



Project Evaluation

OVE's Review of Project Completion Reports (PCRs) and Expanded Supervision Reports (XSRs) — 2018/2019 Validation Cycle

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Office of Evaluation and Oversight



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Acronyms and Abbreviations

BOP	Base of the pyramid
CBA	Cost-benefit analysis
CCLIP	Conditional credit line for investment projects
CEA	Cost-effectiveness analysis
CPI	Cost Performance Index
DEM	Development Effectiveness Matrix
DEO	Development Effectiveness Overview
E&S	Environmental and social
EOM	Early operating maturity (NSG projects)
ESG	Environmental and Social Safeguards Unit (IDB)
FI	Financial intermediary
IDB(G)	Inter-American Development Bank (Group)
IIC	Inter-American Investment Corporation (since 2017 IDB Invest)
MDB	Multilateral development bank
MSMEs	Micro, small, and medium-sized enterprises
NPL	Nonperforming loans
NSG	Non-sovereign-guaranteed
OMJ	Opportunities for the Majority
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PBP	Policy-based program
PCR	Project Completion Report
SCF	Structured and Corporate Finance
SEG	Environmental, Social and Governance Division (IDB Invest)
SG	Sovereign-guaranteed
SMEs	Small and medium-sized enterprises
SPD	Strategy and Development Effectiveness Department
SPI	Schedule Performance Index
XSR	Expanded Supervision Report

Executive Summary

This report summarizes the results of OVE's annual validation of the project performance self-assessments of IDB and IDB Invest. IDB self-evaluates project performance and results for sovereign-guaranteed (SG) operations at project closure through Project Completion Reports (PCRs), while IDB Invest prepares self-evaluations for non-sovereign-guaranteed (NSG) projects in the form of Expanded Supervision Reports (XSRs) when operations reach early operating maturity (EOM). To enhance the credibility of the IDB Group's project performance system and to support a culture of accountability, OVE validates these self-evaluations, assigning final performance ratings to each operation. Since 2018, OVE's overall project outcome ratings are being used for corporate reporting in the Development Effectiveness Overview (DEO).

As part of the 2018/2019 validation cycle, OVE reviewed XSRs completed by IDB Invest for 35 NSG operations that reached EOM in 2017, and PCRs completed by IDB for 62 SG projects that closed in 2017 and two that closed in 2016. The PCRs covered 58 SG investment operations, five policy-based programs, and one policy-based loan in 20 IDB member countries, representing a total approved lending volume of US\$6,333 million. The XSRs comprised 20 NSG operations approved by the former IIC, seven by IDB's Opportunity for the Majority initiative, and eight by IDB's Structured and Corporate Finance Department, representing an approved total loan volume of US\$606 million (A-loans) and covering operations in 14 IDB Invest member countries and one regional operation. Among the NSG projects, financial intermediary (FI) operations dominated, with 25 of the 35 operations and US\$519.2 million (86%) of approved loan volumes.

Project performance for both SG and NSG operations is assessed using an objectives-based methodology. This methodology measures project performance against the project's development objectives as stated at approval, assessing how relevant these objectives and the associated project designs were, to what extent the objectives were achieved, how efficiently project resources were used, and how sustainable the achieved results are. A performance rating is

assigned to each of the four core criteria – relevance, effectiveness, efficiency, and sustainability – and an overall project development outcome rating is then derived from the core criteria ratings. Projects are also assessed on a number of non-core criteria. On IDB’s side, the 2018 PCR guidelines introduced “Bank performance” and “borrower performance” as non-core criteria, further aligning IDB’s performance assessments with the Good Practice Standards of the multilateral development banks. For NSG operations the non-core criteria include IDB Invest’s financial and nonfinancial additionality, investment outcome, and work quality.

In terms of overall project development outcome, 41 of the 64 SG operations (64%) were rated Partly Successful or better. Across the core criteria, the SG projects scored highest on relevance and lowest on effectiveness. Almost all projects (95%) were rated Satisfactory or higher on relevance, showing strong internal logic and alignment with country development needs and the Bank’s country strategy and corporate goals. However, 40 of the 64 projects (62%) were rated Partly Unsatisfactory or lower on effectiveness, as they failed to demonstrably achieve more than half of their objectives. More than half of the validated projects lacked a solid assessment of efficiency. While 22 projects used a good-quality cost-benefit analysis and three had a good-quality cost-effectiveness analysis, the remaining projects either did not carry out such analyses or used deficient methodologies or standards. In terms of sustainability, 49 projects (77%) achieved a rating of Satisfactory or higher. OVE found, however, that the documentation of project safeguards performance in PCRs continues to be scant, and the PCR guidelines require more clarity on how this aspect needs to be assessed and documented in PCRs. In terms of non-core criteria, 37 of the 40 projects (93%) assessed in these areas were rated Satisfactory or higher on Bank performance and 31 of those 40 (78%) on borrower performance. Rating these new non-core categories is at an early stage, and practical guidance on the rating steps has yet to be issued.

On the IDB Invest side, 15 of the 35 NSG operations reviewed (43%) were rated Partly Successful or better on overall project development outcome. Like SG operations, NSG projects scored best on relevance and lowest on effectiveness. On relevance, 57% of projects achieved a Satisfactory or higher rating. While 9 out of 10 corporate / infrastructure operations were rated Satisfactory or better on relevance, less than half (44%) of the FI projects were. Regarding effectiveness, 13 operations (37%) were rated Satisfactory or higher, indicating that they achieved the majority of their development objectives. Common features behind low effectiveness ratings were adverse macroeconomic and/or regulatory conditions, and targets set without taking into consideration the client’s capacity. In terms of efficiency, 14 projects (40%) achieved a Satisfactory or higher rating. For FI operations, most projects were rated low on efficiency

because they lacked evidence of having reached their financial and/or economic goals or were missing information. Looking at sustainability, 16 projects (46%) had a Satisfactory rating. The quality and scope of information provided in the XSR was not always sufficient to validate the environmental and social performance ratings. In terms of non-core criteria, 11 projects (31%) were rated Satisfactory or better on work quality, 27 projects (77%) on additionality, and 33 projects (94%) on investment outcome—indicating that the IDB Group selected operations that contributed positively to its financial success, and that most loans get paid as scheduled.

A key purpose of the independent validation of project performance ratings is to ensure the credibility of the self-evaluation system, which is indicated in part by a low discrepancy between Management's ratings and OVE's. As part of the ongoing improvements of the self-evaluation systems, the PCR and XSR guidelines have been updated several times through 2018. Of the PCRs presented for OVE's validation in 2019, a significant share, but not yet all, were prepared using the 2018 guidelines. For those prepared using earlier guidelines, validation is more challenging, and ratings comparisons are not always possible. Ratings comparisons were possible for only 54 of the 64 SG operations. For 29 of these OVE's and Management's overall project outcome ratings coincided. Management's ratings were more favorable than OVE's. Differences between OVE ratings and Management self-ratings were partly linked to methodological issues and related lack of clarity on the application of PCR guidelines. This is not surprising, since this is the first time SG teams have applied the 2018 PCR guidelines, and the training sessions on their application have intensified only recently (and thus after the validated PCRs were completed).

On the NSG side, IDB Invest applied the latest 2018 guidelines to all XSRs presented for OVE's validation, thus ensuring full comparability between self-ratings and OVE's validated ratings. Management's and OVE's overall project outcome ratings coincided for 25 of the 35 operations reviewed. The smaller ratings disconnect for NSG operations compared to SG operations may be due in part to the longer period of interactions between OVE and IDB Invest on the harmonized standards for self-evaluations and validations.

In terms of PCR quality, 44 (69%) of the PCRs were of Good or Excellent quality—that is, they analyzed the project achievements sufficiently well and were candid and complete, and ratings were consistent with evidence. OVE rated 31 (89%) of the XSRs submitted as Good or Excellent. The quality of XSRs reviewed during this validation exercise was considerably higher than the quality of those submitted in the previous year.

The IDB Group's objectives-based self-evaluation system—of which OVE's validation of self-ratings is an integral part—continues to grow stronger. The current PCR and XSR guidelines have established a solid evaluation framework and criteria. These achievements notwithstanding, both OVE and SPD have identified certain areas where additional guidance is needed to ensure consistent application of the PCR guidelines—such areas as how to rate Bank and borrower performance, how to best apply the guidelines to various types of lending instruments, how to effectively document and rate safeguards performance, how to align project ratings with performance discussions, and when to allow for exceptions on the timing of PCR preparation. On IDB Invest's side, the main challenge remains timely delivery of XSRs to ensure sufficient time for validation in light of the DEO's timeline.

In light of the experience with this year's validations, OVE recommends the following:

For IDB Management:

- (i) Issue clarifications to the 2018 PCR guidelines in the areas outlined in para 5.7 (Bank and borrower performance, instrument types, safeguards, discussion of project results, exceptions to timing of PCR preparation) and agree with OVE on the contents of such clarifications.
- (ii) Agree with OVE on a process of independent verification of the pipeline and exemptions for preparing PCRs for projects that reach closure in a given year.
- (iii) Ensure that all future PCRs submitted to OVE for validation are prepared in accordance with the 2018 PCR guidelines.

For IDB Invest Management:

- (i) Agree with OVE on a clear timeline for the delivery of all XSRs for the cohort of operations that reached early operating maturity in each year, to permit adequate time for quality validations.



