

INSTITUTIONAL ASPECTS



Microenterprise project in San Pedro, Guatemala.

EVALUATION AND INTERNAL AUDIT

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

As part of its multi-year work plan, the Office of Evaluation and Oversight (OVE) has undertaken a broad range of activities grouped under the six themes of its mandate: oversight, country programming, project monitoring in execution, strategy evaluation, policy and instrument evaluations, and evaluation capacity building.

A major change in the monitoring and evaluation framework adopted by the Bank in 2002 is the shift towards outcomes. Traditionally, monitoring and evaluation has focused on assessing inputs and implementation processes and has been project- or program-based. OVE has helped restructure the evaluation framework through the findings and recommendations made in the oversight studies listed below. These reviews focused on: (i) the effectiveness and efficiency of the Bank's monitoring and evaluation system; (ii) the evaluability of projects-at-entry, including the clarity of project goals, the relevance and strategic context of interventions, and the build-

ing of solid performance indicators at the onset; and (iii) the capacity to measure outputs associated with projects during implementation, outcomes at project completion and actual project impacts.

Management is in the process of implementing the 12 recommendations presented in the 2001 report entitled "Oversight Review of the IDB's Project Monitoring Review: Mid-Term Evaluation and the Project Completion Report." The design of the Project Performance Monitoring Review (PPMR) system has been revamped to capture the inputs of mid-term evaluations and report on financial issues. Likewise, new Project Completion Report (PCR) guidelines and an on-line template are being developed, each designed to assess both Bank and borrower performance, the project's contribution to institutional development, and the long-term sustainability of project benefits.

In coordination with management, OVE undertook a review during the year of all projects sent through management's Loan Committee and on to the Board of Executive Directors for approval during 2001. This evaluability report presented a detailed methodology to assess projects along eight dimensions. OVE recommended that management consider adapting this methodology to its own internal project review process. OVE will conduct a second evaluability assessment exercise for projects sent to the board in 2004.

Several of OVE's country program evaluations revealed concerns about the quality of project supervision, and the relationship between supervision and the ability of a project to achieve its developmental

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<http://www.iadb.org/goto.cfm?evaleng>

objectives. OVE conducted an oversight study on this subject that was sent to the board in 2003.

In February 2002, management proposed revising the guidelines for Country Papers (since renamed "Country Strategies") to improve the linkage between country programming and development effectiveness. As part of this process, OVE is working to produce country program evaluations on the same timetable as country strategies. In order to fit the new strategy guidelines, country program evaluations are to be carried out for each borrowing member country prior to each general election. During 2003, OVE developed, and the board approved, a protocol for the conduct of country program evaluations. During 2001-2003, nine country program evaluations were released to the Board of Executive Directors. In 2003, the board considered evaluations of the Bank's program in Nicaragua, Haiti, the Bahamas, Colombia and Costa Rica. Summaries of these evaluations are posted on OVE's website (www.iadb.org/cont/evo/ovedocs.htm). When the country involved agrees, the full text of the evaluation may also be posted.

One of the recommendations of the Institutional Strategy was to rationalize sector strategies and policies. The main components of this structure should be sector strategies, policies and operational guidelines. Pursuant to this guidance, management has developed a work program for the review of sector strategies in key areas. This work is the responsibility of the Bank's Sustainable Development Department, which has built evaluation criteria into the design of appropriate strategies.

Policies are explicit guidance for IDB action aimed at defining the space within which Bank actions are possible. Whereas strategies define approaches and priorities, policies define limits to action. Policies are always explicit and subject to approval by the board. An important subset of policies is the one defining distinct instruments available to support development in the region.

In 2002 and 2003, OVE produced policy and instrument evaluations dealing with the public utilities policy as applied to water and sanitation, the Emergency Reconstruction Facility, the policy relat-

ed to information technology and development, and the natural disasters policy. In addition, OVE responded to a request from the board to provide a summary of its several evaluations on Bank Group instruments in support of the private sector. These included evaluation of Private Sector Department projects, Bank activities related to small and medium-sized enterprise, and the evaluation results obtained from contract evaluation work performed for both the MIF and the IIC.

