

**MANAGING FOR
DEVELOPMENT RESULTS
AT THE
INTER-AMERICAN
DEVELOPMENT BANK
PROGRESS REPORT**

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PROGRESS REPORT¹

A. INTRODUCTION AND BACKGROUND

Overall Approach and Genesis of Results Initiatives

1. Since its inception, the Bank's mandate has been "to contribute to the acceleration of the process of economic and social development of the regional developing member countries" (Agreement Establishing the Inter-American Development Bank). In other words, the Bank's mandate is fully consistent with a focus on development effectiveness – in other words, the Bank has always been expected to have a positive effect on the development of its borrowing member countries. What is relatively new nowadays is the growing interest on the part of the Bank's shareholders that the Bank should be able to demonstrate the effect and results of its activities.

2. The Bank gives emphasis to "development effectiveness" to the extent that: (a) country strategies and the country programming process lead to the most appropriate choices of lending operations and non-lending activities; (b) lending operations and non-lending activities are soundly prepared, implemented and evaluated; and (c) its organizational structure, internal culture, incentive framework, and budget are fully aligned with the objective of providing the best possible support to its borrowing member countries as they aim to attain results on the ground.

Board papers on increased focus on results

3. In years since the Monterrey Statement², the Bank has continued to take steps to ensure that its activities contribute effectively to the economic and social development of its borrowing member countries. As requested by the Board of Executive Directors, Management has periodically reported on progress made along these lines. Most recently, Management's "Progress Report on Activities carried out in 2002 and Proposed Future Actions to strengthen the Bank's Development Effectiveness" (GN-2186-2, March 2003) was regarded by the Board as a "key element for advancing the Bank's development effectiveness and for strengthening the systems we use to monitor the results of our operations" (GN-2186-3, March 2003). The Board of Executive Directors

¹ This paper has been prepared by the Bank's Development Effectiveness Office.

² The statement on "Better Measuring, Monitoring and Managing for Development Results", issued by the Heads of Multilateral Development Banks on March 29, 2002 in Monterrey, Mexico.

has also asked Management to prepare an action plan aimed at establishing a comprehensive development effectiveness system at the Bank. And the Board of Governors directed the Bank to take steps to enhance its development effectiveness, while stating that the additional requirements associated with such steps should not be too burdensome (AB-2281, March 2003).

B. ACHIEVEMENTS AND ASSESSMENT OF PROGRESS

Strengthening the results focus of the Bank's institutional alignment

4. In 2003 Management established a Task Force on "Retooling Bank Operations." The Task Force was directed to perform a top-to-bottom review of the Bank's processes for preparing and implementing operations, so as to ensure that the Bank is organized and operates in a way that leads to effective programs in each of its borrowing countries. Among other things, the review is expected to include an assessment of the current menu of products and services vis-à-vis the needs of the countries, and an appraisal of the Bank's current operational risk management system.

5. Also in 2003 Management decided to review the procedures for preparation of operations in order to improve the Bank's responsiveness to the needs of the borrowing member countries. The review process was carried out on the basis of broad consultation within Management, and resulted in the revised procedures that were issued in July 2003. It is expected that the new procedures will empower project teams and increase the responsibility for quality control by their immediate supervisor and, as a result, strengthen the project preparation process as a vehicle for continuous, real-time problem solving and institutional learning. The streamlining of processing steps was carefully balanced with the objective of maintaining the highest quality standards. Management is closely monitoring and evaluating the realignment of authority and accountability, as well as the associated expected improvements in project processing time, preparation costs and quality at entry. It is anticipated that the implementation of the revised procedures will allow Management to identify further opportunities for improvement in future.

6. Management has established a Task Force on Strengthening Country Offices, whose main objective is to identify any changes that may be required to enable the Country Offices to further increase the efficiency with which they discharge their project implementation responsibilities. At the same time, Management is taking steps to strengthen the coordination between of Headquarters-based project team members (responsible for project preparation) and Country Office-based staff (responsible for project implementation). Among other things, these steps include arrangements to secure a greater involvement of Country Office staff during project preparation and for permanent involvement of Headquarters staff during project execution. It is expected that this and other similar measures will further enhance managerial attention to project implementation, and continue to bolster the never-ending institutional learning process whereby lessons learned from project implementation are fed back into the design of new operations.

