector banks in most LAC countries.

The IDB Group's 2015 decision to merge all private sector windows into the IIC enhanced coordination among private sector windows but could potentially raise further barriers to collaboration between the public and private sector parts of IDBG. IDB and IIC are taking steps to bridge these barriers, most importantly through common country managers and coordination units. Going forward, it will be critical that these mechanisms work effectively if the IDBG is to make the most of its comparative advantage in these joint public-private spaces.

EVALUATING COUNTRY PROGRAMS

OVE's country program evaluations (CPEs) analyze the relevance and effectiveness of IDBG's support to individual borrowing countries over four to five years, generally corresponding to the time covered by the most recent country strategy. OVE delivered six CPEs in 2016—for [Argentina](#), [Guatemala](#), [Haiti](#), [Peru](#), [Suriname](#), and [Trinidad and Tobago](#). These countries face many institutional and economic challenges, and the CPEs show a record of mixed success in the Bank programs.

A key finding emerging from this batch of 2016 CPEs is the importance of tailoring program and project design to the country context. Many of the issues identified by OVE in several country programs arose because of designs that were too ambitious for the country's institutional capacity. In Haiti, pressures to prepare projects and disburse funds quickly (particularly in the post-earthquake emergency period, but also in later years) resulted in some projects being approved with weak feasibility and socio-environmental impact studies – and ultimately with inappropriate designs, given the country's institutional capacity. The Guatemala, Suriname, and Trinidad and Tobago CPEs also documented problems arising from unrealistic objectives and time frames, incomplete diagnostic work, underestimation of costs, and overly complex design given limited institutional capacity in line ministries and project implementation units. Rapidly changing policy priorities, often accompanying changes in government leadership, were also a factor in some cases.

The fit of IDB projects with institutional capacity appears to be somewhat stronger in Argentina and Peru, though issues remain. Multi-phase IDB infrastructure operations in Argentina were managed by centralized executing agencies and tended to perform relatively well. Implementation problems were more common in activities in other sectors (such as economic policy and the judiciary) or in operations managed at the provincial level. Furthermore, weak coordination between the national and provincial

COUNTRY PROGRAM EVALUATIONS: HOW EFFECTIVE ARE IDB GROUP COUNTRY PROGRAMS?

These quotes, taken from the six CPEs completed by OVE in 2016, summarize the findings on overall Bank effectiveness during the evaluation periods. These conclusions and resulting recommendations were broadly endorsed by country counterparts and the relevant IDBG Boards.

Argentina 2009-2015. “The Bank’s support in Argentina was provided in a context of the country’s transition to more moderate economic growth rates, expanding imbalances in the economy, challenges in the provision of infrastructure, deficiencies in the quality and effectiveness of social expenditure, institutional challenges, and a deteriorating business climate. The actions envisaged in the Bank’s program [...] were bounded and partially relevant given the limited opportunity that the government provided for policy dialogue and for support in key areas to address development challenges.”

Haiti 2011-2015. “The period was characterized by changes in the government that affected implementation of the IDB’s program. Partly as a result of the pressure of the IDB-9 commitments, the Bank designed and implemented an ambitious program that did not sufficiently take into account the challenges associated with Haiti’s fragility. As a result, the Bank ended up financing an outsized operational program in relation to the country’s institutional and absorption capacities.”

Guatemala 2012-2016. “Strategic objectives were relevant, but the expected outcomes were ambitious in many cases given the difficulties that the Bank has traditionally faced in implementing operations in the country. Despite advances in a number of areas, progress toward achieving strategic objectives was generally limited.”

Peru 2012-2016. “On balance, the Bank’s work with Peru between 2012 and 2016 is positive. The country strategy was mostly aligned with the government’s priorities and with the country’s development needs; some of the approved operations had signs of continuity; and in general there was strong coordination with other international cooperation agencies. In addition, program execution gathered pace, attaining the Bank’s median performance level.”

Suriname 2011-2015. “The focus of the country strategy was relevant [...] but the Country Strategy was overly ambitious in the country context. Although there were advances in a number of sectors, progress toward fully attaining most of the strategic objectives proposed by the Bank was limited. In addition, in some areas of early progress, the reforms have not progressed – largely because of delays in the implementation of the reforms that accompanied the budget support as well as delays in the implementation of investment loans.”

Trinidad and Tobago 2011-2015. “The Bank has not been able to develop an effective relationship with Trinidad and Tobago that leads to development results. IDB has continuously developed country strategies and approved projects that were not implemented. While the Country Strategy targeted the key development challenges, its overly large and complex design led to an unrealistic strategy and ambitious reform program that exceeded the country’s capacity – and that of the Bank – to deliver.”

governments affected the sustainability of infrastructure investments. Peru's programs of policy-based lending have been implemented well, but weak implementation and accountability have affected some investment projects.