As part of its capacity-building work, OVE subscribed to collaborative agreements with the Evaluation Offices of the Caribbean Development Bank, the Central American Bank for Economic Integration and the University of the West Indies (UWI). The purpose of these agreements was twofold: to conduct evaluations of projects funded with IDB resources and to provide the opportunity for joint evaluations by teams of evaluators from UWI as well as evaluation professionals from the funding and beneficiary institutions.

OVE's partnership with Brazil's Institute for Applied Economics Research (IPEA) in implementing a regional technical cooperation program to strengthen evaluation capacity produced three comparative studies on the use of evaluation as a tool for public sector administration in Argentina, Brazil, Chile, Colombia and Costa Rica. These reports, along with links to relevant national Internet sites, are published on the website of the Inter-American Roundtable on Evaluation and Performance Measurement (www.iadb.org/roundtable).

In the field of auditing, under the direction of newly appointed Auditor General Elizabeth Folsom, the Office of the Auditor General (AUG) launched initiatives to address corporate governance, enterprise-wide risk planning, and control and self-assessment and related frameworks. AUG also conducted Bank-wide seminars and training on issues related to fraud, corruption and ethics.

During 2003, AUG continued to coordinate all internal audits with the IDB's external auditors to provide maximum audit coverage of Bank activities. At headquarters, the office continued to monitor and review the selection, implementation and upgrade of

significant computer applications, including the web-enabled version of PeopleSoft (the Human Resources Information System); the new Budget and Financial Management System, which replaced the prior system for budgeting, general ledger, accounts payable, purchasing, Country Office accounting, and project accounting; the replacement of the Bank's Investment Management System; enhancements to the Loan Management System, which is the system for the Bank's lending guarantee and technical cooperation programs; the Borrowing Management System, focusing on the cost of borrowings enhancement; and the migration to SWIFT NET.

AUG also reviewed test plans and improvements to the Bank's business continuity plan and disaster recovery plan for mission-critical Bank functions and computer systems; continued monitoring the deployment of Windows 2000 Bank-wide; and reviewed the Remote Access Strategy and Windows 2000 Security for the servers in the Private Sector Department. In addition, AUG reviewed the Bank's new Loan Loss Provisioning Policy. The office completed reviews of administrative and personnel policies and procedures, payroll processing, the contracting of consulting services and corporate procurement, and it is continuing a review of the Bank's trust fund activities. AUG has also undertaken a review of the Portfolio Management Unit of the Private Sector Department.

In the Regional Operations Departments and Country Offices, the Auditor General's Office focused on the Management Oversight System as well as all key operational control features in Country Offices pertaining to project supervision, procurement, disbursement, reporting and resource management. In addition to its ongoing audit of Country Office operations, and as required by the Budget, Financial Policies and Audit Committee of the board, the office assessed the status of compliance with management's action plan for implementation of AUG's recommendations on procurement and disbursement provisions. AUG continued reviewing the effectiveness of key control features for highly decentralized projects; the adequacy and timeliness of Bank supervision; the responsibilities of external auditors and consultants regarding projects; and the adequacy

of existing reporting requirements. In addition, the office worked on developing the Bank's investigative procedures and supported reviews by Regional Operations Departments of certain executing agencies to strengthen their transparency and overall control environment. AUG also continued reviewing the involvement of national audit institutions in auditing Bank-financed projects.

Finally, AUG continued to perform inquiries and investigations, including those referred to the office from the Ethics Committee and from the Oversight Committee on Fraud and Corruption.

COUNTRY OFFICES

The Country Offices in 2003 played a major role in intensifying the Bank's dialogue with national authorities and executing agencies on portfolio issues. The difficult macroeconomic and fiscal environment in many countries of the region led the Bank and its borrowers to rethink priorities to maximize the use of limited financial and human resources, and to be more proactive in portfolio management and supervision. A number of actions were undertaken to restructure or reformulate existing portfolios (for example, the restructuring of the social portfolio in Argentina and reactivation of the portfolio in Haiti), or to cancel nonperforming operations to free up resources for other priorities.

