

# IDB's Ninth General Capital Increase: Implementation and Results

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BACKGROUND NOTE

## SECTOR FRAMEWORK DOCUMENTS AND THE IDB-9 AGREEMENT

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## **ACRONYMS AND ABBREVIATIONS**

DEM	Development Effectiveness Matrix
IDB-9	Ninth General Capital Increase for the Bank
OVE	Office of Evaluation and Oversight
SFD	Sector Framework Document
TC	Technical cooperation
VPC	Vice-Presidency for Countries
VPS	Vice-Presidency for Sectors and Knowledge

## I. INTRODUCTION

- 1.1 **In 2010, the Board of Governors of the Inter-American Development Bank (IDB, or the Bank) issued the “Cancun Declaration,” agreeing on a process leading to the Ninth General Capital Increase for the Bank (IDB-9).** This process was tied to a series of Bank reforms, which are detailed in the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (AB-2764) This document, prepared mostly by Management, was adopted by Governors as part of the resolution inviting member countries to vote on IDB-9. The reforms were broadly intended to strengthen the Bank’s strategic focus, development effectiveness, and efficiency to help it remain competitive and relevant.
- 1.2 **The IDB-9 Agreement set up a framework for a new institutional strategy for the Bank, with the goal of improving the Bank’s capacity to reduce poverty and inequality and promote sustainable growth.** To operationalize the new institutional strategy, The IDB-9 Agreement establishes that the Bank’s comparative advantages, overarching objectives, and strategic goals should be translated into priorities, goals, policies, and performance measures. The document asked specifically for (i) sector priorities; (ii) actions to strengthen support to less developed and smaller countries; (iii) a strategy to promote development through the private sector; (iv) criteria to enhance complementarity and coordination with other development partners; and (v) a results framework that will allow for an evidence-based review and update of the institutional strategy.
- 1.3 **Even before the IDB-9 Agreement, the Board and Management had already engaged in several discussions about the Bank’s regulatory framework, leading to its full revision in 2012.** According to document that sets up the new framework, GN-2670-2, “The proposed new regulatory framework—composed of sector strategies, cross-sectoral policies, sector framework documents, and sector guidelines—is the outcome of extensive dialogue between the Committee and Management, begun in 2009 and continuing to the present [2012] with six formal meetings and two technical briefings of the Committee, as well as several bilateral meetings of Management with the Executive Directors.” The IDB-9 Agreement created the incentives to speed up the process of reformulating the regulatory framework, among other things, as this effort would support the Bank in fulfilling its IDB-9 commitments: “The objective of this endeavor is to revamp the sector regulatory instruments such that they are adequate to enable the Bank to pursue the mandates associated with the Ninth General Capital Increase (GCI-9).”
- 1.4 **Above all, this effort aimed at mainstreaming the Bank’s sector regulatory framework.** The previous framework was organized around 32 sector policies, 25 sector strategies (8 of which are from the previous General Capital Increase), and several sector guidelines. The new regulatory framework includes 5 sector strategies, 6 cross-sector policies, and 20 sector framework documents (SFDs) with their operational guidelines. Table 1 compares the two frameworks, and Table 1.2 lists all documents that make up the new institutional regulatory framework.

**Table 1.1. Comparison Between the Old and New Regulatory Frameworks**

<b>Types of documents</b>	<b>Old GN-2077-15</b>	<b>New GN-2670-1</b>
<b>Sector strategies</b>	<b>25 sector strategies:</b> Documents that sought to identify broad Bank priorities and ways to guide the Bank's action, including the allocation of resources toward uses that would have the greatest impact on those priorities.	<b>5 sector strategies:</b> Documents that are broad expressions of Bank operational and knowledge priorities, organized according to institutional mandates. Strategies define clear priorities for Bank action and establish goals. Although sector strategies do not have specific budget allocations, they are integrated into the Bank's overarching budgetary priorities.
<b>Policies</b>	<b>32 sector policies:</b> Documents that sought to guide staff in the following areas: (i) objectives to seek in the performance of their functions; (ii) prudent limits that should circumscribe their actions; and (iii) basic criteria that must be met in the preparation and execution of projects.	<b>6 cross-sector policies:</b> The policies that had a cross-sectoral focus remained in force, and one (OP-708 Public Utilities) was revised.
<b>Sector framework documents</b>	<b>Did not exist</b>	<b>20 sector framework documents:</b> These documents provide the Board and Management with a forum for sector-specific discussion and orientation. SFDs should provide flexible guidance to accommodate the diversity of challenges and institutional contexts faced by the Bank's 26 borrowing member countries, and at the same time should be narrow enough to provide project teams with meaningful guidance and a clear sense of what the Bank seeks to accomplish in a given sector.
<b>Sector guidelines</b>	Technical documents that sought to provide methodological guidance for the design and implementation of programs or projects.	<b>No changes</b>