7. In 2003 Management created a Development Effectiveness Office in the Office of the Executive Vice President – in January 2004, the President appointed a Chief Development Effectiveness Officer to initiate the work of creating of a permanent system for development effectiveness at the Bank. In tandem, the Regional Departments have designated Development Effectiveness Coordinators (reporting directly to Regional Managers) who have become members of a working group led by the Development Effectiveness Office – this working group serves as a forum to discuss ways of moving the results agenda forward and to coordinate activities aimed at improving the Bank’s focus on results. In addition, Development Effectiveness focal points have been established in a number of divisions at Headquarters and in Country Offices – taken together, all these staff members constitute the core of a community of practice and dialogue within the Bank, which bodes well for the dissemination of a results culture throughout the institution.

8. The Bank has taken a few preliminary steps to disseminate a results culture within the institution. An international results management expert made a presentation to Senior Management and the Board on “Issues and Options in Results-Based Management and the Assessment of Development Effectiveness”. A team of experts from the Urban Institute conducted a workshop for Senior Management and members of the Board on suggested steps to be undertaken by the Bank and its Borrowing Member Countries to improve results measurement and results management at the project level. A series of training workshops were organized for operational staff at Headquarters on project outcomes and outcome indicators in order to improve the results frameworks during project preparation and strengthen a results orientation during project implementation. And major training efforts were carried out to improve the skills of Headquarters and Country Office staff in connection with “managing for development results”, covering basic concepts and the use of existing management tools such as the Project Performance Monitoring Report (PPMR) and the Project Completion Report (PCR) at the project level, and Country Portfolio Reviews (CPR) at the country level.

9. Last but not least, the Bank has introduced Management-by-Results in its budgeting process. Since 2002, all departmental annual business plans and budgets are based on defined outcomes and outcome indicators. Achievement of outcomes will be reported for the first time in the 2003 Program and Budget Execution Report. These new approaches have set in motion an institutional learning process that will involve continuous improvements in the definition of information requirements, the way information is collected and the way it is used to achieve results.

Strengthening the results focus of country policies and strategies

10. The Bank has always endeavored to work closely with, and respond to the needs of, its borrowing member countries in a manner that reflect both their development needs and the Bank’s comparative advantages.

11. In March 2002 the Board approved new guidelines for the preparation of Country Strategies (GN-2020-6). As a result, Country Strategies approved by the Board since then increasingly: (a) have an explicit focus on results and reflect it in a “strategy matrix”

that articulates a coherent link between the development objectives and strategies of the country, and the development objectives and strategies of all donors, including the Bank; (b) take into account, and explicitly identify, the lessons arising from the ongoing implementation of Bank operations in the relevant country – as reflected in annual Country Portfolio Reviews that provide guidance for country programming decisions; (c) identify proposed Bank-assisted lending operations and non-lending activities with an indication of expected results and performance monitoring indicators; (d) provide the framework for stakeholder consultation; and (e) benefit from the conclusions and recommendations of Country Program Evaluations prepared by the Bank’s independent evaluation office.

12. It is worth point out that Country Strategies are developed by the Bank with new administrations shortly after they take office, and are updated annually to ensure that they remain relevant. They are a useful as a vehicle for organizing Bank-Country dialogue and have helped elicit a stronger level of Borrower ownership in the analysis of issues and options for the country and for proposed Bank support. The Bank plays an important role in helping borrowing member countries develop and implement strategies at the national level (including poverty reduction strategies). This is most visible in the case of countries where the Bank is a major provider of external assistance – including those countries where the Bank has a leading role in Consultative Groups (e.g., Guatemala, El Salvador, Honduras and Nicaragua) and helps coordinate the interventions of development agencies working in those countries. The Bank has also supported a number of member countries as they review strategic options for poverty reduction (Paraguay); develop, monitor an evaluate poverty indicators (Belize); and articulate poverty reduction strategies (Bolivia, Guyana).

