

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ANNUAL REPORT OF THE CHAIRPERSON OF THE
POLICY AND EVALUATION COMMITTEE**

1 JULY 2010 TO 30 JUNE 2011

Under the Access to Information Policy, this document is subject to Public Disclosure.

Policy and Evaluation Committee (PEC)
Annual Report of the Chair
1 July 2010 to 30 June 2011

The 2010-2011 work program of the Policy & Evaluation Committee was shaped by two main objectives:

- i. To commission an independent, strategic review of the evaluation function of the Bank, and select a new Director of the Office of Oversight & Evaluation (OVE); and
- ii. to meet all policy-related commitments of the Better Bank Agenda agreed as part of 9th General Capital Increase (GCI-9)

This work was in addition to the ongoing role of the Committee to oversee OVE's non-country specific activities and evaluations¹.

All of these objectives were achieved. What remains for my successor is the more difficult task of overseeing their implementation.

A summary of the Committee's main accomplishments follows:

A. Strengthening the IDB's evaluation function:

Selection of the new OVE Director

In late July 2010, the Committee recommended and the Board agreed to a procedure for hiring the next OVE Director, based on the Terms of Reference in RE-238, and following a process similar to that used for hiring the Ombudsperson for the ICIM. I chaired the Selection and Review Committee, which was composed of the Chairs of the OHRA, Programming, Audit, and IIC Committees, as well as the U.S. Chair. The search for the new OVE Director culminated in February 2011 with the Board approving the appointment of Cheryl Gray from the World Bank.

Revised Terms of Reference for the Director OVE

In addition, in June 2011 the Committee proposed new terms of reference for the Director of OVE, based on the recommendations of the Independent Review Panel. The revisions to the terms of reference clarify the responsibilities, reporting relationships and accountabilities of the position. The revised Terms of Reference were approved by the Board on July 13, 2011

Independent external review of the evaluation function of the IDB group

¹ The Policy and Evaluation Committee met on 29 occasions over the past year. This included three informal sessions and three joint sessions (two with the BUFIPO and one with the MIF Donors Committee and the Committee of the Board of Executive Directors of the Corporation).

In late July 2010, the Board agreed to commission an External Review of the Evaluation Function at the IDB to proceed on a parallel track with the recruitment of the OVE Director. The Selection and Review Committee involved in hiring the OVE Director managed the review, including engaging the Independent Review Panel (IRP), and preparing, with the help of SPD, the terms of reference for the study. These terms of reference were discussed by the Committee and subsequently approved by the Board. The IRP's terms of reference covered the external evaluation function performed by OVE, management's self-evaluation system and the feedback of both on the Bank's learning processes.

The Independent Review Panel commenced its work in February 2011 and presented its report to the PEC on June 24th. Representatives of all major stakeholders (Board, Senior Management, OVE and IDB member countries) were consulted, both at Headquarters and in the field. A survey was taken and its results were validated by focus groups. Major recommendations included refocusing the work of OVE to improve the timeliness and relevance of evaluations in order to better support organizational learning and involve borrowing member countries; providing leadership, resources and senior management support for the Bank's still-nascent self-evaluation system; improving working relationships among the Board, OVE, and management; and strengthening PEC and Board oversight of OVE and the IDB self-evaluation system.

B. Commitments of the Better Bank Agenda:

1. Strategies for Growth & Development

The following four institutional strategies were prepared for PEC consideration in line with the mandates issued by the Governors in approving the GCI-9.

i. Competitive Global and Regional Integration

The Strategy for Competitive Global & Regional Integration was reviewed by PEC and approved by the Board in March 2011 following a 30-day period of public consultations. In its deliberations, the Committee urged management to move quickly to develop an action plan to support integration given the strong interest of Governors in this area as reflected in the ambitious lending targets of the 9th General Capital Increase. At the Committee's request, Management undertook to provide regular updates on progress in achieving the strategy's objectives and to present an action plan to the Committee shortly after the Calgary annual meeting.

I note that the requested action plan has not yet been provided, and urge Management to do so as soon as possible.

ii. Institutions for Growth and Social Welfare

The strategy for institutions for growth and social welfare followed the normal process for Committee discussion, public consultation and Board approval. The strategy was approved in March 2011. In the discussion, Management emphasized that, while the strategy was

broad in its coverage, many of its activities have been ongoing, both as a component of the lending program and through Technical Cooperation.

In response to the Committee's request, Management also provided guidelines for financing and developing SMEs to the Board for information.

iii. *Social Policy for Equity and Productivity*

The Strategy was reviewed by the Committee in March 2011 and subsequently approved by the Board. A few issues arose in the discussions. One related to the inadequacy of data and analysis for the Caribbean region. A second was to better define the relationship between the informal sector and equality. Both of these issues were addressed before the strategy was submitted for public comment and subsequent approval by the Board.

iv. *Integrated Strategy for Climate Change Adaption and Mitigation*

The integrated strategy for climate change was reviewed by the Committee in two PEC sessions in March and subsequently approved by the Board in March 2011.

While the strategy had broad support from the Committee, one aspect generated considerable discussion – what role, if any, the Bank should have in nuclear energy. After extensive discussion, the Committee concluded that the IDB would not engage in any activity associated with nuclear energy until such time as the Board had an opportunity to consider a comprehensive analysis of all aspects of nuclear energy, including security, waste management, and the case for the Bank's involvement in this area. The Strategy reflects this decision.