Source: GN-2077-15 and GN-2670-1

**Table 1.2. The New Regulatory Framework Documents**

<b>Sector strategies</b>	<b>Cross-sectoral policies</b>	<b>Sector framework documents</b>
1. Regional integration and infrastructure  2. Integrated strategy for climate change adaptation and mitigation  3. Social policies for equity and productivity  4. Institutions for growth and social welfare  5. Infrastructure for competitiveness <b>(not included in IDB-9)</b>	OP-703 Environment and Safeguards Compliance Policy  OP-704 Disaster Risk Management Policy  OP-710 Involuntary Resettlement  OP-761 Gender Equality in Development  OP-765 Indigenous Peoples Policy  OP-708 Public Utilities <b>(revised)</b>	1. Education and Early Childhood Development 2. Labor 3. Poverty and Social Protection 4. Health and Nutrition 5. Gender and Diversity 6. Water and Sanitation 7. Energy 8. Transport 9. Decentralization 10. Fiscal Management 11. Justice and Citizen Security 12. Housing and Urban Development 13. Innovation, Science and Technology 14. Support to SMEs and Financial Access/Supervision 15. Integration and Trade 16. Agriculture and Natural Resources Management 17. Tourism 18. Climate Change 19. Environment and Biodiversity 20. Food Security

Source: GN-2670-1.

- 1.5 **In 2012, under the IDB-9 Midterm Evaluation, OVE analyzed the four sector strategies required by the IDB-9 Agreement (strategies 1-4 in Table 1.2) and concluded that they “did not fulfill the expectations of a strategy document and in practice appear to have little impact.”** OVE’s evaluation recognized that some IDB-9 commitments could not easily be implemented, given the Bank’s demand-driven nature. In this sense, “overly prescriptive Bank strategies at the country or sector level, for example, are unlikely to mesh well with country demand, though the opposite—strategies that include no priorities or merely state what the Bank is already doing—will also not be meaningful or effective.” OVE’s IDB-9 Midterm Evaluation then concluded that “it is important for the Bank to be responsive to member countries’ needs, but also to focus on activities where it clearly adds value. That requires a clear-eyed analysis of the Bank’s strengths and weaknesses and a willingness to prioritize—which is not common in the Bank’s corporate, sector, and country strategies.”
- 1.6 **This note analyzes the SFDs and the role they have played in the Bank.** As the cross-sector policies and the operational guidelines remained the same, the only part of the new regulatory framework that has not yet been analyzed are the SFDs. These documents are very different from other Bank documents: they are not normative, nor do they have any fiduciary or budgetary implications. The SFDs were conceptualized as an opportunity to take stock of what is known to be effective and what needs to be learned, to provide principles and guidance to operational staff. Additionally, “SFDs explicitly recognize that knowledge about development effectiveness is continuously evolving, and that the Bank itself is continuously learning from its own operations. As a result, SFDs should be updated periodically and on a timely basis” (GN-2670-2).

## **II. SECTOR FRAMEWORK DOCUMENTS**

### **A. SFDs’ goal and structure**

- 2.1 **The SFDs are set out to identify the Bank’s priorities and establish clear guidelines for the work to be done in each of the Bank’s sectors.** According to GN-2670-2, SFDs should address the following: “(i) definition of the development challenges in the sector and the problems that the Bank seeks to address; (ii) identification of the specific areas of activity that the Bank should undertake within the sector, including an analysis of where the Bank can be most effective; (iii) classification of the types of intervention that have proven to be effective and synthesis of the empirical evidence that supports this assertion; (iv) definition of the specific areas of uncertainty regarding their development effectiveness; (v) identification of the key knowledge and capacity building work underway; (vi) synopsis of latest DEM [Development Effectiveness Matrix] results for IDB projects in the sector in previous operations; (vii) synthesis of OVE’s evaluations of development effectiveness and evaluability of past projects, as well as discussion as to how they should be addressed; and (viii) any other element considered relevant to improve the quality of the Bank’s operational and analytical work in a context of continuous learning and updating.”