Strengthening the results focus in project preparation

13. In 2002-2003 Management took major steps to improve the evaluability of Bank-financed projects (i.e., their ability to demonstrate, during and after completion, the attainment of expected results) and, more broadly, the quality of project preparation. Actions are underway to encourage and help project teams improve the clarity of the definition of development objectives and components; to ensure the availability of appropriate baseline data; to define relevant indicators of output and outcome that will help track results towards agreed targets; to include in project design adequate provisions that would help Borrowers strengthen their data collection and processing mechanisms from the onset of project execution so as to facilitate their own monitoring and evaluation of project-related development results.

14. In 2002 Management carried out a structured review of the quality of project preparation, and presented to the Board the associated “Review of the quality-at-entry of projects approved by the Board of Executive Directors from August to December 2002” (GN-2262). The standards that were used in this review dealt with, but well beyond, the above-mentioned aspects pertaining to project evaluability. The broader rationale for the review was that, as evidenced in relevant experience elsewhere, project quality-at-entry is highly correlated with the likelihood that a project will attain its development objectives (of course, other things matter too, including the quality of country programming, the

quality of project supervision, and the quality of self- and independent evaluation). The review was the first of its kind at the Bank and the Board requested that it be carried out again on projects approved in 2003. It was carried out with limited resources but was a very useful exercise – the learning process underpinning it provided an opportunity for the Bank to extend to all projects in preparation what was already current best practice.

15. In 2003 Management, in consultation with OVE, has improved the definition of standards, rating guidelines, approach and methodology that will be applied in the 2003 review of project quality-at-entry. The result of this effort, which was presented to the Board in October 2003 (GN-2282), consists of a structured self-evaluation mechanism within Management but independent of loan-originating departments, whose aim is to assess the quality of the design of projects prepared by Management and approved by the Board against a set of agreed standards. These standards are already being used by loan-originating departments during project design: in a way, they are a codification of current best practice within Management.

Strengthening the results focus in project implementation

16. In 2002-2003, the Bank took major steps to strengthen results-oriented reporting instruments:

- A number of actions were taken (and are still being taken) aimed at improving the quality, accuracy of ratings and reliability of the Bank's major project performance reporting tool – the Project Performance Monitoring Report or PPMR. Steps are also being taken to improve its utilization as a management tool during project implementation (rather than just as a reporting instrument). At the same time, the Board has asked the Bank's independent evaluation office to validate a sample of PPMRs: a major feature of this exercise is that it will go beyond internal consistency checks and will attempt to compare the information reported in PPMRs against what is actually happening with projects on the ground.
- The Project Completion Report (PCR) instrument has also been revamped and made consistent with the core standards for PCRs issued by the OECD/DAC for Multilateral Development Banks. The revamped instrument includes a focus on project results, sustainability and lessons learning. It focuses on a comparison between actual achievements in terms of outcomes versus original expectations as the basic measure of project success. It also promotes Borrower participation in the project evaluation process and, therefore, is expected to lead to greater Borrower ownership of relevant findings. A new online system is now in place to facilitate the preparation, review and dissemination of PCRs. For all these reasons, the revamped PCR instrument is a key building block in the process of strengthening the Bank's development effectiveness.

17. In 2002 Management began to carry out a major effort to retrofit the PPMRs of those projects currently under implementation that had not been originally designed with an adequate results framework (i.e., project that were not evaluable). This effort is being

carried out mainly by the Country Offices, with technical assistance from Headquarters, and in close coordination with Borrower Executing Agencies. It is expected that the retrofitting exercise will be completed in 2005, at which point all ongoing and new projects will have the features required to demonstrate attainment of results over time.

18. In 2002-2003 Management took major steps to further improve the performance of Bank-financed projects under implementation. A phased Portfolio Management Action Plan was established in 2003, which contains a number of performance targets expected to be achieved in the medium term. Indicators selected for monitoring were identified on the basis of analyses from previous Annual Reports on Projects in Execution, other operational reports and available baseline data. Indicators applicable to public sector projects relate to the extent to which: audited financial statements are of acceptable quality and are submitted in a timely manner; conditions precedent to eligibility for disbursement are met in less than 12 months; an extension of 24 months or more to the original date of last disbursement is required; actions are taken by Management to deal with problem projects or projects on alert status (proactivity index); the final PCR is presented in a timely manner; and performance indicators are realistically reported (convergence index). Indicators applicable to private sector projects relate to the extent to which projects require: more than 9 months to reach legal effectiveness; and more than 3 months for first disbursement. Two of the indicators for public sector projects – PCR compliance and proactivity- will also be used to benchmark the Bank with the World Bank's Latin America and Caribbean Region.

