

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Enhancing Institutional capacity to strengthen results and development effectiveness
▪ TC Number:	RG-T4524
▪ Team Leader/Members:	Mosqueira Medina, Edgardo (IFD/ICS) Team Leader; Naranjo Bautista, Sandra (IFD/ICS) Alternate Team Leader; Fonseca, Daniel Fernando (IFD/CMF); Radics, Gustavo Axel (IFD/FMM); Bonilla Merino Arturo Francisco (LEG/SGO); Bueno Londono Daniela (IFD/ICS); Rojas Gonzalez, Sonia Amalia (IFD/ICS); Caceres Saldana, Claudia (IFD/IFD); Rasteletti, Alejandro Gabriel (IFD/FMM); Ortiz Sosa, Diana Alexandra (IFD/IFD)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	
▪ Beneficiary:	All countries. ¹
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$275,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	05/15/2024
▪ Types of consultants:	Individuals / Firms
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	IFD/ICS-Innovation in Citizen Services Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	N/A
▪ Alignment to the Institutional Strategy: Transforming for Scale and Impact.	Institutional capacity and rule of law

II. Objectives and Justification of the Technical Cooperation (TC)

2.1 The main objective of this TC is to strengthen the institutional capacity of the public administrations in the region to ensure the development effectiveness of public policies and spending. This objective will be pursued through the activities: diagnosing the countries' main Institutional Capacity and Rule of Law (ICRL) challenges, enhancing project tools to address ICRL gaps, adapting interventions to each country's level of ICRL maturity and state capacity challenges, and strengthening IDB's organizational arrangements and tools to enable more efficient and effective mainstreaming of ICRL in the different sector projects.

¹ Uruguay, Brazil, Costa Rica, Ecuador are tentative pilot projects. Letters will be requested before starting any work.

- 2.2 Weak institutions stand as a pivotal barrier to inclusive and sustainable growth and development in the region. Evidence shows a direct correlation between robust state institutions and the efficient utilization of physical and human capital, resulting in higher incomes.² Variations in state capacity account for 90% of the variation in overall well-being outcomes.³ Although this is well-known, Latin America and the Caribbean (LAC) still struggles. Despite a consistent increase in government expenditure, development outcomes lag those of countries with similar income levels. The region faces challenges in education,⁴ health,⁵ and infrastructure investment, with underperformance in quality and lasting social outcomes. Notably, Government Effectiveness in the region, a proxy for State Capacity, has not only failed to improve at the same rate that expenditures have increased, but it has declined from the 58th percentile in 2012 to the 50th percentile in 2021, as indicated by the Worldwide Governance Indicators. The IDB's own analyses echo this conclusion: a recent analysis of 39 Country Development Challenges (CDCs), between 2015 and 2021, shows that government institutional capacity is most often identified as the main development challenge identified in the region.⁶ Prioritizing state capacity is crucial for LAC to address disparities, strengthen institutions, and achieve sustainable and inclusive development.
- 2.3 The capabilities of state agencies determine the extent and quality of the implementation of public policies and programs. The strong institutional capacity of public sector agencies is key to both effectively implementing projects to achieve development outcomes (project implementation capability) and ensuring the sustainability of outcomes (policy implementation capability). The literature and experience suggest three key factors for successful reform, the strategic triangle for strengthening institutional capacity.⁷ These are three conditions that must occur simultaneously. First, a technically sound design that addresses the specific needs of the reform's intended users. This technical soundness is complemented by the administrative capacity needed to implement the strategy, including changing accountability relationships so that users take ownership of the reform and put it into practice. Finally, the third dimension consists of governance conditions and an authorizing environment that demands, and supports, sound design and capable administration. This conceptual framework has guided the mainstreaming of ICRL at the IDB.
- 2.4 Strengthening the Bank's knowledge of effective capacity-building frameworks and methodologies is also crucial. Although the IDB has been active in building state capacity for 30 years, it continues to be a substantial challenge in the region. It is evident that the region needs a new approach. However, this challenge is universal,

² Acemoglu et al., 2001.

³ Pritchett, Lant (2021). National Development Delivers: And How! And How?, CID Working Papers 398, Center for International Development at Harvard University.

⁴ World Development Indicators 2022, PISA Scores 2018.

⁵ OECD/The World Bank (2023), [Health at a Glance: Latin America and the Caribbean 2023](#), OECD Publishing, Paris; and OECD/The World Bank (2020), [Health at a Glance: Latin America and the Caribbean 2020](#), OECD Publishing, Paris.

⁶ [Avellán & Brito](#) (2023).