- 2.2 **Every division in the Vice-Presidency for Sectors and Knowledge (VPS) that prepares operations should be guided by an SFD.** Because knowledge about development effectiveness is continuously evolving and the Bank itself is continuously learning from its own operations, SFDs should be updated every three years. As of October 2017, all 20 sectors defined in GN-2670-2 had SFDs submitted for discussion to the Board. Sectors for which a first framework was published in 2013 or 2014 have already published the updated version. Table 2.1 shows the complete list of available SFDs and the year(s) in which they were published.

Table 2.1. SFDs Published

	Sector	SFD Publication Year
1	Agriculture and Natural Resources Management	2016
		2013
2	Citizen Security and Justice	2017
		2014
3	Climate Change	2015
4	Decentralization of Subnational Governments	2015
5	Education and Early Childhood Development	2016
		2013
6	Energy	2015
7	Environment and Biodiversity	2015
8	Fiscal Policy and Management	2015
9	Food security	2015
10	Gender and Diversity	2018*
		2015
11	Health and Nutrition	2016
		2013
12	Labor	2016
		2013
13	Innovation, Science & Technology	2017
		2014
14	Integration and Trade	2016
		2013
15	Social Protection and Poverty	2017
		2014
16	Support to SMEs and Financial Access	2017
		2014
17	Tourism	2017
		2014
18	Transportation	2016
		2013
19	Urban Development	2016
		2013
20	Water and Sanitation	2014

Source: OVE.

2.3 **All SFDs have the same structure: five sections with specific information required by the Bank's guidelines.** A description of the sections follows.

- ***The SFD in the context of the Bank's regulations and its institutional strategy.*** This section discusses how the SFD fits into the Bank's regulations and institutional strategy (2010-2020), and identifies the interconnection with other sectors of the Bank in areas of possible overlap.
- ***International evidence in the sector.*** This section mentions the results of programs, policies, and studies done in the sector internationally and/or in the LAC region. Ideally, it points out knowledge gaps in different areas of the sector.
- ***Main achievements in the sector in the region, and challenges that the Bank seeks to address in the sector in LAC.*** This section presents a diagnosis of the sector in the LAC region, mostly with indicative statistics that point out the main problems and challenges the region faces, and sometimes providing information disaggregated by country and sub regions.
- ***Lessons learned from the Bank's interventions, and the Bank's comparative advantages in the sector.*** This section includes OVE findings in previous evaluations related to the sector; lessons learned from completion reports; results from the DEM outcomes, and lessons learned from the experience of Bank operations and disbursements. In addition, it discusses the Bank's comparative advantages in the sector in LAC, and on occasion projects and knowledge products the Bank has completed in the sector.
- ***Targets (goals), principles, dimensions of success, and lines of action that will guide the sector's activities in the following years.*** This section provides guidance to staff on what should be sought when designing operations (e.g., economic return, environmental change, measurable objectives, consideration of specific conditions prevailing in each country); it then points out several dimensions of success that define key targets of the sector,<sup>1</sup> accompanied by the lines of action and operation and knowledge activities required to achieve them.

## **B. Desk review analysis of the SFDs**

2.4 **OVE carried out a desk review analysis of SFDs to assess how well they identified knowledge gaps, proposed knowledge activities, and provided guidance on the design and implementation of future operations.** Table 2.2 summarizes the findings.

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<sup>1</sup> For example, in the Tourism SFD the target is defined as "Tourism-generated economic benefit increase over time," and in the Labor SFD as "Workers have greater access to sustainable social insurance systems that foster formal employment."