19. In 2003 Management made a special effort to address the implementation issues of sector-specific portfolios facing the greatest challenges, as reported in the 2002 Annual Report of Projects in Execution. At the request of the Executive Vice President an "Action Plan for Improving the Execution of Social Projects" was prepared and actively discussed within Management. It is significant that the preparation of the Action Plan helped confirm the high degree of interest of Bank staff members in favor of a sharper focus on development results.

20. One of the Bank's Country Offices has developed and applied a project management tool aimed at monitoring, evaluating and improving project implementation. Referred to as SISEG after its Spanish acronym, this project management tool makes use of baseline data and expected targets reported in the original project documentation (e.g., expected time frames, costs, output and outcome indicators, assumptions and risks) and compares them against the actual intermediate and final results. SISEG permits rapid identification of, and encourages early managerial attention to, potential problems. It is integrated into the Bank's reporting system and shared on line with a number of Executing Agencies – thus reducing the burden of separate reporting requirements. The Bank plans to apply SISEG in several other countries in the near future.

21. Another interesting initiative within Management has been to establish "portfolio performance contracts" between Headquarters and Country Offices in a number of countries (Central America, Dominican Republic, Haiti). Under these contracts, Country Offices have set specific targets at the country level to improve key portfolio performance indicators, which are then aggregated and monitored at the regional level.

Strengthening the results focus in project evaluation

22. In 2003 the Bank revised its previous policy on ex-post evaluation of operations. The aim of the new policy (GN-2254-5) is to establish evaluation as a tool for institutional learning and as an instrument for systematically assessing the effectiveness of the Bank's policies and programs, and their related processes. More specifically, the new policy provides that: (a) Management prepares Project Completion Reports (PCRs) for all operations – PCRs should include information on outputs and outcomes, as well as ratings of project performance, sustainability and the probability of achieving development objectives; (b) PCR Reviews are prepared by OVE on all PCRs produced by Management within a year of their delivery – PCR Reviews should validate the ratings reported in PCRs; (c) Ex-Post Performance and Sustainability Assessments (EPSA) are prepared by OVE, on a sample basis, two years or more after project completion – they should assess the short- to medium-term results of the project, particularly in terms of outcomes and sustainability; (d) Ex-Post Impact Evaluations (IER) are prepared selectively by OVE four years or more after project completion in order to evaluate the long-term results of the project, including outcomes and impacts, their sustainability and the effectiveness and efficiency with which development objectives were achieved; and (e) Borrower's Ex-Post Evaluations (BEP) are prepared by Borrowers on a voluntary basis, four or more years after project completion.

23. In order to gauge the difficulties and the amount of resources needed to implement the new policy, six projects will be evaluated on a pilot basis in 2004; the projects that will be included in the pilot include multi-phase and innovation loans, with special attention to control groups and baseline information that would be useful for eventual impact assessments.

Strengthening the results focus of the menu of lending instruments

24. In 2003 the Bank developed a new investment lending instrument, the Performance-Driven Loan, which is designed to disburse once the Borrower achieves outcomes that have been clearly defined, specified and agreed ex-ante. In this context, "outcomes" are the effects that result from using the products and services (outputs) financed by a Bank-assisted operation. The Performance-Driven Loan has been designed to be used in any sector, and can also be used in sector-wide programs. It has a number of important advantages: (a) it disburses against verified development outcomes, i.e., it focuses on the development effectiveness of Bank interventions; (b) it expands the menu of lending instruments to better meet the changing needs of the Borrowers; (c) it encourages the Borrower to focus on outcomes rather than inputs; and (d) it promotes greater Borrower ownership of the processes by which results are achieved. The proposed instrument was presented to the Board (GN-2278, October 2003) with the recommendation that the Bank would use the instrument on a pilot basis for a period of six years. The pilot test will allow the Bank to identify any potential difficulties associated with the implementation of the new instrument, and will also provide the basis for an estimate of likely demand for it among borrowing member countries.