2. *Private Sector Development Strategy*

The Private Sector Development Strategy was reviewed by the PEC in December 2010 and again in January 2011. It was reviewed again in June 2011 at a joint meeting of the PEC, MIF Donor's Committee and the Committee of the Board of Executive Directors of the IIC, following two separate sessions of public consultation. In the discussion Directors emphasized the importance of collaboration, coordination and shared standards and approaches among the various private sector windows in order to maximize the benefits to member countries and the Bank as a whole.

On execution, Directors highlighted the need for incentives to promote coordination among the different windows at the programmatic and project development levels, as well as for jointly reviewing staff hiring and compensation profiles in order to attract and retain highly qualified persons able to meet the needs of private clients.

Looking ahead, Directors identified a number of factors necessary to deepen the Non-Sovereign Guaranteed Business Plan. They include: (i) the division of labor and the competencies of each window; (ii) the synergies between the IIC and SCF and between OMJ and the MIF; (iii) the harmonization of key concepts, including a common definition of small

and medium-sized enterprise (SME); (iv) the development of flexible financial instruments and technical advisory support for private clients; and the (v) the harmonization of the windows' requirements with competitiveness and private client satisfaction criteria. The NSG Business Plan is to be discussed in Policy Committee in the coming months.

3. Operational Policy on Gender Equality in Development

The PEC met in October and November 2010 to discuss the gender policy, which was approved by the Board later that month. At the Committee's request, Management revised the document to include indicators to measure progress as well as institutional incentives to encourage staff and Management to systematically apply the policy. Management also developed an action plan to support the implementation of the Policy which was submitted to the Board for information. The Board agreed that the policy's implementation would be reviewed after two years.

4. Access to Information Policy: Classification & Declassification System and Review Process

The process for classifying and declassifying information for public disclosure was considered by the Committee in December 2010. In their deliberations, Directors expressed the importance of finding the right balance in the disclosure of Board records so that the policy not have an adverse effect on the content and candor of discussions. The Board approved the Policy with the request that management report on its implementation after one year.

5. Development Effectiveness Matrix (DEM)

The revised DEM was discussed by the Committee in December 2010, updated and discussed again in February 2011. Overall, these discussions have focused the Bank's attention on development effectiveness as well as in setting up the robust metrics framework required in Bank-financed operations. Progress in the Bank's performance in this field was presented in the Development Effectiveness Overview discussed by the Committee in the first quarter. Directors view the new DEM as a work in progress that will require adjustments as it is implemented and developed further. In the short-term, these adjustments include the need to determine how best to assess the effectiveness of Policy Based Loans, as well as the need for tools such as developing guidelines on additionality. Directors asked that OVE evaluate the revised DEM at the end of the first year of its implementation.

C. Ongoing OVE work program

Over the course of the year, the Committee continued its oversight and monitoring activities in regard to OVE. These included approval of OVE's annual budget and work program in November 2010 and review of OVE products. Among the latter were: the evaluation of the FSO part 1; an evaluation of the Bank's processes for managing TCs; an oversight note on credit risk management; and an examination of the evaluability of Bank projects.

D. Looking Ahead

To my successor, I leave both important unfinished business and some new beginnings. An early task is to complete the discussion on the Report of the Independent Review Panel on the evaluation function of the Bank so that the Panel report and the Bank's response to its recommendations (OVE and Management action plans) can be posted on the external website in timely fashion.

Associated with this is the proposed Strategy and Work Program that the OVE Director will bring to the Committee in September and its complement, SPD's proposed approach and work plan for the Bank's self evaluation function. These are key documents whose content and approaches will both chart the course and set the tone for the evaluation function of the IDB.

Going forward, the Committee will need to sustain its focus on evaluation. PEC has an important role in proactively managing the Bank's accountability and learning agenda through its independent evaluation and self-evaluation functions. Strong leadership from PEC is essential to a well-functioning system.

A second task for the Policy & Evaluation Committee is to review management's proposed action plan in regard to the recommendations of the Independent Advisory Group on Sustainability.

Similarly, VPP is to bring the NSG Business plan to PEC for discussion this year. The NSG Business Plan is a key underpinning of the Bank's strategy for development through the private sector.

The Committee will also need to continue the important discussion begun in 2010 on a new approach to sector policies, strategies and guidelines, as well as follow-up on the action plans associated with these strategies. Finally, discussions of the proposal to reform the Bank's sovereign guaranteed lending instruments will fall under the purview of PEC. A revised document is to be distributed to the Committee shortly.

In closing, I would like to thank all my colleagues for their help and support during this challenging and busy year for the PEC. I owe a special debt to the Committee's two Vice-Chairs, Directors Miranda & Caceres, and to Martin Bes, the Alternate ED for Argentina; I asked much of them and they gave unstintingly of their time and insights. A special thanks to Jason Hollmann, Counselor in the Canadian office, Douglas Kline, Carmen Comin & Miguel Empis in Secretaria for their hard work and support to me in the work of the Committee. Finally, I'd like to acknowledge the important contribution of Management to the work of PEC over the last year. It has been a busy and demanding time for us all, but together we have taken some important steps in building a better Bank.