Table 2.2. Analysis of the Sector Framework Documents

Sector	Publication Year	Identifies knowledge gaps in Literature Review section	Identifies knowledge gaps in Challenges section	Identifies knowledge activities previously performed by the Bank	Identifies knowledge activities as part of the Dimensions of Success	Identifies countries/ sub-regions with specific knowledge gaps
Agriculture & Natural Resources Management	2016					
	2013					
Citizen Security and Justice	2017					
	2014					
Climate Change	2015					
Decentralization of Subnational Gov.	2015					
Education & Early Childhood Dev.	2016					
	2013					
Energy	2015					
Environment and Biodiversity	2015					
Fiscal Policy and Management	2015					
Food security	2015					
Gender & Diversity	2015					
Health and Nutrition	2016					
	2013					
Labor	2016					
	2013					
Innovation, Science & Technology	2014					
Integration and Trade	2016					
	2013					
Social Protection and Poverty	2017					
	2014					
Support to SMEs and Financial Access	2017					
	2014					
Tourism	2017					
	2014					
Transportation	2016					
	2014					
Urban Development	2016					
	2013					
Water and Sanitation	2014					

	Multiple and clearly identified knowledge gaps
	Some knowledge gaps identified (many times not clear or explicit)
	No knowledge gaps identified

Source: OVE

- 2.5 **One of the main goals of the SFDs is to draw attention to knowledge gaps in each of the Bank's sectors.** While practically all the SFDs identify knowledge gaps, the way in which they do this is heterogeneous, and the quality and depth of the discussion vary. Some SFDs clearly and explicitly highlight that there are knowledge gaps in specific areas or sub regions in the sector (by using the words “knowledge gap” or such phrases as “there is a need for more evidence”), but most only present a literature review without necessarily pointing at knowledge requirements. On occasion, the international evidence section is limited to evidence on programs and policies done outside the LAC region, which raises issues related to external validity. However, it is important to bear in mind that not all sectors have a vast number of studies, and many are still working on how to collect information on the effectiveness of specific interventions. Also, while most of the sector diagnosis presents region- or country-specific data, the majority of knowledge gaps are identified only for the region as a whole—a finding that is not surprising, given the broad nature of the SFDs. Finally, even if knowledge gaps are not clear in the Literature Review or Challenges sections of the SFD, most of the documents refer to knowledge activities previously performed by the Bank and include future knowledge activities among the dimensions of success.
- 2.6 **What different sectors understand by “evidence,” as well as the means by which that evidence is produced, varies considerably.** This was manifested during interviews that OVE conducted with VPS managerial staff, who maintained that not all sectors can be measured by the same standards. The interviewees pointed out that the idea of a counterfactual can be more evident or feasible for some sectors than for others. For example, it is easier to find a counterfactual for an education or jobs program than for an infrastructure one. In addition, relatively new sectors, such as Citizen Security and Justice, or Climate Change, have more knowledge gaps and less reliable data, especially in the region. It is to be expected that sectors like Education and Health will have more solid evidence to present in their SFDs because of the vast numbers of studies that have been conducted in these areas, both internationally and regionally. Thus, the SDF for the social sector includes more nuanced and specific evidence needs when discussing the knowledge gaps.
- 2.7 **Another interesting take-away from this analysis is that in the SFDs that have been updated, the overall quality, measured by the amount of evidence discussed, has improved.** Of the 20 sectors, 12 have already published two versions of the SFD, and OVE analyzed both the first and second version of 9 of them. In most cases the quality of the evidence presented had improved. This is to be expected, not only because of the natural learning process in making these documents, but also because of the increase in evidence available within and outside the Bank.
- 2.8 **Finally, all SFDs were found to provide guidance on the design and implementation of future operations.** Particularly, but not exclusively, in the Dimensions of Success section, there are both broad and specific lines of action that the Bank will pursue in each topic of the sector, and a clear connection between these actions and sector objectives. For instance, the Innovation, Science and Technology SFD, besides a line of actions and activities, also includes a series of general principles that should underlie the Bank's operational and knowledge

work, such as “Building institutional capacity in the national innovation systems” or “Bank interventions and design minimize and mitigate the risk of capture by stakeholders.” The Agriculture and Natural Resources Management SFD defines lines of action under which the “SFD proposes a set of operational and analytical activities that the empirical evidence and lessons learned and evaluations of Bank projects have shown to have a greater impact.”