25. Another lending instrument developed by the Bank is the Institutional Development Sector Facility, which explicitly provides financing for the development of in-country monitoring and evaluation capacity and systems.

Supporting the creation and/or strengthening of Country Capacity to Measure, Monitor and Manage for Results

26. The Bank confers a high priority to the creation and/or strengthening of the capacity of borrowing member countries to measure, monitor and manage for development results. Significant achievements in this regard will likely have a major positive impact on the efficiency of resource use by member countries, whether those resources come from domestic or external sources.

27. In some cases the Bank helps member countries establish sector-specific capacity in the context of specific investment loans. This is usually done as part of the systematic assistance provided to Borrowers and Executing Agencies in the context of the project cycle: (a) project start-up workshops to review, among other things, the project's results framework; (b) loan administration missions to help resolve project bottlenecks or to work with Borrowers in refining key performance indicators to measure project results; (c) mid-term evaluations and follow-up measures to support mid-course corrections; and (d) project completion workshops to jointly review operational lessons learned, sustainability issues and project development effectiveness. In other cases, the Bank provides support to modernize or strengthen public sector capacity on a broader basis, either through policy-based loans or technical cooperation operations.

28. Sometimes, the role of the Bank is to serve as a catalytic agent or channel whereby member countries in Latin America and the Caribbean may share among them their current best practices in the field of measuring, monitoring and managing for development results. In 2002-2003, the Bank began to implement a new initiative, the *Social Policy Monitoring Network*, which aims to improve the ability of regional member countries to evaluate the impact of social policies and to improve the design of policies in social areas. The network brings together renowned evaluation experts and regional researchers/policymakers from social ministries and agencies. In so doing, the network helps enhance the understanding of the effects of social policies, and build technical in-country capacity for social policy design and evaluation. Preliminary assessments suggest that the network has been of considerable help so far to achieve a better design and evaluation of social projects in the region.

29. The Bank has also supported sharing of experiences among regional and non-regional countries. In September 2003, the Bank provided support to the "Workshop on International Experiences with Monitoring and Performance Evaluation in the Public Sector" organized by the Office of the Presidency of Brazil. The objective of the workshop was to help strengthen Brazil's monitoring and evaluation capacity. The workshop included presentations on the experiences of Canada, Australia, United States, and Chile; they were followed by working sessions with the representatives of the federal and state governments to deal with the issues associated with monitoring and evaluation at different governmental levels. In a similar vein, in March 2004, the Bank will host,

with Brazil's Institute for Research in Applied Economics (IPEA), a "Latin American Seminar on Evaluation and Management of Government Policies and Programs".

Strengthening the Results Focus of Partnerships among Development Agencies

30. As earlier indicated, the Bank endeavors to work closely with, and respond to the needs of, its borrowing member countries in a manner that reflect both their development needs and the Bank's comparative advantages. In order to do this, the Bank strives to engage other development agencies in any given country in order to obtain an understanding of their general priorities and specific activities. This ongoing dialogue is reflected in Country Strategies and individual Bank-assisted operation, whose documentation typically includes a description of relevant work being done by other development agencies in the country and/or the sector.

31. The extent of Bank cooperation with other development agencies has become stronger over the years. A number of recent experiences bode well for the future:

- The Bank has collaborated with the World Bank on several Country Financial Accountability Assessments (e.g., Paraguay, Uruguay, Honduras and Nicaragua) and Country Procurement Assessments.
- The Bank has led, coordinated and organized a number of Consultative Group meetings in Central American Countries (e.g., Guatemala and Nicaragua), where all donors and civil society meet with Governments to discuss and agree on development strategies and objectives.
- There are many examples of collaboration with other agencies at the project level: for instance, the recently approved Rural Roads program in Ecuador, the Rural Markets program in Peru, and sector-wide approaches in Honduras and Nicaragua.
- The Bank is preparing with the World Bank a training session on Managing for Results to be held in Brasilia in February 2004.

32. As we move toward the future, it is worth noting that the Bank and the World Bank are planning greater collaboration in the infrastructure sector – a first step would be a joint a study of infrastructure in Latin America and the Caribbean in 2004-2005.