Country Offices also assisted borrowers and executing agencies by organizing project start-up workshops to review operational procedures, Bank policies and project-specific logical frameworks; through administrative missions to help resolve project bottlenecks or to work with borrowers in refining key performance indicators to measure project results; and via mid-term evaluations and follow-up measures to support mid-course corrections for projects. Project exit workshops served to jointly review operational lessons learned, sustainability issues and development effectiveness.

Country Offices also provided or facilitated ongoing training to borrowers in procurement, the logical framework, financial management/controls to enhance transparency, and monitoring and evalua-

tion. Resources from the C and D Country Training Program and the Project Preparation and Execution Facility (PROPEF) were both instrumental in this regard. Other types of support were provided to borrowers through videoconferencing, e-meetings or the provision of specialized software.

To address many of the institutional weaknesses in the countries, including high staff turnover in executing agencies and project implementation units, some Country Offices undertook innovative approaches to improve project execution.

In Guyana, for example, the Country Office rationalized resources by establishing a Work Services Group that replaced a series of donor project execution units. In agreement with the government, the Country Office also began a pilot program to introduce performance-based contracts for unit directors involved in project execution.

In Paraguay, the Country Office prepared guidelines for the hiring of national consultants and distributed them to national authorities, executing agencies and other international organizations that participate in Bank-financed projects. This has resulted in more transparent and competitive contracting processes, a reduction in the cost of professional services, and in contracts tied to the presentation of outputs.

The Country Office in the Dominican Republic inaugurated a new website for executing agencies in an effort to promote dialogue with clients. Key events and experiences are featured, along with standardized procedures to support borrowers during project execution.

NONREGIONAL OFFICES

Special Office in Europe

The Special Office in Europe (SOE) works to strengthen relations and cooperation between the Bank and the IDB's regional and 17 nonregional member countries (16 European countries and Israel), the European Union, and international organizations based in Europe (OECD, WTO, UNCTAD, UNESCO, UNIDO and the Paris

Club). The key elements of its mission are to promote a greater awareness of the IDB's mandate, increase the Bank's visibility and the impact of its efforts to strengthen cooperation with Europe, and create activities to encourage the exchange of information and the generation of informed opinions in diverse European fora interested in Latin America and the Caribbean.

During the first part of 2003, SOE's activities were geared toward preparation and follow-up for the IDB Annual Meeting, held in March in Milan, Italy. Within the framework of a Memorandum of Understanding with the European Commission (EC), SOE helped organize a seminar on social cohesion in Latin America held in June in Brussels, Belgium. The seminar was chaired by IDB President Enrique V. Iglesias and EC Commissioner Chris Patten, with participation of ministers from Brazil, Chile, Ecuador, Nicaragua and Peru. In conjunction with the Andean Community, SOE helped to sponsor a seminar in Lima to promote dialogue with civil society on integration and trade negotiations. Together with French and Brazilian governments, SOE collaborated with the MERCOSUR Chair of the Institute of Political Studies (Paris) in organizing two workshops and a final conference held in September of the Working Group on EU-MERCOSUR negotiations.

SOE helped organize the first "Latin American Competition Forum" in Paris aimed at enhancing the role of competition in Latin American economies. On that occasion, the Bank and the OECD signed a Joint Statement of Priorities for cooperation between the two organizations.

The newly established Euro-Latin Study Network on Integration and Trade (ELSNIT) started its activities during 2003, with the participation of close to 100 leading European research centers. The aim of the network is to promote policy-oriented research on regional integration and international trade issues relevant to Latin America. A conference organized jointly with the Integration and Regional



For further information, see

<http://www.iadb.org/goto.cfm?europe>

Operations Department and the Centre d'Études Prospectives et d'Informations Internationales (CEPII) was held in Washington to discuss the economic implications of the WTO Doha Development Agenda Round on Latin America and the Caribbean.