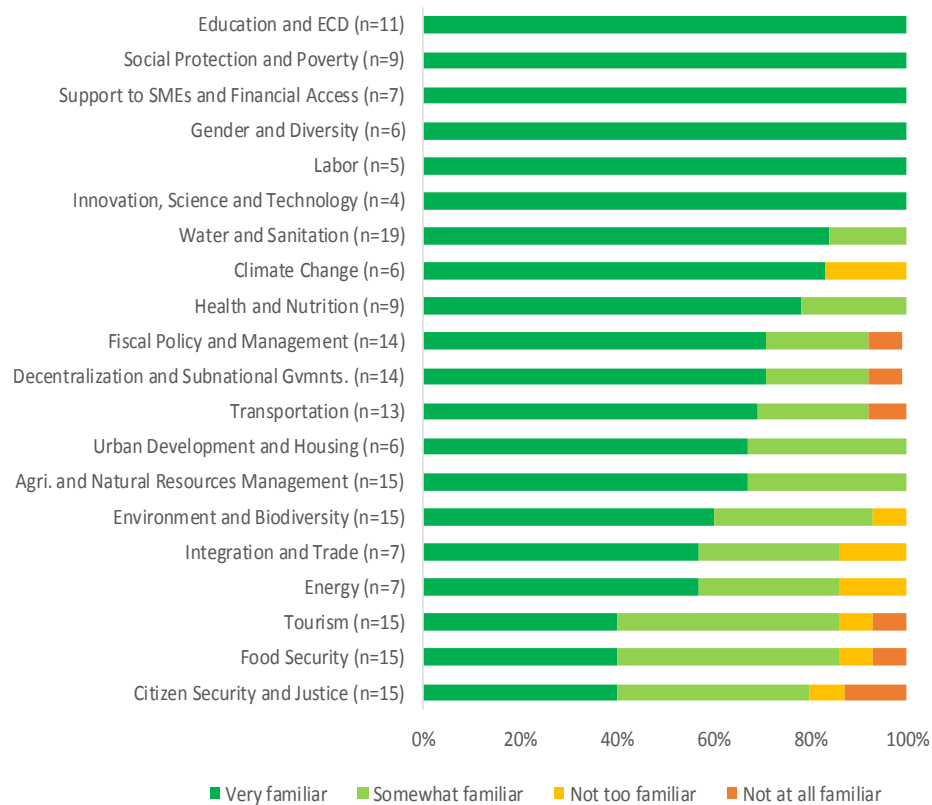
## **C. Use of SFDs**

- 2.9 From in-depth interviews and focus groups carried out with VPS and with division chiefs, OVE learned that SFDs are highly regarded by Bank staff.** In particular, interviewees mentioned the following benefits and activities as aided by the SFD: (i) providing an up-to-date and exhaustive literature review of the sector that can be used directly when developing loans or new knowledge; this makes this process more efficient, since all the information about the sector is compiled in one document; (ii) establishing the sector’s research plan for the coming years, so that they know what areas need more evidence, analysis, and/or data; and (iii) guiding sector specialists in the dialogue with counterparts, highlighting the Bank’s main priorities in the sector in the upcoming years, and prioritizing operations according to the dimensions of success.
- 2.10 These findings were reinforced by OVE’s survey of operational staff,<sup>2</sup> which had a wider reach than the in-person interviews.** One of the aspects OVE’s survey measured was operational staff’s familiarity with and use of SFDs. As Figure 2.1 illustrates, the large majority of the respondents were very familiar (74%) or somewhat familiar (19%) with the relevant SFD for their Division. While the level of awareness about the SFD seems to be correlated with the amount of technical work being done in the sector, that is not true for all sectors. Similarly, familiarity with the SFD does not seem to be correlated with the dates on which they were produced or whether an updated version of the SFD has been issued. Another interesting point is that, compared to the results presented in OVE’s IDB-9 Midterm Evaluation, Bank staff seem more familiar with the SFDs than with the sector strategies.

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<sup>2</sup> The IDB-9 Survey was an electronic poll sent by OVE to IDB operational staff between October 17 and October 25, 2017. OVE used the IDB telephone directory (<http://teldir/>) to find the e-mail addresses, units, and positions of all IDB operational staff working in VPS and the Vice Presidency for Countries (VPC).