01

Introduction

- 1.1 This report summarizes the results of OVE's annual review of the self-assessments of project performance and results completed by IDB and IDB Invest. Both IDB and IDB Invest (together the IDG Group) have systems in place¹ to measure the development effectiveness of their operations at approval, during implementation, and at completion for sovereign-guaranteed (SG) operations or at early operating maturity² (EOM) for non-sovereign-guaranteed (NSG) operations. The IDB Group self-evaluates project performance and results through Project Completion Reports (PCRs) for SG projects and Expanded Supervision Reports (XSRs) for NSG operations. The IDB Group's Office of Evaluation and Oversight (OVE) then reviews and validates completed PCRs and XSRs, assigning performance ratings to each operation. OVE's ratings are final and, since 2018, are used for corporate reporting in the Development Effectiveness Overview (DEO). Thus, the review by OVE contributes to the credibility of the IDB Group's project performance monitoring and reporting systems and supports both learning from experience and a culture of accountability. The dimension of accountability is important, as the Corporate Results Framework includes indicators for project performance against which the DEO reports (it sets the 2019 target that 80% of SG and NSG operations achieve satisfactory development results at completion).³
- 1.2 This is the third consecutive year during which OVE validations were carried out in the context of the IDB Group's objectives-based evaluation framework. In this year's exercise OVE validated XSRs completed by IDB Invest for 35 NSG operations that reached EOM in 2017, and PCRs completed by IDB for 62 SG projects that closed in 2017 and 2 that closed in 2016. This report thus covers the results of one annual validation cycle. There are still too few validations to permit comparisons of project performance across sectors, instruments, or years. However, once the number of validated projects reaches a critical mass, OVE will be able to use the validation results from several years to complement the annual perspective with more granular analyses (for example, by lending instruments or sector).

1 IDB's Development Effectiveness Framework was launched in 2008. Since 2016 IDB Invest uses the Development Effectiveness Learning, Tracking and Assessment tool (DELTA), which replaced the two systems that were previously used for NSG operations. See IDB (2017a) - RE-520; IDB. (2019a) - RE-530-2 and IDB Group 2019, page 81, for a description of both systems.

2 For the simplest NSG project type (i.e., capital expenditure projects with direct investments in identifiable assets), EOM means the project has been substantially completed and has generated at least 18 months of operating revenues, and IDBG has received financial statements. Additional details and EOM definitions for other project types are presented in Annex VI.

3 Development Effectiveness Overview 2019, page 26.

1.3 The report is structured in five chapters. Following this introduction, Chapter II gives an overview of IDB Group's project evaluation framework and describes OVE's review process and methodology. Chapters III and IV present the results of OVE's review for SG operations and NSG operations respectively. Finally, Chapter V draws conclusions on the functioning of IDB Group's results reporting systems and provides recommendations on how to improve them.



02

Project Evaluation Framework and Review Process

A. Project evaluation framework

- 2.1. IDB and IDB Invest prepare PCRs and XSRs using an objectives-based methodology for evaluating and rating public sector and private sector projects, respectively. OVE applies the same methodology in its review and validation. The PCR guidelines for public sector projects reinforcing the objectives-based methodology were originally adopted in 2014. After several revisions, the most recent guidelines were adopted by Management in 2018 and called for OVE to start applying them to all PCRs, even those prepared under previous guidelines. Two-thirds of the PCRs presented for OVE's validation in 2019 were prepared using the 2018 guidelines. The XSR guidelines adopting an objectives-based methodology for private sector projects were introduced in 2015 and updated in 2018. IDB Invest applied them to all XSRs presented for OVE's validation. The objectives-based methodology used by the IDB Group and by OVE assesses project performance and results against the specific development objectives each project set out to achieve.⁴ Four core criteria are examined: how relevant the project objectives and design were at approval and during implementation, how *effective* the project was in achieving its objectives, how *efficient* the project's use of resources was in achieving its objectives; and how *sustainable* the achieved results are.
- 2.2. Each project receives an overall rating on project development outcomes based on the performance ratings of each of the four core criteria (Table 2.1). Each of the four dimensions of project performance (relevance, effectiveness, efficiency, and sustainability) is rated on a four-point scale ranging from Excellent to Unsatisfactory. The project development outcome rating is then calculated by aggregating the four individual ratings in a weighted average, with a weight of 20% each for relevance, efficiency, and sustainability, and 40% for effectiveness.⁵ The

4 Project results matrices mostly define specific development objectives, against which projects are assessed in the effectiveness section. They often also specify general objectives, which should be longer-term or higher-level achievements that may also be influenced by substantial external factors, so that the projects cannot be measured against them at the time PCRs are drafted. Specific development objectives and their indicators are to be defined at a suitable level, so that the project can be held accountable for them at closure. In some projects, this distinction is not clearly applied, so that the specific development objectives need to be determined at closure.

5 The only exception to this rule is SG programmatic policy-based operations, for which efficiency is not assessed. The overall outcome rating for these operations is based on relevance (20%), effectiveness (60%), and sustainability (20%). There are also a few additional rules for determining the overall development outcome rating (e.g., a project outcome cannot be rated positive if relevance, effectiveness, or sustainability is rated Unsatisfactory), and the evaluator may override the rating when there are cogent reasons – which have to be documented.

resulting overall project development outcome is then rated on a six-point scale ranging from Highly Successful to Highly Unsuccessful to allow for more nuanced performance reporting.

Table 2.1. Core project performance assessment criteria

SG Operations	Core Criteria	NSG Operations
<ul style="list-style-type: none"> • Alignment of project development objectives with country development needs • Alignment with IDBG country strategy • Alignment of project design with country realities • Alignment of project design with project development objectives 	Relevance	<ul style="list-style-type: none"> • Alignment of project objectives with country development needs • Alignment with IDBG country strategy and corporate goals • Alignment of project design with country realities • Alignment of project design with project development objectives
<ul style="list-style-type: none"> • Extent to which project achieved each stated development objective, given project outputs produced 	Effectiveness	<ul style="list-style-type: none"> • Extent to which project achieved each stated development objective, given project outputs produced
<ul style="list-style-type: none"> • Extent to which project benefits exceed project costs or extent to which project benefits were achieved at less than expected or at reasonable costs 	Efficiency	<ul style="list-style-type: none"> • Financial performance: Project contribution to company financial results and extent to which project process and business objectives were achieved • Economic performance: Extent to which project economic benefits exceed costs of capital; project effects on key economic stakeholders
<ul style="list-style-type: none"> • Safeguards performance • Assessment of risks to continuation of project development results 	Sustainability	<ul style="list-style-type: none"> • Safeguards performance • Assessment of unmitigated risks to continuation of project results

Project Development Outcome

Source: Based on IDB (2019a), page 6.

2.3. The different rating terminology used in each rating criterion is presented in Table 2.2. To facilitate the readability of the report, ratings are further summarized into a binominal summary rating. The term “positive” is used to summarize project development outcome ratings of Partly Successful or higher, as well as core criteria ratings of Satisfactory or Excellent. The term “negative” is used to summarize project development outcome ratings of Partly Unsuccessful or lower and core criteria ratings below Satisfactory (Table 2.2).

2.4. In addition to the four common core criteria and the resulting project development outcome, both the XSR and PCR guidelines include non-core criteria. On IDB’s side, the 2018 PCR guidelines introduced the criteria “Bank performance” and “borrower performance”, which further aligned IDB’s PCR guidelines with the Good Practice Standards of the multilateral development

banks (MDBs).⁶ The non-core criteria of NSG operations, which have remained unchanged in the 2018 XSR guidelines, are IDB Invest's financial and nonfinancial additionality, investment outcome, and work quality.

Table 2.2. Terminology of rating categories

	Project Development Outcome	Core rating criteria: Relevance Effectiveness Efficiency Sustainability	Non-core criteria: Bank performance (PCR) Borrower performance (PCR) Investment outcome (XSR) Work quality (XSR) Additionality (XSR)	PCR quality XSR quality
Positive	6 Highly Successful			
	5 Successful	4 Excellent	4 Excellent	4 Excellent
	4 Partly Successful	3 Satisfactory	3 Satisfactory	3 Good
Negative	3 Partly Unsuccessful	2 Partly Unsatisfactory	2 Partly Unsatisfactory	2 Fair
	2 Unsuccessful	1 Unsatisfactory	1 Unsatisfactory	1 Poor
	1 Highly Unsuccessful			

Source: OVE.

B. Projects reviewed

2.5. The public sector PCRs submitted for OVE validation during this validation cycle included 62 operations that closed in 2017, and two conditional credit line for investment project (CCLIP) operations that closed in 2016. Of the 64 projects, 12 had been approved as CCLIPs.⁷ The validated PCRs covered 58 investment operations, five policy-based programs (PBPs), and one policy-based loan (PBL) in 20 IDB member countries.⁸ The total approved lending volume covered by the 2019 validation cycle represents US\$6,333 million. Table 2.3 presents the breakdown of validated operations by the four sector departments, showing that the reform, financial markets, trade and competitiveness teams were responsible for the largest numbers of PCRs and the greatest loan volume, followed by the social sectors (Annex I lists all validated PCRs).

6 The MDB Evaluation Cooperation Group has defined the standards for different type of operations. See <https://www.ecgnet.org/document/ecg-big-book-good-practice-standards>. The two-thirds of all PCRs submitted to OVE for this validation cycle that were prepared using the 2018 PCR guidelines include these non-core criteria.

7 According to the information provided to OVE, the two PCRs of projects that closed in 2016 had not been submitted for validation the previous year to allow their inclusion in a common PCR report with five other PROFISCO projects that closed in 2017. These seven loans were approved as CCLIPs as parallel approvals in federal states of Brazil. Another five PCRs reported on individual phases of CCLIP series, though these referred to individual loans in CCLIP series.

8 Since PBPs are evaluated and rated at the program level, the remainder of the report counts each PBP as one single unit, regardless of how many loans it covered. The five PBPs cover 10 loan approvals.