C. GOING FORWARD: CHALLENGES AND ACTIONS

Major challenges in the pursuit of results

33. A major challenge that needs to be addressed is the relative weakness of Borrowers and Executing Agencies in the area of measuring, monitoring and managing for development results. Strengthening this capacity is a major priority for the Bank.

Yet, as earlier indicated, while the Board of Governors directed the Bank to take steps to enhance its development effectiveness, it also stated that the additional requirements should not be too burdensome. The Bank (and other development agencies) must be prepared to provide a clear rationale as to how the potential benefits arising from an improved “results framework” (which depend on, among other things, the extent to which member countries actually use them for resource allocation decisions and, by so doing, improve the efficiency of resource use) may outweigh the additional costs of the improved “results framework” (which depend on, among other things, the choice of methodology). Any efforts to reduce the additional costs would be most welcome in countries that operate under severe fiscal constraints. In such countries, it would be unacceptable to propose operations that would require major expenditures on data collection and processing, institutional restructuring, training or hiring of personnel.

34. Other challenges arise from constraints within the Bank. In order to address them, the Bank would have to deal with: further streamlining the Bank’s operations so as to increase its responsiveness to the needs of its borrowing member countries; a lingering tendency to focus on project outputs rather than outcomes; and the perception that the organizational culture and incentive framework favor the approval of new operations over the attainment of results.

35. Finally, another challenge comes from the development agencies, which have sometimes adopted overlapping, duplicative and inconsistent reporting systems for the projects they finance in a given country. This problem compounds the issue associated with the countries’ own limited capacity.

Possible future actions to strengthen the Bank’s focus on managing for results

36. The Bank will flesh out the mission of the recently created Development Effectiveness Office, identify its core functions and activities, outline its short- and medium-term work plans, and come up with skills and resource requirements.

37. The Bank will carry out a diagnostic of its own activities from the perspective of development effectiveness. An effort will be made to involve all relevant internal stakeholders so as to ensure the operational relevance of the analysis and ensuing proposals. It is expected that the process will lead to a definition of the long-term objectives of a Bank-wide Development Effectiveness System and an Action Plan outlining the steps required to move ahead in the medium term.

38. The Bank intends to strengthen its own skills in the area of development effectiveness and, in order to do so, intends to tap all sources available, including other development agencies, the public sector experience of member countries, the academic world, non-governmental organizations, the private sector or consulting firms.

Possible future actions to strengthen the Bank's relationship with other development agencies.

39. The Bank will continue and intensify its regular contacts with other Multilateral Development Banks, bilateral agencies and the OECD/DAC in order to engage in dialogue on issues of common interest and to share best practices with regard to measuring, monitoring and managing for results.

40. At the country and project level, the Bank will continue to emphasize the need for upstream dialogue with other development agencies, starting at the time when country strategies and country programs are formulated. The Bank will continue to call for increasing harmonization with other agencies, particularly in countries where coordination and consistency among development agencies (including with regard to reporting requirements) is essential in order not to overtax in-country capacity. The evaluation of pilot experiences of sector-wide approaches, which have been a vehicle for some degree of harmonization among aid donors, may provide an opportunity to learn lessons in this regard.

Possible future actions to help create and/or strengthen in-country capacity to manage for results.

41. The Bank will outline a strategy (and implementation plans) aimed at helping member countries create and/or strengthen their own capacity to measure, monitor and manage for results. It is expected that the strategy will include a number of separate but mutually reinforcing elements, e.g.:

- Efforts to proactively include in Country Strategies and Country Programming lending operations and/or non-lending activities aimed at strengthening either sector-specific capacity (e.g., in sector ministries or government departments) or country-wide capacity (e.g., in entities responsible for capital and recurrent expenditure decisions in the public sector, such as national investment offices, budget directorates, planning ministries, etc.)
- Systematic efforts to keep in mind cost-efficiency considerations during the design of “results frameworks” at the time of project preparation.
- Bank-sponsored seminars/workshops where member countries from Latin America and the Caribbean will be able to share best practices among themselves and obtain the best global knowledge on relevant topics.