One of the most common results of poor institutional fit is delays in project implementation. In Trinidad and Tobago, the five investment loans completed during the evaluation period had average implementation delays of four and one-half years, more than twice the Bankwide average. Half of the investment operations in Guatemala's 2016 active portfolio also had delays, averaging almost four years. Delays can in turn result in significant cost overruns, exacerbated by narrow markets for contractors and materials in constrained institutional settings. The Haiti CPE notes, for example, that contract negotiations often "resulted in increases [...] of more than 30% over the initially bid amounts," in some cases forcing planned activities to be dropped.

Cancellations of investment loans and "truncation" of policy-based lending programs (through the cancellation of later loans in the series) are also common. All four programmatic policy-based loan (PBP) series approved in Trinidad and Tobago during the CPE period were truncated after the first loan. The study finds that "the Bank did not adequately analyze the likely risks associated with the use of the PBP, including the significant interagency coordination needed to approve, implement, and sustain the reform agenda [...]. Lack of consultation led to the inclusion of loan conditions that were disconnected from the working realities and capacity of the relevant ministries, and were ultimately infeasible."

Similarly, the IDB approved six policy-based loan series for Suriname during the CPE period. A first operation was approved for all six, but the reforms then stalled, and only three had a second loan approved (and none a third loan) by the end of the strategy period. The technical design of reforms progressed at a reasonable pace, but bottlenecks arose at the legislative stage. The country is now trying to resume the reform agenda in a context of heightened macroeconomic instability.

Most importantly, these implementation problems undermined the achievement of many of the projects' development objectives. Ensuring sufficient institutional capacity, not only at the project and program levels but also at higher levels of government, is critical for success. While IDB can usefully help countries develop capacity over the medium term, it is equally important for IDB to understand existing capacity constraints and formulate its strategies and programs of support to fit the country context.

These twin challenges – to ensure a realistic fit with the country’s institutional capacity while also helping to build that capacity – frame several of OVE’s recurring recommendations in these CPEs:

To **focus** the IDB’s programs on a reasonable number of topics and sectors, recognizing that spreading support too thin puts undue burdens on limited government capacity and makes success in any particular area harder.

To **simplify** the design of the IDB interventions, as simple project designs are easier to implement and more likely to succeed.

To take full advantage of potential **synergies** among instruments, for example by pairing technical cooperation and investment lending with PBPs to support implementation.

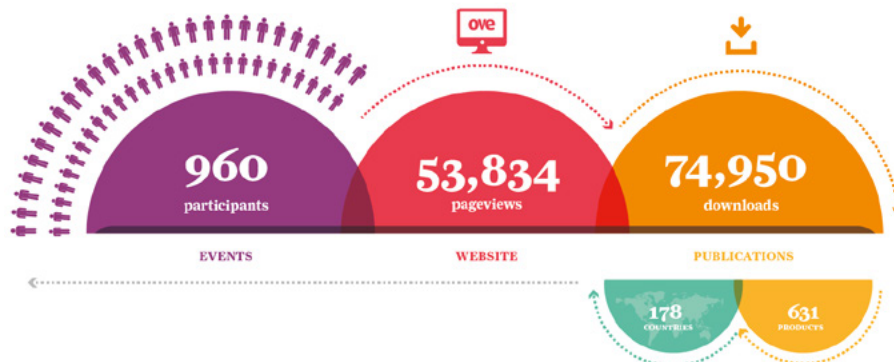
To ensure adequate **fiduciary oversight**, which, in settings with limited capacity, may entail combining financial management and procurement functions for multiple projects in one cross-cutting fiduciary entity.

To invest in the country’s **statistical capacity** to help elucidate its needs and better design interventions to meet them.

DISSEMINATION AND EVALUATION CAPACITY DEVELOPMENT

OVE's mandate includes dissemination of its evaluations for learning purposes and building evaluation capacity in the LAC region. It dedicates substantial effort to outreach and evaluation capacity development, both within IDB and with partners and country counterparts. OVE aims to make its evaluations easily accessible through its publications and website, dissemination events, and participation in workshops and conferences. In 2016 OVE hosted a workshop in El Salvador on conditional cash transfer programs in Central America and a workshop in Brazil on productive development programs. OVE staff also presented evaluation findings at events in Argentina, China, Italy, Mexico, Suriname, the UK, and the US. [Our website](#) registered more than 53,000 pageviews, and total report downloads reached almost 75,000.