⁷ The strategic triangle is part of the conceptual framework adapted from Moore (1997) and is complemented by the work of Andrews, Pritchett and Woolcock (2017), as well as principles for effective project design and implementation such as Doing Development Differently (DDD), Problem Driven Iterative Adaptation (PDIA), Thinking and Working Politically (TWP) and Collaboration, Learning and Adaptation (CLA), among others.

not unique to the region nor to the IDB; it is shared by other aid agencies and one that experts worldwide recognize. Progress has been hindered by a lack of accurate diagnosis and understanding of the problems targeted by interventions. For example, a recurring obstacle in the implementation of information systems, particularly in public financial management, is the creation of tools that lack a conceptual model aligned with the automation needs and perspectives of future users.⁸ In addition, slow progress can be attributed to the adoption of reforms that either exceed the capacity of government organizations to implement them, or that are legally adopted as a signal of commitment to structural reforms but are not implemented in practice. An example of this in the region is the adoption, and failure to implement, fiscal rules.⁹

- 2.5 This TC has a two-pronged approach, supporting capacity-building in public sector agencies and enhancing the IDB's capacity to mainstream ICRL across the Bank's portfolio. Capacity building requires a systematic identification of capability gaps in beneficiary countries and their root causes according to countries' maturity across various dimensions of ICRL.
- 2.6 This TC contributes to that objective through: Components 1 and 2 support public sector agencies' capacity building. Component 3 supporting the enhancement of internal capabilities of the IDB for a more effective mainstreaming of ICRL, throughout the project cycle, in all IDB sectors, as well as fine-tuning project tools and interventions to strengthen their development effectiveness. This component builds on the work the IDB has undertaken with the implementation of the ICRL Guidelines (which outcome is the preparation of Country Matrixes for the CDC (according to [GN-3129](#)). It also builds upon the Gap Analysis of National M&E Systems which informs the country strategies being prepared for Argentina, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras Paraguay (supported through TCs RG-T4254 and RGT4111). Lessons learned from the support of these TCs are being incorporated into the design of this TC, including: (i) synergies should be sought between the country-level analysis (Component 1) and the analysis to improve the project cycle documents (CDC and Country Strategies-Component 2); and (ii) the gap analysis of national M&E systems allowed the Bank to refine the methodology to include the assessment of functional relationships between M&E and budget and investment systems.
- 2.7 **Strategic Alignment.** This TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the operational focus area of institutional capacity, rule of law, and citizen security as its main goal is to strengthen institutional capacity in public administrations to ensure policy results and development effectiveness. The program is also aligned to the Priority area of "Effective, efficient and transparent institutions" of the Ordinary Capital Strategic Development Program (GN-2819-14), through the expected results: (i) to strengthen the quality of institutions and policies as well as the provision of services and policy implementation, to improve public management and promote private sector development; and (ii) to leverage digital transformation to promote more effective, efficient and transparent governments, better and more equitable opportunities for citizens, and more productive and innovative enterprises. This TC also responds to the Board's mandate to further mainstream ICRL across all bank products. The updates of the Institutional Strategy in 2016 and 2020 recognize Institutional Capacity

⁸ [Mosqueira and Reyes](#) (2021).

⁹ Andrews, Matthew. *The Limits of Institutional Reform in Development*. Cambridge University Press, 2013.

and Rule of Law (ICRL) as a cross-cutting issue and enhance the need to mainstream ICRL across country strategies, operations, and knowledge products. While the IDB's mandate is clear, the effort to mainstream institutional capacity into the Bank's products is still a work in progress. The audit report in 2021 proposed the need to give clear guidance on mainstreaming ICRL in all Bank products. The administration has recently approved the new Guidelines to Mainstream ICRL. This TC will continue and strengthen that effort.

III. Description of activities/components and budget

- 3.1 **Component 1. Diagnosis of priority ICRL challenges at the country level.** The goal of this component is to strengthen the diagnosis of countries' ICRL challenges in order to inform and improve policy design and implementation. For example, weaknesses in monitoring and evaluation in a factor that limits development effectiveness in Bank's projects.¹⁰ A clear understanding of the state capacity shortcomings and their root causes will inform and enhance the design and implementation of future interventions included in IDB projects and countries reform plans (component 2). This TC will contribute to the preparation of the ICRL Country Matrix, an IDB tool designed to identify institutional capacity challenges. The matrix serves as an input for the formulation of CDC and Country Strategies, as well as programming exercises. The TC will also assist in conducting assessments of national monitoring and evaluation (M&E) systems, as well functioning M&E institutions are one of the main tools to inform and improve the policy cycle with the aim of increasing development effectiveness. The beneficiary countries will be defined in coordination with VPC.
- 3.2 **Component 2. Interventions to address ICRL challenges at the project level.** The objective of this component is to complement the analytical work on countries' institutional capacity challenges (Component 1) with improved project preparation and implementation tools - interventions aimed at addressing the identified gaps. These tools will enable teams to address country capacity challenges in project design and implementation. The tools and interventions identified will consider each country's level of ICRL maturity and government capacity challenges. Examples of interventions include vertical interventions, such as those that improve core cross-cutting management systems such as planning, civil service, procurement, among others. They also include interventions to strengthen ICRL elements in other sector projects, such as designing the coordination mechanisms needed to implement a multisectoral policy such as malnutrition.
- 3.3 **Component 3. Strengthening the mainstreaming of ICRL in IDB projects.** The objective of this component is to enhance organizational arrangements and project design and implementation tools to enable more efficient and effective mainstreaming of ICRL. These tools will enable teams to take country capability challenges into account in project design and implementation. This includes, for example, enhancing the operation's theory of change to better understand capacity challenges and solutions, identifying and systematizing ICRL interventions whose development effectiveness is evidence-based and adaptable to similar projects, exploring new indicators to capture support for and results achieved through efforts to improve ICRL, among other activities.