**Figure 2.1. Staff Familiarity with SFDs**

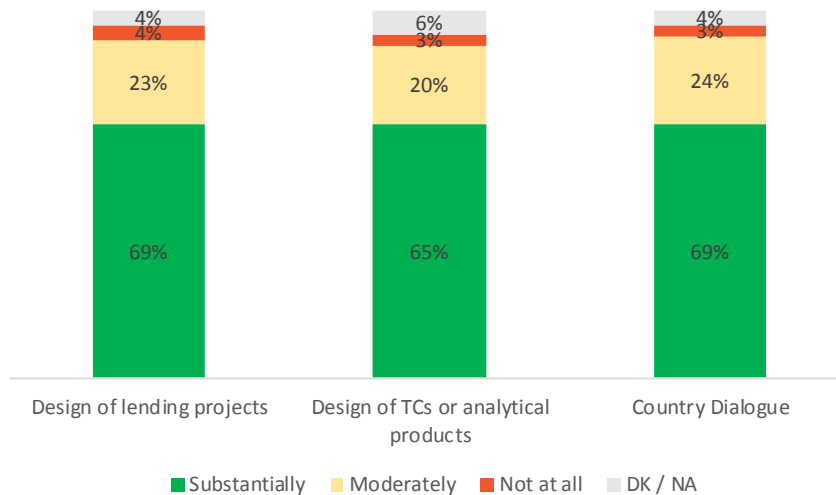


Source: OVE

n=146 (operational staff in VPS).

- 2.11 More familiarity translated into higher use of these documents, as there is evidence that the SFDs do influence the work of specialists who know them.** For those who were very or somewhat familiar with the relevant SFD, OVE's survey asked how it influenced distinct aspects of their day-to-day work. Most respondents stated that the SFD substantially influenced the design of lending projects and the content of country dialogue (69% each) and the design of technical cooperation operations (TCs) or analytical work (65%) (Figure 2.2). But, as might be expected, there are important differences across SFDs. For example, while all respondents of the Labor Market Unit and CTI divisions reported that the SFDs for their sectors had substantial influence on the design of their lending operations, the SFDs seemed to play a much less important role for staff in Fiscal and Municipal Management or Natural Resources Divisions. Something similar is observed on the influence of SFDs on the design of TCs or analytical work, and the context of country dialogue. It is interesting that there seems to be a correlation between the amount of evidence discussed in the SFD and the perception of usefulness of the document for the design of operations and in the dialogue with the country.

**Figure 2.2. Influence of SFDs on IDB Work**



Source: OVE

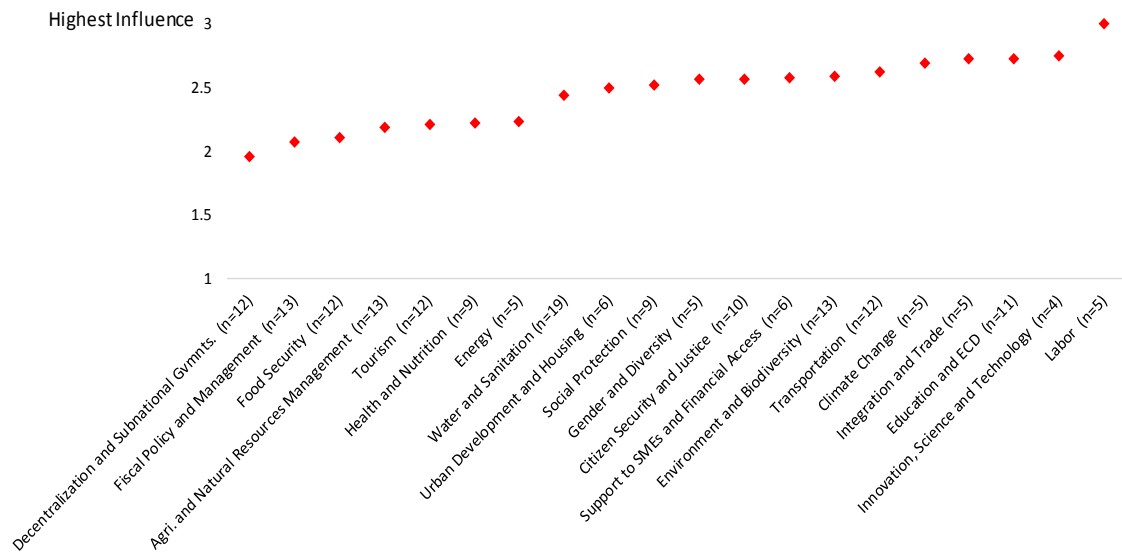
n=136 (operational staff in VPS that responded they were “very familiar” or “somewhat familiar” with the relevant SFD).