Table 2.3. Sector department distribution of PCRs reviewed

Sector	SG Operations (# of projects)	Amount approved (US\$ millions)
Environment, rural & urban development and housing	9	701.9
Infrastructure and Energy (included Water & Sanitation)	13	845.5
Reform, Financial Markets and Trade & Competitiveness	28	2,567.9
Social sector (Education, Health, Gender and Labor Markets)	14	2,218.0
Total	64	6,333.3

Note: Six PBPs (one on energy and five in reform/financial markets) included in the validations count as one PCR each in this table but cover 11 loan approvals.

Source: OVE.

2.6. The 35 private sector operations validated by OVE during this validation cycle had reached EOM in 2017 and represented an approved loan volume of US\$606 million (A-loans). Of these, 20 operations were approved by the former IIC, seven by IDB's Opportunity for the Majority (OMJ) initiative, and eight by IDB's Structured and Corporate Finance (SCF) department. In terms of the major sectors represented by the projects, financial intermediary (FI) operations dominate, with 25 of the 35 operations and US\$519.2 million (86%) of approved loan volumes.⁹ Seven operations concerned corporate and three infrastructure operations. The validations covered operations in 14 IDB Invest member countries and one regional operation.

Table 2.4. Distribution of NSG Operations reviewed

Sector	Number of Projects				Loan Approvals (US\$ million)
	Private Sector Windows			Total number	
	Former IIC	OMJ	SCF		
Corporates	6		1	7	31.4
Infrastructure	1		2	3	55.9
Financial Intermediaries	13	7	5	25	519.2
Total	20	7	8	35	606.5

Source: OVE.

⁹ This count includes one operation aimed at education and one aimed at infrastructure development through FIs.



03

Public Sector Project Reviews

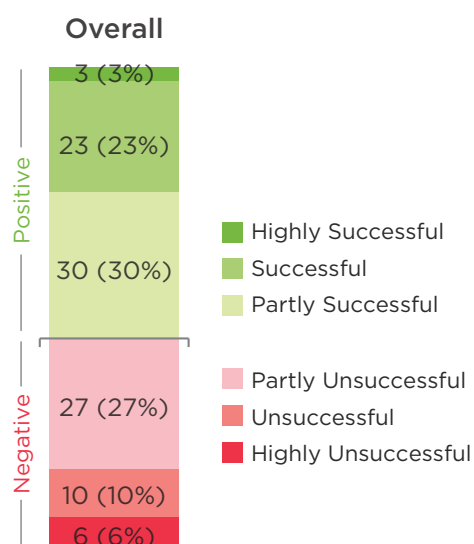
A. Results of validated projects

1. Project development outcomes

3.1 The development outcome criterion summarizes the overall results of a project measured against its specific development objectives. Of the 64 validated SG projects and programs, 41 (64%) were rated positive. Three operations achieved a Highly Successful rating, one of which was the first completed contingent loan for natural disaster emergencies in the Contingent Credit Facility (EC-L1216). One project was rated Highly Unsuccessful,¹⁰ suffering from an overly complex and ill-fitting project design coupled with major shortcomings in the performance of the government and the executing agency. Six additional projects were rated Unsuccessful. In three of them poor performance was linked to partial cancellations during implementation that prevented the operations from achieving their results. Four of the six PBPs and 11 of the 12 (92%) CCLIPs were rated positive, but the number of projects in various categories continues to be too small to draw comparative conclusions on performance across lending instruments. In the case of CCLIPs, the PCR guidelines do not specifically provide space for evaluating overarching project objectives to which the individual projects contribute. This may constitute a missed opportunity for evaluating and learning from the evolution of related CCLIP projects.¹¹

Figure 3.1
Project development outcome ratings of SG projects (N=64)

Source: OVE.



Note: % may not add to 100% because of rounding.

¹⁰ BA-L1007: “Barbados Competitiveness Program” (ESP).

¹¹ For example, under the Conditional Credit Line for the Support for the Management and Integration of Finance in Brazil (BR-X1005), as of 27 June 2019, 27 projects have been planned, all with a shared overarching objective. Seven of those were evaluated in a joint PCR and validated in this review. Once the remaining PROFISCO projects under this CLIPP are finalized it would be useful to conduct a comprehensive evaluation, despite the lack of an overarching PROFISCO results matrix.

3.2 PCR reports do not systematically show overall ratings in the main text which results in ratings being divorced from the performance discussion. There is no dedicated section on overall ratings in the PCRs, and the ratings assigned by Management were often only visible in an annex file. The result is that ratings are divorced from the performance discussion in the PCR. Several PCR authors nevertheless presented overall results in the main report and discussed them in various other parts of the report, making for a more complete account of project performance.

2. Core criteria

3.3 Across the core criteria, the reviewed projects scored highest on relevance and lowest on effectiveness, as in the previous year. Figure 3.2 shows the rating distribution of the core criteria, which is discussed in detail in the following sections.



Note: N=58 for efficiency, since six PBL/PBPs were not rated; % may not add to 100% because of rounding.

a) Relevance

3.4 Almost all projects (95%) had positive relevance ratings, showing strong internal logic and alignment with country development needs and the Bank's country strategy and corporate goals. Overall, only three operations were rated Partly Unsatisfactory on relevance,¹² and none was rated Unsatisfactory. All the projects with negative ratings are part of the Reform/Modernization of

12 CO-L1041: "Project for Strengthening Judicial Services" (PFM); EC-L1084: "Program for Strengthening the Pre-investment Cycle" (ESP); ES-L1017: "Legislative Branch Modernization II" (ESP).

the State sector and showed weaknesses in the vertical project logic; some also suffered from other design deficiencies, such as poor alignment with country realities and government priorities.

b) Effectiveness

- 3.5 Effectiveness assesses the achievement of the stated specific development objectives of an operation. According to the PCR guidelines, if development objectives were not clearly stated in the loan documents, PCR authors are required to establish the specific development objectives and align outcome indicators to them. OVE validates the results of this process and the alignment of the indicators with each of the objectives. In addition, the PCR guidelines permit project teams to review and update the initially approved results matrices within 60 days after the operation reaches eligibility.
- 3.6 Of the 64 projects, 24 (38%) achieved at least half of their stated development objectives and thus were scored positive on effectiveness. The other 40 (62%) were rated negative, as they failed to demonstrably achieve more than half of their objectives. Of those, 26 were rated Partly Unsatisfactory and 14 Unsatisfactory. Negative ratings in effectiveness can be caused by failure to achieve the target indicators, weak attribution of results, failure to deliver expected outputs, or lack of information on indicators. Low effectiveness ratings were clearly linked to lack of information on indicators in 31 projects (48%) and to external factors in 12 projects (19%).¹³ Two projects fully achieved or exceeded their project objectives and were rated Excellent.¹⁴
- 3.7 Many projects were hampered by issues with their results matrix. In 18 projects (28%) there were issues with the indicator quality or scope, implying that despite a passing Development Effectiveness Matrix (DEM) score at approval, the approved indicators allowed only partial evidence of the achievement of the development objective. In several projects not all objectives had indicators (a design problem)—a lack that automatically results in an Unsatisfactory effectiveness rating for that specific objective. Some project teams tried to address these issues during project implementation. For over half the projects, changes—including in some cases the removal of indicators or project components—were made in the results matrix after

¹³ Lack of information was due to various factors such as project failure to collect the necessary information, changes made to the results matrix after the “60-day post-eligibility” deadline (e.g., replacement of indicators), indicator design issues (e.g., no baseline, indicator not measurable), and cancellation of certain project components.

¹⁴ CO-L1132: “Loan for Investment Financing, Restructuring, Exporting Development” (ESP); EC-L1084: “Program for Strengthening the Pre-investment Cycle” (ESP). Regarding the first project, the poor quality of the effectiveness section led OVE initially to downgrade it to Partly Unsatisfactory. However, after receiving additional evidence from Management, OVE was able to validate the Excellent rating.

the permitted period. However, the 2018 PCR guidelines do not specify conditions and criteria for reasonable late changes (even when they improve the project design), unless they are part of a formal project restructuring and approved in this context. Another common issue was a mismatch between indicators and objectives (21 projects, 33%). Indicator remapping affected the final rating of objectives in several cases. An additional guidance note on these issues complementing the PCR guidelines could help PCR authors provide relevant additional information.

- 3.8 PBL/PBP operations face specific problems in setting reasonable outcome targets after approval, given their almost immediate disbursement and launch of the PCR drafting process. This could mean defining the indicator target value in the same year as starting to draft the PCR. Alternatively, setting a future target year would imply that the target values are not available at the time of drafting the PCR. For example, for the PBP operation CO-L1144, the project's results matrix had 2020 as the final year to meet indicator targets, so OVE had to interpolate reasonable target values for the year 2018, as the basis for the validation. For such PBPs,¹⁵ it would be useful to set the PCR deadline to allow meaningful results to materialize. At the same time, as part of ensuring quality at entry, the design of the results matrix should contain only outcomes and indicator targets that are achievable in the given timeframe while being attributable to the project.

c) Efficiency

- 3.9 Of the 58 projects assessed against this criterion, 31 (53%) achieved a positive efficiency rating. The efficiency of operations is expected to be assessed either through a cost-benefit analysis (CBA) or a cost-effectiveness analysis (CEA) at closure. For operations for which neither analysis is carried out, the efficiency ratings are based on their ratings in Project Monitoring Reports, the Cost Performance Index (CPI), and the Schedule Performance Index (SPI) during implementation—but because these instruments consider only output progress, this automatically leads to a negative efficiency rating. Because an efficiency analysis is not required for PBPs (six of the PCRs), this section discusses the efficiency ratings for only the other 58 projects. To evaluate project efficiency, 31 projects (53%) used CBAs and eight (14%) used CEAs (one of these used CBA for

¹⁵ PBPs are rated according to the PCR guidelines by their outcome achievements against their specific development objectives, like all other project types. Specific provisions are in place for rating several loans approved as part of a PBP series. In 2016 OVE prepared a technical note (RE-485-6) that pointed to weak linkages between objectives and outcome indicators, and contained additional reflections on the relationship between differences in depths of policy conditions and truncations of series. This technical note also concluded that it remained unclear whether PBLs were meant to leverage reforms, support implementation (through technical assistance), or reward reforms already undertaken. Source: IDB 2016.

one component and CEA for another component). The analysis was of good quality for 22 projects with CBA and for three projects with CEA. In six operations the CBA/CEA did not cover the whole project, but the guidelines are unclear on how partial coverage should affect efficiency ratings. Twenty projects (34%) had neither a CBA nor a CEA and therefore received a negative efficiency rating, in accordance with the 2018 PCR guidelines. Another seven operations received a negative efficiency rating based on the information presented.