¹⁰ [OVE's Review of Project Completion Reports \(PCRs\) and Expanded Supervision Reports \(XSRs\): The 2022 Validation Cycle.](#)

- 3.4 **Component 4. Knowledge dissemination.** The objective of this component is to establish a mechanism for the dissemination of the products of this TC in the country offices and in the region. This includes knowledge products or case studies with the results of the work in Components 1 and 2.
- 3.5 **The expected outcomes** of this TC are to improve the mainstreaming of ICRL by assisting our partner countries in addressing their key ICRL challenges, and to contribute to the effectiveness of IDB operations by providing team leaders with tools and resources to improve project design and implementation.
- 3.6 **Beneficiaries.** This TC targets upstream organizations (core ministries and agencies at the center of government) with the aim of improving their efficiency and effectiveness.
- 3.7 The total cost of this TC will be US\$275,000 and will be financed with ordinary capital (OC SDP Window 2 – Institutions (W2C)).

Indicative Budget (US\$)

Activity/Component	Description	IDB/OC SPD W2C	Total Funding
Component 1	Analytical work	50,000	50,000
Component 2	Design and implementation of interventions	150,000	150,000
Component 3	Mainstreaming of ICRL	50,000	50,000
Component 4	Knowledge dissemination	25,000	25,000
Total		275,000	275,000

- 3.8 The monitoring of the TC is the responsibility of the Team Leader and the Deputy Team Leader as part of the management of the TC. The Public Sector Management Cluster has a mechanism to monitor the progress of the TC monthly and has more in-depth follow-up meetings annually, with mid-year review meetings when needed. No additional funding is required.

IV. Executing agency and execution structure

- 4.1 Innovation for Citizens Services Division at the Department of Institutions for Development (IFD/ICS). Given the taxonomy of this TC and its Regional nature, the Bank will play the executing role and will request the non-objection letters from the beneficiary countries prior to performing any activity in such country, according to Annex II of the procedures for the processing of technical cooperation operations (OP-619-4). The IFD/ICS team will be responsible for the administration, planning, control, and supervision of the assigned financial resources, as well as all those activities related to the hiring of firms and consultants and the adequate organization, supervision and evaluation of the products contemplated within the TC considering the sustainability of the implementation of the project.
- 4.2 All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows: (i) AM-650 for Individual consultants; (ii) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and

(iii) GN-2303-28 for logistics and other related services. The execution and disbursement period is expected to be 24 months.

- 4.3 For technical support activities, the relevant public entities of the participating countries will identify priority support areas, and the same entities will approve the selection of experts and tools to be used. The IFD/ICS team will coordinate with the country offices as needed to strengthen the implementation of this TC and the dialogue with government counterparts.
- 4.4 The knowledge products generated from Bank-executed activities within this technical cooperation will be the property of the Bank and may be made available to the public under a creative commons license. However, at the request of the beneficiary, in accordance with the provisions of AM-331, the intellectual property of said products may also be licensed through specific contractual commitments that shall be prepared with the advice of the Legal Department. The dissemination of knowledge products, financed through this TC, will contribute to the identification of pilot projects. IFD/ICS will obtain letters from countries for pilot project implementation before starting activities in those countries.

V. Major issues

- 5.1 The main risk identified is the broad scope that the pilot interventions could have, given that multiple problems and needs could be identified. This risk could be mitigated by the appropriate analysis expected to be addressed in Component 1. There are also risks related to coordination and communication with multiple countries and the ability to effectively communicate results in partner countries. These risks will be mitigated by identifying the appropriate counterparts and establishing the appropriate mechanisms for coordination and communication. In addition, country offices play a fundamental role as the natural focal point of the IDB in the country and as leaders of the country dialogue. A close relationship with them has played a key role in the past and could help mitigate the risks mentioned above.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions identified.

VII. Environmental and Social Aspects

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's [Environmental and Social Policy Framework \(ESPF\)](#).

[Results Matrix_66139.pdf](#)

[Procurement Plan_52557.pdf](#)