- 2.12 **The level of influence of the SFDs was compared by sector, reinforcing to some extent the correlation between the amount of evidence discussed in the document and its influence.** To compare the influence of individual SFDs, OVE created an index with a scale of 0 to 3, with higher values indicating higher influence on staff’s day-to-day work. For each of the three questions on SFD’s influence (on lending, TCs and analytical work, and country dialogue),<sup>3</sup> this index multiplies by 0.5 the share of respondents that reported “moderate influence” and adds it to the share of respondents that reported “substantial influence.” It then adds the results across questions.<sup>4</sup> The SFDs that have the highest influence are Labor; Innovation, Science and Technology; Education and Early Childhood Development; and Integration and Trade. Those with less influence are the Fiscal and Municipal Management (Decentralization and Subnational Governments, and Fiscal Policy and Management) and the Environment, Rural Development and Risk Management SFDs (Food Security, and Agriculture and Natural Resources Management) (Figure 2.3). It is important to highlight that this analysis is only indicative, as the constructed index is based on the results of the survey, which may have self-selection bias. Also, the influence is in general higher for those with more recent updated version.

<sup>3</sup> This question was asked for those who answered to be familiar with the SFD that applied the most to his or her work.

<sup>4</sup> To illustrate: for the Energy SFD, 60% and 20% of the respondents reported that it substantially and moderately influences the design of lending operations, respectively; 67% and 33% reported that it substantially and moderately influences the design of TCs and analytical work, respectively; and 60% and 20% of the respondents reported that it substantially and moderately influences the content of country dialogue, respectively. The index value for the Energy SFD is calculated as follows:  $(1*0.6+0.5*0.2+1*0.67+0.5*0.33+1*0.6+0.5*0.2) = 2.235$ .

**Figure 2.3. Influence Comparison across SFDs (Index)**



Source: OVE

- 2.13 **Despite the evidence that VPS staff are using SFDs extensively, there is room for VPC staff to use them more.** Interviews with Regional Economists have suggested that the main use they make of the SFDs is to avoid demands for interventions whose effectiveness has been demonstrated to be low. Also, the SFDs seem to be little used in the more general dialogue with the countries at the representations—clearly an important potential use of this knowledge product.

### III. CONCLUSIONS

- 3.1 **The SFDs were proposed as a part of the institutional regulatory framework of the Bank, and they have been produced in a timely way.** Since 2013, 33 SFDs have been produced, and 12 sectors have already two versions. OVE analyzed 30 of them.
- 3.2 **The depth of the SFDs is heterogeneous, but all of them include all the areas required.** Sectors that have traditionally done more with analytical work have, on average, better SFDs. However, for all sectors the overall quality of the analysis of knowledge gaps of these documents is increasing. Most importantly, all of them have provided guidance on the design and implementation of future operations.
- 3.3 **To the extent that these documents are providing guidance for future operations and have been used by staff, the instrument can play its role in the Bank's regulatory framework.** VPS staff have been using the SFDs to some extent to guide their work. However, the use of the SFDs is still heterogeneous across sectors. A slight correlation between the amount of evidence discussed in the documents and their usefulness was observed.
- 3.4 **The SFDs were not designed to be strategic documents; however, in fulfilling their role, they are supporting the objective of increasing the Bank's strategic focus.** The Bank's demand-driven nature is incompatible with rigidly prescribed strategies that are rarely updated. In this sense, to maximize the Bank's strategic focus, it is important for staff to have clear principles and guidance to allow them to accommodate and adapt to the needs of the countries. Additionally, these principles and guidance need to be often revised to incorporate lessons learned over time. This is the role that, to some extent, the SFDs have been playing. By defining priorities and areas of action, and by providing a general assessment of the evidence on what works, the SFDs can potentially be strong tools for the Bank.
- 3.5 **Despite the SFDs' potential, improvements in the production process and in the documents themselves are still necessary.** As mentioned above, the quality of these documents is heterogeneous and could be improved in some sectors. As the quality is improved, more general awareness of the content of the SFDs should be promoted in each sector. Finally, other parts of the Bank beyond VPS should be more involved in preparing (e.g., in quality control) and in using the SFDs (for example, in the representations as part of a broader dialogue with countries).