- 3.10 More than half of the validated projects lacked a solid assessment of efficiency. While 22 projects used a good-quality CBA and three a good-quality CEA, the remaining projects either carried out neither, or used deficient methodologies or standards. When a CBA or CEA was conducted, in almost all cases the analysis showed numerical results corresponding to a high efficiency rating. However, in several cases unrealistic assumptions or questionable calculations underpinned these analyses, leading OVE to downgrade the efficiency performance and confirming the recommendation of the previous validation report for guidance on quality standards for such calculations.¹⁶

d) Sustainability

- 3.11 49 projects (77%) achieved a positive sustainability rating. Sustainability ratings assess risks to the continuation of outcomes and safeguards performance. Two projects were rated as Unsatisfactory.¹⁷ For one of those projects no outcomes were achieved, and even the main achieved output is vulnerable to high-level political decisions, so that the operation was also rated as Highly Unsuccessful on project development outcome. The second project suffers from similar challenges related to political volatility and institutional weakness. In addition, one of its subprojects showed noncompliance with OP-710 on involuntary resettlement.
- 3.12 Less-than-satisfactory sustainability ratings are mainly driven by risks to continuation of outcomes, given that information on safeguards performance continues to be very scant and the PCR guidelines are unclear on how this affects ratings. Among the operations rated less than Excellent, the rating was affected by

¹⁶ As an example, in a project aiming to improve the physical conditions of schools in Mexico (ME-L1171) the loan was cancelled 17 months after its approval, resulting in limited results and an overall Unsuccessful project rating. Management rated the project's efficiency as Excellent using a CBA, basing the calculations on assumed impacts on reducing school dropout rates. Given that 10 months of project execution are not enough to initiate the expected changes in behavior and given the lack of evidence that the assumed benefits indeed materialized, OVE downgraded the rating to Partly Unsatisfactory, based on satisfactory CPI and SPI ratings.

¹⁷ BA-L1007: "Barbados Competitiveness Program" (ESP); HA-L1068: "Northern Economic Pole Business Accelerator Program" (ESP).

risks to continuation in 44 cases, by safeguards performance in one case, and by a combination of both in eight cases. For over half the projects (including at least five Category B projects), no or very limited information on safeguards compliance was available. According to PCR guidelines, lack of information on safeguards performance does not require a downgrade in that category (as it does for outcome indicators in the effectiveness section). Furthermore, according to the guidelines, for “operations not classified as having high environmental and social risk, [safeguards] should not be considered for the sustainability category” (2018 PCR Guidelines, page 14). Safeguards performance issues were explicitly mentioned in 10 projects (16% of PCRs). Consulting other resources such as Environmental and Social Safeguards Unit (ESG) supervision reports and ESG risk ratings made it possible for OVE to address some safeguards information gaps in the PCRs during validations. However, even when ESG carried out supervisory visits, the available information did not always provide a clear indication whether safeguards issues had been satisfactorily addressed, and PCRs often did not clearly document issues that had been identified during such supervisory visits. For example, in the validated Category A project, the PCR did not discuss the project’s Partly Unsatisfactory safeguards performance and downplayed the risk of these factors following project closure, rating project sustainability as Excellent. Similar examples were found among Category B projects.¹⁸ Information gaps are further compounded by the fact that ESG specialists did not cover all projects with potentially significant environmental and social (E&S) risks or effects.¹⁹

3.13 Inadequate documentation of safeguards performance issues in PCRs was not limited to Category A and B projects. OVE found that there were also Category C and B13 projects²⁰ with safeguards issues that were not properly documented in PCRs. For example, one project that involved demarcation and cadastral registration in a post-conflict situation was classified

18 For example, in a Category B infrastructure project (HO-L1033), the PCR mentions that some of the OPs were triggered and actions were taken. However, after consulting ESG resources it was found that several issues (e.g., around involuntary resettlement) had been flagged but no evidence was available on whether the mitigation actions had been effectively implemented. In a Category B health project (HO-L1072), ESG support stopped because the project risk rating changed, and OVE could not find evidence on whether safeguard measures outlined in the last ESG supervisory report (e.g., hazardous waste and effluent management) have been effectively implemented.

19 Per the 2018 PCR guidelines, PCR teams must include “a member from ESG if the project was a category A and B project (or other risk categories if deemed appropriate)” (p. 20). The PCR teams included an ESG member for the only Category A project, for 4 of the 13 validated Category B projects, and for one project classified as B13. None of the nine PCRs prepared for Category B projects with earlier guidelines had ESG team members.

20 “B13 is a catch-all category not related severity of impacts, covering non-investment lending and flexible lending instruments.” Source: IDB 2017b, p. 10.

as Category C, when it should have been classified at least as Category B, if not A.²¹ Further research revealed that this project had been flagged as high-risk by ESG because of its highly sensitive social context, related to potential conflicts with indigenous communities, perceived threats of land invasion, and land evictions. However, no evidence was available on whether an ESG supervisory visit took place, and the PCR did not fully document safeguards issues that had arisen during implementation (and had led to a MICI complaint²²), nor the extent to which they had been resolved by project closure. Another example is a B13 project in Haiti, which aimed to support the development of selected initiatives for agribusiness, tourism, and industrial value chains. Several safeguards performance issues, including some related to involuntary resettlement, arose from subprojects; ESG assigned it a safeguard performance rating of Partially Unsatisfactory, but this rating was not documented in the PCR.²³ The PCR guidelines would benefit from improved guidance to PCR authors on the rating conditions (including how to address information gaps) and information sources to consider when assessing safeguards performance.

3. Non-core criteria

3.14 This validation cycle is the first in which PCRs provided information on the two new non-core criteria—Bank and borrower performance. Since these criteria were introduced in the 2018 PCR guidelines, only 40 PCRs incorporated them. Of these, 37 (93%) projects were rated positive on Bank performance and 31 (78%) on borrower performance.²⁴ No project was rated Unsatisfactory on Bank performance. For the three cases in which the Bank's performance was Partly Unsatisfactory,²⁵ the rating was linked to issues around project design at entry (e.g., monitoring and evaluation [M&E] arrangements) and ex-ante analysis of political and institutional risks. In one case it was also

21 GU-L1014: "Establishing Cadastral Registry & Strengthening Legal Certainty Protected Areas" (ESP).

22 In 2017 MICI terminated the administrative processing of the Request to allow the requesters to resolve their concerns directly with the project team. Requesters can re-file their Request with MICI, if the project team does not address their concerns within a reasonable time frame. Source: MICI. (2019).

23 HA-L1068: "Northern Economic Pole Business Accelerator Program" (ESP), one of the two projects with an Unsatisfactory sustainability rating.

24 The 2018 PCR guidelines had stated that these criteria would not be rated, but a rating system was introduced in their application, so that 39 of the 40 PCRs provided a rating by Management, and all had information allowing a rating by OVE. This year, the published PCRs included a 6-point rating scale on these two criteria, but OVE discussed and agreed with SPD during the validation cycle that a coherent four-point rating system comparable to that of all other criteria would be used in this report and henceforth. OVE will retain in its databases the converted four-point scores as agreed with SPD.

25 GU-L1014: "Establishing Cadastral Registry & Strengthening Legal Certainty Protected Areas," CO-L1041: "Project for Strengthening Judicial Services," and AR-L1092: "Export Promotion Program."

related to the misclassification of the E&S category and weak supervision of E&S issues. All three of these projects were also rated low on project development outcome. An example of strong Bank performance was found in a multiphase primary health care program. In this case the IDB team ensured that the project design was consistent and based on lessons learned during the previous operations, and that evaluations and relevant studies were carried out as needed.²⁶

3.15 Borrower performance was rated negative in nine cases, a result that was mostly linked to fluctuating key staff, implementation delays, insufficient implementation of the M&E system, lack of supervision and control of E&S issues, and insufficient management capacity. One project was rated Unsatisfactory because of lack of government capacity and inter-agency coordination as well as lack of compliance with E&S requirements (HA-L1068). In another example, insufficient borrower capacity led to changing the executing agency, and the project's development outcome was rated Partly Successful.²⁷ In another project, the counterpart reduced its contribution to the project by 94%, leading to the elimination of some of the activities, so OVE downgraded the borrower performance from Excellent to Partly Unsatisfactory.²⁸ An example of strong borrower performance is a policy-based program aiming to increase the financial system's contribution to Colombia's growth.²⁹ The borrower completed the agreed policy reforms earlier than expected, and its strong leadership and ownership ensured the continuity of the reforms.