2016 OUTREACH AND DISSEMINATION



OVE has also continued to participate actively in the [CLEAR Initiative](#). CLEAR (Centers for Learning on Evaluation and Results) is a joint program of 10 multilateral and bilateral donors and foundations to support capacity-building centers for monitoring and evaluation (M&E) in four world regions. The CLEAR Center for LAC, operational since 2012, is based at the Center for Research and Teaching in Economics in Mexico City. In 2016 it published a comparative analysis of national M&E systems in 10 LAC countries, held an international seminar on the use of evaluation in public policy, and offered 13 training courses and workshops involving more than 430 participants from government, civil society, and academia. It also worked directly with several government agencies in Mexico and other LAC countries to strengthen M&E practices.

The CLEAR Center for Brazil and Lusophone Africa, based at the Getulio Vargas Foundation in São Paulo, Brazil, started operations in September 2015. In 2016 the Center worked with two institutions in the state of Santa Catarina – the Secretariat for Education and the Federation of Industries – to better understand and improve the implementation of the state’s technical and vocational programs. It also worked with Brazil’s Ministry of Finance to provide an ex-ante evaluation of Brazil’s worker protection policies and with the JP Morgan Chase Foundation to identify supply-demand gaps in labor skills in São Paulo. The Center has put in place the basic building blocks for open-enrollment training courses to strengthen M&E skills and knowledge.

MANAGEMENT'S IMPLEMENTATION OF OVE RECOMMENDATIONS

OVE has undertaken many evaluations over the years. To what extent are these evaluations influencing how the Bank does business? To help answer this question, in 2013 OVE worked with IDB management to establish a system to monitor the implementation of OVE's recommendations, the Recommendation Tracking System (ReTS). Recommendations issued by OVE and endorsed by the Board are tracked in the ReTS. Management prepares an action plan for each recommendation and updates progress annually. OVE then validates that progress. The ReTS system and validation results are described in greater detail in the [background paper accompanying this Annual Report](#).

In 2016, OVE completed the first round of validations after the ReTS pilot phase. The validations looked at two questions:

- **Relevance:** How relevant is the action plan to the recommendation?
- **Implementation:** To what extent is management on track to implement actions due by the end of 2016?

Between February 2013 and December 2016, OVE issued 152 recommendations, of which 142 were endorsed by the Board and 109 had action plans that were appropriate for validation by OVE. OVE's recommendations vary in many ways, given their very different contexts, but they all concern ways to enhance IDBG's development effectiveness. The recommendations covered in this year's ReTS can be categorized into eight broad activities:

- Enhancing the **strategic focus** of IDBG's work, whether at the sector, thematic, or country level.
- Expanding IDBG's **engagement** in client countries – for example, with the private sector, subnational governments, or policy-making processes at the national level.
- Changing IDBG's **organizational structure, procedures, or personnel.**
- Reconsidering the design and/or use of the Bank's **lending instruments.**
- Reconsidering the design and/or use of the Bank's **knowledge and technical cooperation** instruments.
- Improving **project design and/or implementation** in specific settings.
- Improving the **monitoring** and measurement of results.
- Enhancing and/or expanding IDBG's work in particular **substantive areas.**

EXAMPLES OF OVE's RECOMMENDATIONS

Category	Examples
Strategic focus	<p>Citizen Security: “Select and focus on a narrower range of interventions to facilitate the development of in-house expertise and enhance the Bank’s capacity to show results.”</p> <p>Agriculture: “Promote a comprehensive and coordinated multi-sector approach to food security through the upcoming Sector Framework Document on Food Security.”</p>
Client engagement	<p>Brazil CPE: “Seek long-term partnerships with subnational governments (both states and municipalities) where possible, and devote substantial resources to cross-learning.”</p> <p>Barbados CPE: “Strengthen the relevance and development effectiveness of the Bank’s program through a greater engagement with the private sector.”</p>
IDBG organization, process, personnel	<p>Realignment: “To enhance country focus, further strengthen the country program management function in country offices.”</p> <p>Climate Change (CC): Strengthen the mainstreaming of CC concerns in IDB by maintaining a highly qualified CC group whose mandate and incentives are to provide cutting-edge technical knowledge and support to divisions in all operational Vice-Presidencies.”</p>
Lending instruments	<p>Higher-Middle-Income Countries: “Review the experience with performance-driven lending in the IDB and peer institutions and consider introducing lending modalities in local currency as well as currency and interest rate swaps.”</p> <p>Panama CPE: “Strengthen the design, monitoring, and completion of future policy-based programmatic series [...]. When a PBP series is interrupted, it is recommended that the remaining operations be removed from the lending pipeline and a project completion report be prepared for the truncated series.”</p>
Knowledge instruments	<p>Secondary Education: “Put more emphasis on innovation and strengthen the knowledge repository to learn from and disseminate lessons of experience in secondary education.”</p> <p>Paraguay CPE: “Use concessional instruments (TCs and lending) strategically to deepen dialogue in areas not to be covered by lending operations.”</p>

**Project design
and implemen-
tation**

Jamaica CPE: “Ensure appropriate sizing of new investment loans.”