With the collaboration of Canning House and the European Commission, SOE helped organize a London seminar to examine the issue of security and citizenship. Additional seminars were held in cooperation with the Sorbonne University (Paris) to carry out a comparative institutional analysis of Europe and Latin America, and in cooperation with the Italian organization Active Citizenship to analyze corporate social responsibility and the representativeness of civil society organizations.

SOE has promoted the Bank's ICT-related activities with European governments and leading international organizations based in Europe through its participation in such events as the World Summit on Information Society (WSIS), held in Geneva. The office organized seminars on business opportunities and IDB procurement procedures in Barcelona, Lisbon, Ljubljana, London, Rome, Tel Aviv and Vienna.

Office in Japan

The principal objectives of the Office in Japan are to (i) inform the Japanese public about the social and economic situation in Latin America and the Caribbean and about business opportunities generated by Bank-financed operations in the region; (ii) promote trade and investment opportunities in the region; and (iii) foster an exchange of best practices and experiences in different development fields between Japan and East Asia and the Bank's borrowing member countries.

In coordination with the Bank's Inter-American Institute for Social Development (INDES) and the Japan Program, the Office in Japan organized workshops in Tokyo and in Saitama Prefecture entitled "Women's Participation in Social Development: Lessons from Asia and Latin America and the Caribbean." The workshop brought together researchers and practitioners from East Asia (Japan, Indonesia, Philippines, South Korea, Thailand and

Vietnam) and Latin America and the Caribbean (Argentina, Brazil, Chile, Colombia, Peru, Suriname and Trinidad and Tobago), as well as from the Asian Development Bank and the IDB.

In the area of promotion of trade and investment for Latin American countries, the office sponsored seminars on the occasion of the visit to Japan of the President of Chile and Minister of Foreign Affairs of Argentina.

The office held a public outreach seminar in Tokyo on investment opportunities stemming from the Puebla-Panama Plan, the Initiative for Integration of Regional Infrastructure in South America, and the Mundo Maya sustainable tourism development program.

In conjunction with the Bank's Private Sector Department, the MIF and the IIC, the office conducted two business information seminars and several working sessions to inform interested Japanese commercial banks, investment groups and consulting firms on business opportunities created by Bank-financed operations in the region and on the Bank's policy for the procurement of goods and services.

Together with the Asian Development Bank Institute, the office organized seminars of the Latin America/Caribbean and Asia/Pacific Economics and Business Association. The first and second seminars, held in Osaka and Tokyo, respectively, addressed economic integration, while the third seminar, also in Tokyo, examined the implications for Japan and East Asia of the FTAA.

The office was instrumental in setting up an IDB-JBIC Coordination Meeting in Tokyo to discuss development policies, operational strategies, and regional initiatives of common interest to the two development organizations. A second meeting helped define areas of possible cooperation between the IDB and the Japan International Cooperation Agency (JICA) in terms of technical assistance for Latin American countries.

The office coordinated a visit to Japan of a selected group of eleven Latin American students

▶ For further information, see
<http://www.iadb.org/goto.cfm?japan>

TABLE XIII CONSOLIDATED ADMINISTRATIVE EXPENSES*(In thousands of U.S. dollars)*

| Category | 2001 Actual | 2002 Actual | 2003 Actual |
|--|--------------------|--------------------|--------------------|
| Board of Governors | \$ 2,885.0 | \$ 3,232.4 | \$ 3,247.6 |
| Board of Executive Directors | 14,918.1 | 15,598.8 | 15,745.0 |
| Office of Evaluation and Oversight | 4,581.5 | 4,730.5 | 5,036.5 |
| Headquarters and Country Offices | 305,159.1 | 338,559.5 | 348,446.3 |
| Total before Reimbursement^{1,2,3} | 327,543.8 | 362,121.2 | 372,475.5 |
| Reimbursement from Funds in Administration and IIC | (2,333.9) | (1,885.4) | (2,671.3) |
| Total Administrative | 325,209.9 | 360,235.8 | 369,804.2 |
| Capital | 20,206.2 | 26,059.9 | 17,607.4 |
| TOTAL ADMINISTRATIVE AND CAPITAL | \$345,416.1 | \$386,295.7 | \$387,411.7 |

¹ Excludes depreciation amounting to \$15.3 million in 2001, \$9.6 million in 2002 and \$11.1 million in 2003.