3.16 Rating these new categories is at an early stage, and practical guidance on the rating steps has yet to be issued. The discussions on Bank performance are focused heavily on efforts supporting implementation, but better information and analysis of the quality of M&E system design is required in the assessment of project performance. This circumstance may explain why the self-evaluations rated both Bank and borrower performance positive in 100% and 95% of projects respectively, while only 38% of projects achieved their objectives and many were affected by shortcomings in M&E design and implementation issues. The PCR guidelines would benefit from more clearly defining what aspects need to be considered when assessing and rating Bank and borrower performance. OVE adjusted these two ratings where it could identify evident weakness in accordance with the

26 AR-L1142: "Primary Health Care Program for Managing Chronic Non-communicable Diseases."

27 HO-L1033: "Agricultural Corridor Road Program (Tegucigalpa - Puerto Castilla)."

28 ME-L1128: "Growing healthy; strengthening healthcare for Mexican children."

29 CO-L1144: "Financial System Reform Support Program II."

guidelines, but with 93% rated positive on Bank performance and 78% on borrower performance, the ratings are remarkably high in view of project achievements.³⁰

4. Lessons learned

3.17 PCRs' section on "Findings and recommendations" was found to generally contain useful reflections on how future operations could learn from the implementation of past operations. An area in which PCRs contain relatively few lessons is the quality of the initial results matrix and indicator systems, even though many projects' effectiveness ratings were affected by shortcomings in this area.

B. Comparison between OVE ratings and Management self-ratings

3.18 A key purpose of the independent validation of project outcome ratings is to ensure the credibility of the self-evaluation system, which is in part indicated by a low discrepancy between Management's ratings and independent ratings. Therefore, it is useful to compare OVE's final project outcome ratings with Management's own PCR ratings. Comparisons between Management's self-ratings and OVE's final ratings are possible for 54 of the 64 operations included in this validation exercise; for the remaining 10 operations the PCRs were still prepared in accordance with the 2014 guidelines, which do not lend themselves to rating comparisons because of methodological differences. The comparison between Management's and OVE's ratings is summarized in Figure 3.3, which indicates the numbers of projects in each of the six project development outcome categories, as well as the ratings in the binominal categories of positive and negative low ratings.

3.19 In total, OVE and Management gave the same development outcome rating to 29 (of 54) projects. The size of the horizontal bars in Figure 3.3 indicates the number of projects that were rated the same by Management (left side) and OVE (right side). Upward and downward lines indicate the extent of OVE's upgrades and downgrades to the Management ratings.³¹ For example, of

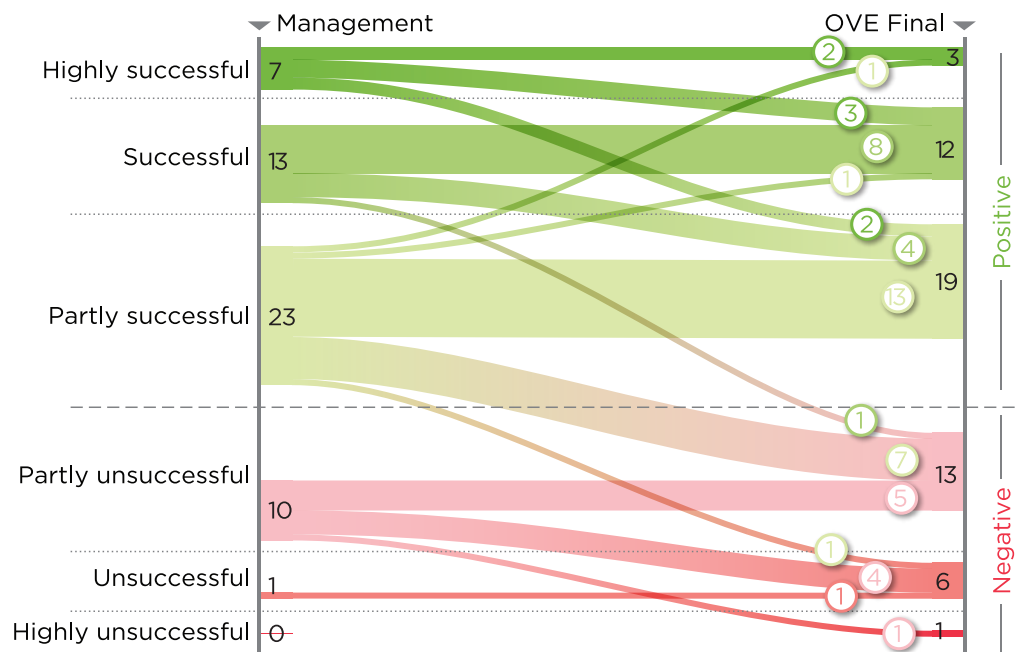
³⁰ Annex IV provides a more detailed breakdown of non-core ratings.

³¹ The validation process allowed project teams to provide supplementary evidence that was missing from the PCRs, in response to the draft validations submitted for Management comments. With the additional information, OVE rated 5 additional projects as positive between the draft and final validations (raising the overall share with a positive rating from 56% to 64%). To illustrate: for a project aiming to strengthen productivity by financing investment projects, the PCR effectiveness section did not include information on the pre-project portfolio, thus not providing evidence to link the reported results achievements to the project. After Management supplied this evidence in response to the draft validation, OVE was able to assign an Excellent effectiveness rating.

the 13 projects rated as Successful by Management, eight were rated the same by OVE (green number on right-hand side), four were downgraded one step to Partly Successful, and 1 was downgraded by two steps to Partly Unsuccessful. Nine projects were downgraded from a positive to a negative development outcome rating (indicated by crossing the dashed line between the Partly Successful and Partly Unsuccessful categories). In most cases the rating was changed by one grade, but in four cases it was changed by two grades – three downgrades and one upgrade. In one project, OVE upgraded the effectiveness rating, resulting in an overall outcome upgrade from Partly Successful to Highly Successful.³² For another project, OVE downgraded the overall rating from Highly Successful to Partly Successful, downgrading effectiveness to Partly Unsatisfactory.³³

Figure 3.3
Number of PCRs
rated in each rating
project development
outcome category by
Management and OVE,
and changes between
these categories

Source: OVE.



3.20 Differences between OVE ratings and Management self-ratings were partly linked to methodological issues. For several PCRs, the calculations provided in PCRs and/or the PCR checklist—particularly those related to effectiveness—were inconsistent. In the efficiency ratings, rating discrepancies also emerged because of imprecisions in applying the methodology of the guidelines, which led to several downgrades. Another factor was the mismatch of indicators and objectives in 21 projects (some were done following the old PCR guidelines). This required OVE

³² AR-L1142: “Multiphase Primary Health Care Program for Managing Chronic Non-communicable Diseases.” The effectiveness rating difference resulted from a remapping of the results indicators; OVE and the PCR assigned the same qualifications to the individual results indicators.

³³ BO-L1040: “Direct Supports for the Creation of Rural Agrifood Initiatives Project (CRIAR).” The PCR had rated effectiveness as Highly Successful based mainly on the achievements of targets that were adjusted downward in 2017 (a change that is not permitted under the 2018 PCR guidelines).

to remap indicators, resulting in changes to effectiveness rating calculations. Some downgrades for methodological reasons may be due to project teams' lack of familiarity with the guidelines.

C. Quality of PCRs

- 3.21 OVE classifies PCR quality on a four-point rating scale. A rating of Good corresponds to a PCR that contains all the required information to allow the assessment of the results of a project, and PCRs rated as Excellent are those that could serve as best practice examples in terms of their clarity, completeness, and quality of analysis and discussions. It is important to keep in mind that the rating of PCR quality is independent of the achievements of the project that is being assessed. In the 2019 validation cycle, OVE rated 44 PCRs (69%) as Good or Excellent but identified quality concerns in 20 PCRs (19 rated as Fair, and one as Poor).
- 3.22 The majority of PCRs were rated Satisfactory or Excellent on quality, indicating that they analyzed the project achievements sufficiently well, they were candid and complete, and ratings were consistent with evidence. An example of an overall Excellent PCR is the joint PCR for the seven PROFISCO CCLIP projects in this validation. The PCR analyzes all the required topics clearly and deeply and includes exhaustive recommendations to strengthen the design and operation of the next operations under this CCLIP. In addition, the PCR analyzes the contributions of those seven operations toward the wider PROFISCO program. The other PCRs that deserve mention for high quality are those for BO-L1065, EC-L1216, NI-L1048, and SU-L1027.
- 3.23 The areas for improvement in the PCRs rated low on quality are the clarity of ratings by objectives; discussion of the validity and achievements of indicators; and the clarity and comprehensiveness of complementary evidence. Additional areas for improvement are the need for (i) a more systematic presentation of efficiency analyses, supported by implementation of the corresponding recommendation to draft guidelines for CBA/CEA, (ii) improved discussions of the quality of M&E systems, and (iii) better information on safeguards performance. In several PCRs, there were inconsistencies between the PCR document and its annexes containing ratings calculations, pointing to the continued need to ensure that those documents are harmonized and that Management ratings are clearly and systematically derived within the main text. It is expected that the results of the intensified training on the application of the new PCR guidelines that was provided in early 2019 will be visible in the next PCRs submitted

for validation. Further refinements in the guidance to project teams on the new criteria of Bank and borrower performance could improve the quality of evidence on them and produce a more differentiated assessment, since the 100% positive self-rating of Bank performance appears unrealistic.

Table 3.1. Number of PCR reports rated by OVE in each PCR quality category

Category	Nr of PCRs
Excellent	8
Good	36
Fair	19
Poor	1
Total	64

Source: OVE.