Colombia CPE: “Strengthen risk analysis during project design and periodically reevaluate and reprioritize the lending program based on dialogue between the Bank and the Government of Colombia, with a view to lowering the cost of projects prepared but later removed from the pipeline or canceled.”

Uruguay CPE: “Deepen the analysis and estimation of costs of infrastructure projects.”

Bolivia CPE: “Give more emphasis to the sustainability of Bank-financed investments by ensuring that all projects systematically incorporate mechanisms to ensure operations and maintenance of the services.”

**Results
measurement**

Climate Change: “Deepen the Bank’s ability and incentive to track its activities and results related to climate change mitigation and adaptation.”

Measuring Project Performance: “Revise the PCR guidelines to further harmonize them with those for the private sector and to address shortcomings identified in this report.”

**Enhancing work
in particular
substantive areas**

Dominican Republic CPE: “Promote a reactivation of the policy dialogue in the electricity sector, with the aim of promoting the reform agenda required as a complement to investment programs.”

Argentina CPE: “Address the problems of quality and equity in Bank programs that support the delivery of basic social services.”

Three-fifths of the action plans reviewed were considered by OVE to fully (42) or substantially (24) address the recommendation. The others were considered either partially relevant (38) or not relevant (5) to address the recommendation.

The actions proposed by the Bank to address results measurement issues were more relevant (87%) than those in other categories, reflecting long-standing IDBG and OVE efforts in this area. For recommendations that called for IDBG strategic focus to better define to what extent and how the institution should support specific sectors (such as agriculture or the financial sector) or to give greater focus to country programs, the actions proposed were less relevant (38%). Decisions concerning strategic vision are complex, and the results suggest the need for a more robust consultation and coordination process within IDBG to build consensus on these issues.

SHARE OF ACTION PLANS THAT ARE FULLY OR SUBSTANTIALLY RELEVANT

Category	%
Results Measurement	87
Client Engagement	69
Substantive Areas	65
Lending Instruments	57
IDBG Organizations and Process	57
Project Design and Implementation	56
Knowledge Instruments	44
Strategic Focus	38

Source: OVE

OVE was able to validate the extent of implementation of 74 of the 109 action plans. Of these, OVE judged over four-fifths (60) to be on track as of December 2016. Action plans related to project design and implementation, to IDBG organization, and to strategic focus had the most activities on track, while those related to knowledge instruments had the least. Under strategic focus, management's rapid follow-up on CPE recommendations accounted for the high degree of implementation. These findings reinforce the benefit of timing CPEs during the preparation of new country strategies so that management can readily respond to OVE's recommendations.

OVE assessed the overall level of adoption (considering both relevance and degree of implementation of action plans) of 33 recommendations reported by management to have been completed by end-2016, finding that two-thirds had been fully or substantially adopted by IDBG management. For six evaluations (with 22 recommendations), action plans for all recommendations were reported as completed by end-2016. These are listed, in order from highest level of adoption (almost fully adopted) to lowest (relatively low level of adoption).

SHARE OF ACTION PLANS ON TRACK IN IMPLEMENTATION (AS OF DECEMBER 2016)

Category	%
Project Design and Implementation	100%
IDBG Organization and Process	91%
Strategic Focus	88%
Results Measurement	86%
Client Engagement	71%
Substantive Areas	71%
Lending Instruments	67%
Knowledge Instruments	57%

Source: OVE

RANKING OF EVALUATIONS BY EXTENT OF ADOPTION OF OVE RECOMMENDATIONS

1. Evaluability Review of Bank Projects 2012
2. Measuring Project Performance at the IDB
3. How is IDB Serving Higher-Middle-Income Countries?
4. Review of IDB Support to Secondary Education
5. Country Program Evaluation: Dominican Republic 2009-2013
6. Country Program Evaluation: Jamaica 2009-2014

Source: OVE

The ReTS is a work in progress. IDB has made strides in implementing Board-endorsed OVE recommendations, though there are gaps. The system is improving over time, and OVE will continue working with management to streamline processes and encourage participation and follow-up throughout the IDB Group.

**Find here IDB's
management response
to this report
[www.iadb.org/ove/
ResponseAR2016](http://www.iadb.org/ove/ResponseAR2016)**

**You can find all the
evaluations mentioned
in this report at
[www.iadb.org/
evaluation](http://www.iadb.org/evaluation)**

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