² Net of certain income items in the amount of \$11.6 million, \$11.8 million, and \$9.2 million in 2001, 2002 and 2003, respectively.

³ Includes prepaid pension costs amounting to \$7.8 million and \$9.8 million in 2002 and 2003 respectively.

whose graduate studies were financed by the Japan-IDB Scholarship Program. The office also held seminars in universities in Tokyo, Yokohama and Tsukuba on the social and economic situation of the region and the role of the IDB.

ADMINISTRATION

The Bank continues to pursue efficiency in the administration of its resources at the institutional, operational, financial and administrative levels. In particular, the Bank focused in 2003 on increasing its efficiency in day-to-day operations. A working group chaired by the executive vice president initiated a study to streamline operations and increase efficiency in the lending cycle of Bank loans. A separate study initiated by the vice president for planning and administration is a Bank-wide workload analysis designed as input to a zero-budget effort that will be the basis of multiyear budgeting, possibly starting with the 2006 or 2007 budget exercise.

The Board of Executive Directors has mandated that the administration reduce its headcount from 2,010 to 1,910 over 2004-2006. As part of this institutional effort, the Bank will seek to maintain the productivity levels attained during recent years with a reduction of 5 percent of its human capital. To this

end, the Bank has also undertaken a more flexible approach to human resources management, making greater use of turnover positions and increasing rotation of personnel both at headquarters and in the Country Offices.

Information technology continues to have a positive impact on day-to-day operations, reducing transactional costs and expediting processing times for routine business functions. In 2003, the Bank upgraded its human resources information database, and as a result, new functionality is being provided to end-users so that information will be more reliable and available to a wider audience. Also in 2003, the Bank initiated deployment to the Country Offices of the new Budget and Financial Management System to expedite financial reporting.

In the area of corporate risk management, the Bank continued to take measures to ensure the safety and security of its personnel by systematically reviewing the emergency procedures in each of the Country Offices. This is an ongoing exercise that has a high priority for day-to-day operations. The Bank has also invested considerable resources in developing a business continuity plan to ensure the institution's ability to continue critical operations in the event of an emergency that would render the headquarters building inoperable. A major milestone in this area was

the approval by the Board of Executive Directors of purchase of a business continuity/disaster recovery site situated in Ashburn, Virginia, where the Bank will relocate its data processing center to provide ongoing business operations in the event of an emergency.

The Bank continues to uphold the highest standards of personal and business integrity in all its activities. To better enforce these standards while protecting the rights of employees and contractors, the IDB has created the Office of Institutional Integrity (see Box 6), reporting directly to the President, which will assume all investigative functions related to allegations of fraud and corruption, as well as violations of the Code of Ethics and conduct prohibited by the Staff Rule on Respect in the Workplace.

As part of the implementation of the Bank's Diversity Action Plan, various initiatives were undertaken to enrich the candidate pool for Bank staff. These included visits to universities, recruitment missions, and the identification of potential candidates by each of the Bank's Country Offices. In addition, the Human Resources Department is planning to design special programs targeted to minority ethnic populations and to strengthen efforts to include candidates from less represented countries in the summer and winter intern/employee programs and the research assistance program.

As of December 31, 2003, the Bank had 1,891 staff funded by the administrative budget, excluding the Board of Executive Directors and the Office of Evaluation and Oversight. Headquarters staff numbered 1,351 and Country Office staff 540. Of the total number of employees, 1,394 were professional staff, of whom 531, or 38 percent, were women.