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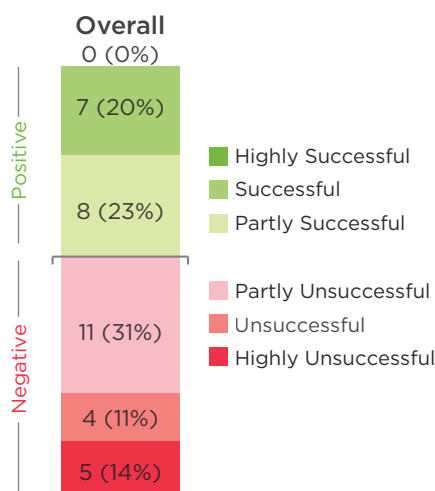
Private Sector Project Reviews

A. Results of validated projects

1. Project development outcomes

4.1 OVE reviewed 35 IDB Invest operations,³⁴ of which 15 (43%) were rated positive and 20 were rated negative. Figure 4.1 presents this overall rating, as well as the breakdown by each rating category. The loan approval volume associated with the projects with positive ratings corresponds to 33% of the US\$606 million financed by the portfolio in question. Breaking down these overall ratings by private sector windows (though a small sample size limits broader interpretation for a single year) shows that 10 of the 19 IIC projects had positive ratings, but negative ratings dominated for SCF (five out of eight projects) and OMJ (five out of seven projects). For all five projects rated as Highly Unsuccessful, poor performance was linked to Unsatisfactory effectiveness (e.g., caused by lack of achievement of objectives, impossibility to rate objectives). Four of the projects also had an Unsatisfactory efficiency rating. In two cases poor performance was linked to problems related to relevance, including failing to incorporate the lessons from a previous project or serious design flaws.

Figure 4.1
Project development outcome ratings of NSG projects (N=35)
Source: OVE.



Note: % may not add to 100% because of rounding.

2. Core criteria

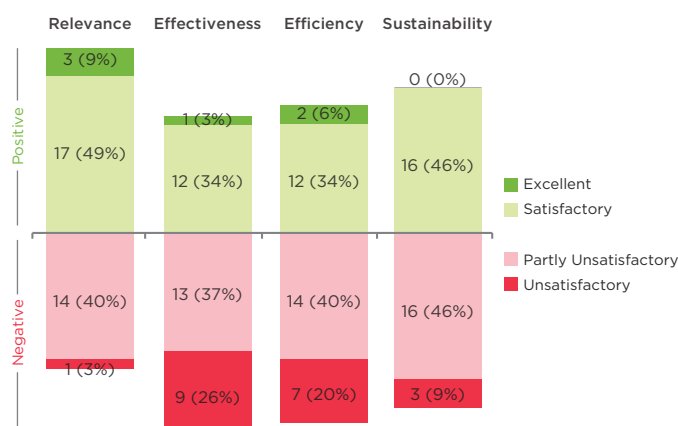
4.2 Among the four core criteria contributing to the project development outcome ratings, projects scored best on relevance, followed by sustainability, efficiency, and effectiveness. Of the 35 projects reviewed, 20 (57%) had positive ratings on relevance, 16 (46%) on sustainability, 14 (40%) on efficiency, and 13 (37%) on effectiveness (see Figure 4.2). A substantial share was rated

³⁴ Annex V presents the list of projects for which XSRs were submitted.

Unsatisfactory on efficiency and effectiveness. FI projects performed best in terms of sustainability, while corporate/infrastructure projects were rated highest on relevance.

Figure 4.2
Core criteria ratings of NSG projects (N=35)

Source: OVE.



Note: % may not add to 100% because of rounding.

a) Relevance

4.3 Relevance had the highest share (57%) of positive ratings across all rating criteria. Of the 10 corporate/infrastructure operations, 9 were rated positive on relevance, but only 11 of the 25 FI projects could demonstrate their relevance, considering the country’s development challenges, alignment with the approving private sector windows’ business priorities, and the adequacy of project designs.

4.4 All 14 FI projects with a negative relevance rating had substantial shortcomings in their design. Overall, six types of shortcomings were identified: (i) four projects showed weakness in their diagnostics, missing a proper analysis of the main constraints they were going to address;³⁵ (ii) some projects fell short in addressing the strengthening of the client’s business models or operational capacity (two of five housing projects); (iii) some projects’ solutions were inadequate to address the problems identified in the diagnostic;³⁶ (iv) the projects missed targets or pursued inadequate ones, hampering their relevance in incentivizing the client to reach the final beneficiaries;³⁷ (v) client selection was

35 This was the case for one project addressing SMEs in the biofuel / biomass sectors and three projects reaching the SME segment at large.

36 Two projects aimed at alleviating SMEs’ financial constraints by providing either small amounts of long-term funding to the client or facilitating the provision of short-term funding to the final beneficiaries.

37 Three FI operations missed targets, one supporting SMEs and two supporting low-income households, while another project intended to pursue SMEs by targeting enterprises using an inadequate threshold for the country’s reality. In three projects, although the partner incorporated large players in the market, including one case in which the client was the largest, the conservative target for SMEs undermined the projects’ relevance. The same happened in another project with a small target of low-income households, when the client was the country’s mortgage market leader.

an issue, jeopardizing the relevance of two projects;³⁸ and (vi) some projects did not incorporate lessons learned from previous operations with the same client—as, for example, an SME operation that intended to leverage a previous operation by the Multilateral Investment Fund (now IDB Lab). There were also XSRs in which a combination of these shortcomings affected the relevance rating.³⁹

b) Effectiveness

- 4.5 Among the 35 NSG operations, 13 (37%) were rated positive on effectiveness, indicating that they achieved the majority of their development objectives. Between corporate/infrastructure operations and FIs, similar shares of operations were rated positive on effectiveness. Because of the larger number of FI operations, the findings on these are presented in more detail.
- 4.6 Ten of 25 FI operations achieved most of their development objectives. They generally represented partnerships of IDB Invest with well-positioned FIs using tested business models in their markets to improve access to finance for SMEs, which was the main objective of these successful projects.⁴⁰
- 4.7 However, the remaining 15 FI operations (60%) had negative effectiveness ratings, as they fell short of achieving their development goals (11 projects) and/or lacked information about reaching them (four projects). Objectives not reached included targets for portfolio growth reaching SMEs (seven projects), low-middle-income households (3 projects), or social infrastructure for base-of-the-pyramid (BOP) clients (one project). Additional information gaps also affected the ratings of three of these 11 projects.⁴¹ Four other projects were rated low on effectiveness because information gaps on objectives and targeted beneficiaries undermined the assessment of the project's success.⁴²
- 4.8 Regarding corporate operations, three of the 10 projects achieved positive and seven negative effectiveness ratings. Two of these corporate operations were rated Unsatisfactory on effectiveness:

38 In the first, the project was a partnership with an FI without clear comparative advantage or willingness to support SMEs. In the second, the project supported a state-owned FI aiming to target SMEs, and the client ultimately crowded out private sector players rather than helping to develop a competitive financial market in the country.

39 For instance, a project targeting lower-middle-income borrowers was designed without a baseline of the existing target portfolio and without a justification of whether the lack of funding was the barrier that prevented the further growth of this relevant portfolio.

40 Illustrative examples include the following: one traditional FI in the leasing segment successfully increased the amount of its outstanding leasing portfolio above the targets. The same happened with another FI that used its national branch to successfully reach BOP microentrepreneurs, increase its SME portfolio, and increase average loan tenors.

41 The three included two FIs targeting SMEs and one FI targeting both SME and housing beneficiaries.

42 One of these projects missed information on low- and middle-income mortgages, and the three other projects did not show data average tenor of loans to SMEs.

one because the project made little progress toward achieving its objectives, and the other because delays with the commercial production and technical difficulties meant that employment targets were not met. Another project was rated negative on an objective because of lack of information and because there was no evidence that planned social investments in local communities had taken place.

- 4.9 Several common features behind low effectiveness ratings were identified. Adverse macroeconomic and/or regulatory conditions affected at least six projects and their ratings.⁴³ Setting inadequate targets without taking the client's capacity into consideration also explained why some projects struggled to meet their goals. For example, a project to pursue both SME and low-income housing lending partnered with an FI that had no clear comparative advantage or willingness to support SMEs. Three FI projects applied weak or untested business models mainly to address low-income households or unbanked BOP clients.⁴⁴

c) Efficiency

- 4.10 The rating of efficiency is the second lowest across the four core rating criteria, with 14 projects (40%) scoring positive ratings. Only one-third of FI operations were rated positive. The fact that efficiency is the lowest-performing criterion for FI operations invites a closer review of the reasons. The eight projects that were rated Satisfactory showed evidence of having successfully reached their targeted beneficiaries, met business performance indicators, and presented nonperforming loan (NPL) ratios at acceptable levels as a proxy indicator of the positive economic performance of subborrowers. However, the majority of projects were rated low because they lacked evidence of having reached their financial and/or economic goals (11 projects) or were missing information (four projects).⁴⁵ Low ratings were due mainly to poor results, such as a decrease in either the SME (three projects) or the low-income housing (two projects) portfolio, unmet MSME lending targets to the BOP (three projects, including one rural women-led), and an

43 While in most such cases (4 SME projects and 1 in social infrastructure) the FI's portfolio showed a decrease similar to competitors', one FI showed that its SME portfolio performed better than that of peers.

44 For instance, a regional bank failed to introduce an innovative credit methodology to reach the BOP. Another one, with the same FI, failed to reach the BOP subborrowers originally defined at approval.

45 Three projects lacked information on the NPL of the relevant portfolio: one project addressing lower-income households, another providing social infrastructure to BOP, and the third targeting SMEs in the biofuel and biomass sectors. One project provided information for the entire micro-mortgage portfolio rather than on NPLs and loan tenor for the targeted low-income mortgage portfolio. Another project supported both housing and SMEs but lacked information on the relevant mortgage portfolio.

increase in NPLs of the SME portfolio (one project) and of low-income households (one project). Another project did not reach its target client segment of lower- to middle-income beneficiaries.

- 4.11 Of the 10 corporate/infrastructure projects, four were rated negative on efficiency. In three of them the financial and economic efficiency was in the same rating category. An energy infrastructure project had Excellent financial efficiency but Partly Unsatisfactory economic efficiency.

d) Sustainability

- 4.12 Slightly less than half the projects (16 of 35) had Satisfactory sustainability ratings. E&S performance was rated Unsatisfactory in three operations and Partly Unsatisfactory in four. The quality and scope of information provided in the XSR was not always sufficient to validate the E&S performance rating. For example, the E&S Monitoring Report of a Category B mining operation showed serious E&S noncompliance and potentially irreversible impacts, which also cast into doubt the adequacy of the project's assigned E&S category, but the XSR did not adequately document these issues. OVE therefore downgraded the sustainability rating from Partly Unsatisfactory to Unsatisfactory. In the context of the 2018 Environmental and Social Safeguards Evaluation OVE found that supervision documents did not always contain reliable information on the safeguards performance of IIC legacy operations. Therefore, it would be useful to guide XSR authors about when to consult additional sources (such as expectations laid out in the original E&S review documents⁴⁶ and in client and third-party monitoring reports) beyond the annual compliance ratings summaries by the Environmental, Social and Governance Division (SEG), to determine E&S sustainability in the XSRs. While not all XSR reviews merit such additional analysis, it should at least be part of elaborating XSRs for operations in sensitive sectors or areas, and those for which SEG rating summaries contain little detail on compliance.
- 4.13 Slightly more than half of the FI operations (13 projects) achieved a positive sustainability rating. These projects followed the expected E&S standards, reported consistently on E&S compliance,⁴⁷ and showed evidence of the sustainability of the achieved outcomes given the strong capitalization of the FI, sponsor support, or the FI's stable financial and risk position. The low rating of 12 projects was due to three factors, the most common of which was evidence of sustainability risks for the targeted portfolio even as the FI

⁴⁶ Environmental and Social Review Summary, Environmental and Social Action Plan.

⁴⁷ One of these projects was initially downgraded for lack of clarity on whether the FI could sufficiently ensure that its processes prevented financing deforestation activities, but was later upgraded to Satisfactory on provision of additional information on the processes established by the FI.

enjoyed a stable financial situation (seen in eight projects).⁴⁸ Less common reasons were a lack of information, which hampered the assessment of the likely continuation of outcomes (two projects),⁴⁹ and cases in which the lack of the FI's financial sustainability limited the ability to continue lending to the targeted borrowers (two projects in the housing sector).⁵⁰

3. Non-core criteria

4.14 The NSG system includes three non-core criteria: work quality, rated positive for 11 projects (31%); additionality, rated positive for 27 projects (77%); and investment outcome, rated positive for 31 projects (89%). The negative ratings for work quality assigned to more than half of the corporate/ infrastructure projects and to even more of the FI operations (18 of 25) were particularly driven by concerns at the design stage of operations. Additionality ratings differ considerably by operation type. Of the 10 corporate/infrastructure projects, 9 were rated positive (4 of the 10 projects even Excellent), but none of the FI projects showed Excellent additionality, and one-quarter was rated negative (18 projects, or 72%, had Satisfactory additionality). Most NSG operations (31 projects – 88%) were rated positive on investment outcome, indicating that the IDBG selected operations that contributed positively to its financial success, and that most loans get paid as scheduled.⁵¹

4. Lessons learned

4.15 As part of the validation process OVE reviews the XSRs' section dedicated to lessons learned from project implementation. OVE endorsed most of these lessons, and in some cases suggested additional lessons. These lessons become part of the knowledge system resulting from XSRs and are included in IDB Invest's lessons database system ("Development Effectiveness Analytics") to facilitate learning by project teams when preparing new operations.

B. Comparison between OVE ratings and Management self-ratings

4.16 OVE's and Management's development outcome ratings coincided for 25 of the 35 projects. Figure 4.3 indicates the extent of rating discrepancies between Management's ratings and OVE's, using the

48 As an example, one project pursued the implementation of an innovative credit methodology to BOPs, but the line was discontinued by the FI.

49 One supported an FI in reaching SMEs in the biofuel and biomass sectors. A second project supported an FI to reach both SMEs and low-income households.

50 One FI showed sustainability challenges motivated by the significant participation of the targeted portfolio (low-income householders with higher NPLs) in the FI's overall portfolio. In the second case, the FI's overall financial prospects put the continuation of the targeted portfolio at risk, even as it performed relatively well.

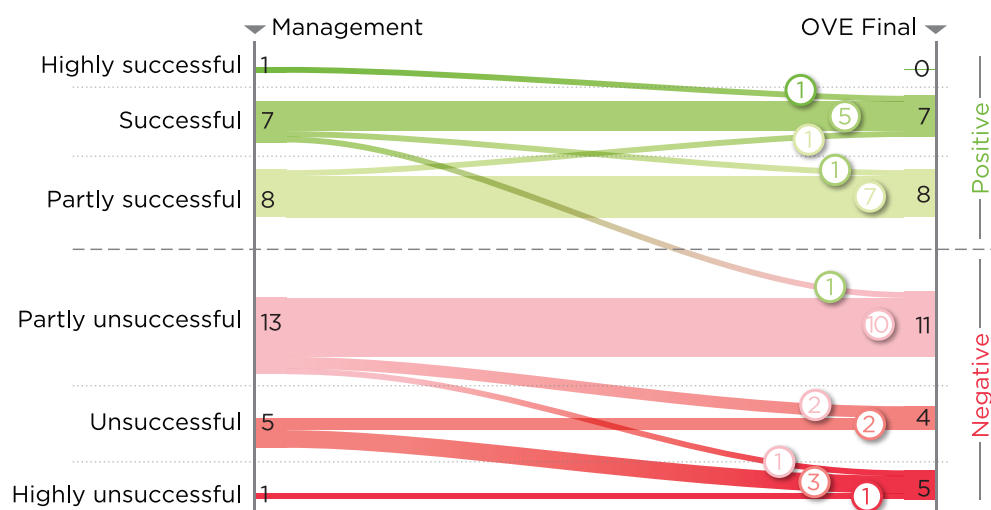
51 Annex IV provides a more detailed breakdown of non-core ratings.

six categories. The connecting lines (and numbers in circles) indicate how many projects changed ratings between these categories during the validation process. The predominance of horizontal lines in the graph indicates that the majority of projects received the same rating by Management and OVE (for example, five of the seven projects rated Successful). The figure shows the extent of upgrades and downgrades of the 10 projects on which differences in rating on the six-point rating scale occurred. To illustrate: Management had assigned the rating of Partly Successful to eight operations; OVE assigned this rating to seven of these operations and upgraded the rating of the last to Successful. Since OVE had downgraded to Partly Successful one project that Management had rated Successful, the number of projects rated in that category is eight in both cases.

Figure 4.3

Change of NSG project numbers by project development outcome ratings between management (left side) and OVE ratings (right side)

Source: OVE.



4.17 The results shown in Figure 4.3 reflect the comparison between the beginning and the end of the validation process, without the details of the interim phase of draft validations. In response to draft validations, IDB Invest teams provided additional information and clarifications for 13 of the 35 projects concerning one or several rating categories. With this new information, OVE adjusted at least one rating category of four projects (for two on effectiveness and for three on sustainability), which resulted in upgrading the overall ratings for three projects from negative to positive. Different efficiency ratings contributed most to overall rating differences, mostly due to lack of information but in some cases combined with different interpretations about the available evidence.

C. Quality of XSRs

4.18 XSR quality improved significantly compared to last year. The quality of XSRs is rated on a four-point scale. OVE rated 31 (89%) of the XSRs submitted as Good or Excellent, only four as Fair, and none as Poor (Table 4.1). The XSR quality rating considers the clarity of presentation, internal consistency between the provided evidence and assigned rating, the quality of financial and economic analysis, and the need to seek additional clarification from the authors to carry out validations. OVE found the quality of XSRs to be considerably higher than the quality of those submitted in the previous year.

Table 3.1. Number of PCR reports rated by OVE in each PCR quality category

Category	Nr of PCRs
Excellent	6
Good	25
Fair	4
Poor	0
Total	35

Source: OVE.



05

Conclusions and Recommendations

- 5.1 The IDBG objectives-based self-evaluation system—of which OVE’s validation of self-ratings is an integral part—continues to grow stronger. The 2018/2019 validation cycle has increased the number of projects for which validated ratings are available by 99 operations—64 SG and 35 NSG projects. Over time, as more projects are rated and validated under the system, validated results will provide a repository of information that will allow for comparative performance analyses by subgroups and across time.
- 5.2 In 2019, IDBG Management reported the OVE-validated ratings for the second year in the DEO, following the standard used by other MDBs. This year’s validation exercise covered the cohorts of operations that closed (PCRs) or reached EOM (XSRs) in 2017. For SG operations, however, validations are limited to projects that were approved with a DEM; PCRs of projects without a DEM are not subject to validation. This validation cycle also included two exceptions to the reporting by closure cohort for PCRs (see paragraph 2.5). Validating these projects helps avoid gaps in validation coverage of projects (approved with a DEM) from earlier cohorts that had not yet been submitted to OVE. To ensure full coverage of self-evaluations and validations, exemptions from the obligation to initiate PCR drafting when an operation closes are defined in the PCR guidelines and are reportedly controlled exclusively by designated staff within SPD. However, for transparency, it would be important to ensure that exemptions from preparing PCRs at closure be clearly identified and verifiable by OVE, particularly in view of the 2019 target year for performance reporting in the Corporate Results Framework.
- 5.3 In terms of validation results, 43% of IDB Invest operations and 64% of IDB operations achieved positive development outcome ratings. This year fewer NSG projects than last year were rated negative because they lacked information, but this remained a significant factor for SG projects. In NSG projects, not achieving the stated objectives remained a significant reason for low ratings. Application of the 2018 PCR guidelines enhanced the quality of evidence and improved reporting against the results matrix. The validation process also identified some issues for additional clarification in the PCR guidelines to facilitate the preparation of future self-evaluations and validations.
- 5.4 The completion of PCRs has become timelier, but XSR delivery was still concentrated into a short period before validations were due. The number of self-evaluations appears to have stabilized, according to available projections for the upcoming evaluation cycle. Deliveries of PCRs have been brought forward already, a step that will facilitate future validation processing. On the XSR

side, all XSRs were received after mid-January for validation by end-April (in view of the deadlines established for the DEO), thus timely deliveries remain a concern.

5.5 This year OVE could compare Management and OVE ratings for both NSG and SG operations. On the NSG side, this comparison was possible for all operations, as all XSRs had been prepared in accordance with the most recent guidelines. On the SG side, Management prepared most, but not yet all, PCRs using the latest (2018) PCR guidelines. To ensure that future validations are fully comparable with Management's self-evaluations, it is imperative that all PCRs delivered to OVE for the next validation exercise be prepared in accordance with the 2018 guidelines. Management rated 80% of SG projects positive on project development outcomes, but OVE rated only 64% positive.⁵² This disconnect is not surprising, since this is SG teams' first application of the 2018 PCR guidelines and the training sessions on their application have intensified only recently (and thus after these PCRs had been completed). On the IDB Invest side, the longer period of interactions based on the harmonized standards for self-evaluations and validations resulted in similar numbers of projects rated positive (only one discrepancy), although there continue to be divergences at the level of the more nuanced six-point rating system.

Box 5.1. Implementation progress on OVE recommendations

This box presents the OVE recommendations issued in RE-530-2, followed (in italics) by a summary of implementation progress. All recommendations were endorsed by the IDB and IDB Invest Boards. OVE has received the corresponding draft action plans and is reviewing them.

Recommendations to IDB Invest Management

(i) In collaboration with OVE, develop guidance notes and train XSR authors and OVE validators in improved financial and economic analysis methods, to ensure common standards in terms of clearly structured calculations, homogenous methodology, and transparent assumptions. OVE assessment: *IDB Invest carried out internal training on the application of the XSR guidelines; dedicated training on financial economic analysis methods in collaboration with OVE is still to be implemented.*

(ii) Agree with OVE on areas in which additional guidance notes to support the practical application of XSR guidelines would be beneficial, and develop such notes in collaboration with OVE. OVE assessment: *Action plan under implementation.*

(iii) Agree with OVE on a process of independent review and verification of the project pipeline to determine the list of operations reaching EOM and subject to XSR preparation and validation every year. OVE assessment: *Action plan in development.*

⁵² After removing from the analysis the 10 PCRs Management prepared using the 2014 PCR guidelines.

(iv) Agree with OVE on a delivery schedule of final XSRs that ensures that XSRs submitted for validation have passed all internal quality controls, taking into account the increased XSR numbers and deadlines for corporate reporting. *OVE assessment: XSRs were delivered between January 15 and March 20, 2019, and OVE's deadline to deliver all draft validations was April 30, so that a schedule that ensures earlier XSR deliveries is still required.*

Recommendations to IDB Management

(i) In collaboration with OVE, train project team leaders and PCR authors on the 2018 PCR guidelines to ensure that teams are aware of the requirements to monitor performance and report in accordance with the originally approved results matrix (adjusted within 60 days of eligibility, if applicable) and that all new PCRs are prepared according to 2018 guidelines. Make self-ratings an integral part of PCRs. *OVE assessment: Since this training was launched for new PCR teams in early 2019, the PCRs submitted for the 2018/2019 validation cycle could not yet benefit from systematic training on the application of these guidelines. Contrary to the requirements of the 2018 PCR guidelines, about one-third of the PCRs included in this report were drafted under earlier PCR guidelines. The PCRs that were prepared and rated per the 2018 PCR guidelines only partly structured the assessment in all sections of PCRs clearly in view of the established rating system.*

(ii) Develop complementary sector-specific guidance notes on the preparation of CBA and CEA as an integral part of PCR preparation. *OVE assessment: Reportedly, work on such guidance notes is in progress, but they have not yet been shared with OVE.*

(iii) Adopt interim guidelines for evaluating FI operations consistent with those developed for NSG projects, to bridge the period during which FI operations approved with beneficiary lists rather than subportfolio-specific objectives are being implemented. *OVE assessment: Draft guidelines have been discussed with OVE and an agreement awaits finalization.*

(iv) Agree with OVE on a delivery schedule of PCRs in view of increased PCR numbers and deadlines for corporate reporting. *OVE assessment: A formal schedule has not yet been agreed, but in practice, PCRs began to be delivered in the second half of 2018 for the 2018/2019 validation cycle. A first set of PCRs for the 2019/2020 validation cycle has already been received, so that the PCR delivery schedule is on track, even though a formal schedule is still desirable.*

5.6 During this year's validations, several areas were identified in which further guidance to teams is needed to help strengthen the quality and usefulness of SG self-evaluations, and to reduce divergences between Management and OVE ratings. The present versions of the PCR and XSR guidelines remain a solid basis, and the evaluation framework and criteria defined in them must remain intact. Nonetheless, with respect to the PCR guidelines, both OVE and SPD identified the need for additional clarifications and guidance on certain aspects to ensure consistent application of the guidelines.

- 5.7 The following areas for improving the clarity of the 2018 PCR guidelines and facilitating their application have been identified:
- (i) “Bank performance” and “borrower performance. Clarification is needed on what aspects should be considered in the assessment of each agency’s performance, including such aspects as the quality of M&E design/implementation and safeguards preparation/implementation performance; also, criteria for the four-point ratings categories need to be clearly defined (paragraph 3.16).
 - (ii) Specific project types/instruments. At present, the only instrument for which the PCR guidelines include specific provisions is the PBP (rules on aggregating effectiveness across all approved loans and the exclusion of efficiency), but further reflection is needed on when PCRs for PBPs are best prepared (paragraph 3.8). Clarifications are also needed on how the PCR Guidelines are best applied to other lending types, such as CCLIPs or the contingent loan instrument (paragraph 3.1).⁵³
 - (iii) Adjustments to results matrices. The 2018 PCR guidelines permit project teams to make adjustment to the results matrices and indicators up to 60 days after eligibility. Such adjustments were at times found to provide better-quality indicators than those established at approval, particularly when there had been a substantial delay between approval and eligibility (paragraph 3.7). The Bank’s data systems do not facilitate efficient access to such adjustments, and reportedly they did not always register them. Clearer guidance on recording results matrix changes would make the records of the project more accurate and transparent and would facilitate PCR validation.
 - (iv) Safeguards issues. The PCR guidelines offer insufficient guidance on how to assess safeguard performance at closure (paragraph 3.12) and limit the need to discuss safeguards performance to projects with high E&S risk. Further clarification is needed on what information sources PCR authors and validators should draw on, and what aspects need to be covered with respect to safeguards performance. Safeguards performance should be assigned a separate rating (as is done for NSG operations), with inputs from ESG staff, particularly for Category A and B projects and others with high or substantial risk. Furthermore, safeguards performance assessments in PCRs should not be limited to projects with high E&S risk.

⁵³ The need to develop guidance adapted to specific instruments is not limited to these examples for which PCRs were submitted for validation in the present validation cycle. Ideally, the expectations for future results reporting should be defined at the time of establishing such instruments.

- (v) Clear discussion of project results. The PCR as currently structured lacks a dedicated section to summarize the project's overall results (paragraph 3.2), including a requirement to reflect on the extent to which a project contributed at closing to resolving the development problem presented in the loan proposal. Some PCR authors provided such reflections in different PCR sections, but a more systematic discussion of overall results in a dedicated section would be desirable.
 - (vi) Clear definition of exceptions to timing of PCR preparation. The inclusion in this year's validation cohort of two PCRs for projects that closed in 2016 raises a question about the clarity of defining timing exemptions for PCR reporting (paragraph 2.5).⁵⁴ Particularly since the timing of PCRs could affect one of the key results indicators for the IDB (percent of projects with satisfactory development results), which projects require PCRs should be clarified and unambiguous.
- 5.8 In addition to these areas, the recommendations from OVE's prior validation report remain relevant, and corresponding action plans are under implementation (see Box 5.1). Since the implementation of these recommendations is tracked in the Recommendation Tracking System (ReTS), OVE is not repeating them here, but will closely monitor their implementation.
- 5.9 Drawing on the findings of this validation, OVE has recommendations for both IDB and IDB Invest Management.

For IDB Management:

- (i) Issue clarifications to the 2018 PCR guidelines in the areas outlined in paragraph 5.7 (Bank and borrower performance, instrument types, safeguards, discussion of project results, exceptions to timing of PCR preparation), and agree with OVE on the contents of such clarifications.
- (ii) Agree with OVE on a process of independent verification of the pipeline and exemptions for preparing PCRs for projects that reach closure in a given year.
- (iii) Ensure that all future PCRs submitted to OVE for validation are prepared in accordance with the 2018 PCR guidelines.

For IDB Invest Management:

- (i) Agree with OVE on a clear timeline for the delivery of all XSRs for the cohort of operations that reached early operating maturity in each year, to permit adequate time for quality validations.

⁵⁴ See also <https://idbg.sharepoint.com/sites/Regulations/en-us/Pages/OA/Closure/OA-500.aspx>.

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