

Multilateral Aid Review: Assessment of Inter-American Development Bank

Summary	
Organisation: Inter-American Development Bank	Date: February 2011
Description of Organisation	
<p>The Inter-American Development Bank (IADB) has 48 members, of whom 26 are borrowing countries from Latin America and the Caribbean. The UK holds almost 1% of the shares and is part of a Board constituency led by Japan.</p> <p>The bank has two operations: the Ordinary Capital (OC) lending at near market rates; and the Fund for Special Operations (FSO) providing concessional loans and grants to the poorest countries. The FSO only supports five countries: Bolivia, Guyana, Haiti, Honduras and Nicaragua. Haiti, the only low income country in Latin America and the Caribbean, has now been categorised separately with its own resources in order to respond to the devastating earthquake of January 2010.</p> <p>IADB approved 165 new operations totalling \$15.9bn for 2009. This is similar in volume to the World Bank in the region. IADB's focus is on economic growth, climate change and sustainable cities and it provides loans for infrastructure projects, particularly for energy, transportation and water resources.</p> <p>IADB members voted for a general capital increase (GCI) and FSO replenishment in March 2010 aimed at enabling the bank to sustain lending at \$12bn pa and providing an additional \$2bn for Haiti. The GCI includes a number of policy and management reforms which will be implemented over three years, including increasing the poverty focus, improved development effectiveness, and better capital management.</p> <p>The FSO approved loans and grants of \$228m in 2009 only 1.4% of the \$15.9bn from the OC. This assessment therefore focuses on IADB but includes separate comments on the FSO where necessary.</p>	

Contribution to UK Development Objectives	Score (1-4)
<p>1a. Critical Role in Meeting International Objectives</p> <ul style="list-style-type: none"> + Providing substantial funding for basic infrastructure, a prerequisite for economic growth and social welfare to address pervasive inequalities + Sensitive to the needs of all borrowers not just big countries and willing to commit large sums to work in difficult places (Haiti) + Innovative products (eg emergency liquidity crisis support facility) and private sector support (eg increasing share of private sector operation in overall portfolio). – Lacks overarching poverty strategy. Development priorities vary between countries limiting opportunities for regional approaches. 	<p>Satisfactory (3)</p>

<ul style="list-style-type: none"> = Important role in sustainable economic development across the Latin America and Caribbean region; substantial provider of funding for basic infrastructure; working effectively in response to natural disasters; but limited poverty focus and support for low income countries (apart from Haiti). 	
<p>1b. Critical Role in Meeting UK Aid Objectives</p> <ul style="list-style-type: none"> + Strong focus on economic growth and wealth creation by building the required infrastructure and highly innovative on social welfare issues like conditional cash transfers. + Large scale of operations enables the bank to have a significant impact in the region. – Coverage of key Commonwealth countries overlaps with Caribbean Development Bank. – Lacks overarching poverty strategy. – Support is overwhelmingly to middle income countries. + Willingness to work in difficult places like Haiti. + Good engagement with governments. + Using expertise to mitigate and adapt to climate change; promoting global public goods in forests and biodiversity. – Focus on economic infrastructure leaves other donors to fill gaps in social sectors such as health. = Good focus on development and very important for economic infrastructure and climate change in the region; nature of region means that IADB less aligned with UK priority focus on the poorest people. 	<p>Weak (2)</p>
<p>2. Attention to Cross-cutting Issues:</p> <p>2a. Fragile Contexts</p> <ul style="list-style-type: none"> + Strong operational performance in Haiti. + For Haiti, most staff based in country, even following the earthquake but supplemented by a new HQ team because of the workload and multi-donor coordination required. – IADB performs well in its own specialist areas but there is less evidence of effective collaboration with others to tackle systemic governance issues in fragile contexts. – Responds well to natural disasters but no evidence of effective action in politically fragile or conflict areas. = Effective in Haiti but doesn't have a key role in governance in fragile contexts. <p>2b. Gender Equality</p> <ul style="list-style-type: none"> + New policy takes a safeguards based approach making gender a prerequisite rather than an add-on. – Challenges remain to mainstream gender, especially in the harder to reach areas such as major infrastructure projects in power and roads. = Despite good policy, limited influence on operations. 	<p>Weak (2)</p>

2c. Climate Change and Environmental Sustainability <ul style="list-style-type: none"> + Good integration of climate into existing development work, with good policy and strategy documents and strong support at the Board. – Insufficient experts, most based in SECCI Unit in Washington. Needs to expand expertise and skill base. = Will need sustained efforts on implementation in order for performance to be considered strong. 	Satisfactory (3)
3. Focus on Poor Countries <ul style="list-style-type: none"> – None of the countries in IADB's region are in the top quartile of an index that scores countries based on their poverty need and effectiveness (the strength of the country's institutions). – Most of its money goes to lower middle income countries in the third quartile of need and effectiveness (such as Guatemala and Honduras). = Support is overwhelmingly to middle income countries. 	Unsatisfactory (1)
4. Contribution to Results <ul style="list-style-type: none"> + Delivers against challenging poverty focused objectives + Strong results systems introduced at headquarters and country level + Adopted an innovative approach during the financial crisis. – Management focus on results, but internal incentives remain tilted towards inputs - project and loan approvals. = Good focus on results and delivery, but areas for improvement in operation incentives and performance 	Satisfactory (3)
Organisational Strengths	Score (1-4)
5. Strategic and Performance Management <ul style="list-style-type: none"> + IADB is currently drafting new institutional and sector strategies as part of the general capital increase. – But these strategies still have to be agreed and tested. + The Development Effectiveness Framework sets up a good line of sight to projects and programmes. + There is an independent evaluation and lesson learning culture. – Bank is reviewing HR policies and practices to ensure greater transparency in the appointment of senior management. = Improving mandate and good evaluation, but need to finalise strategies and progress required on HR. 	Weak (2)
6. Financial Resources Management <ul style="list-style-type: none"> + Strong improvements in portfolio management + Budget support and multi-year commitments possible 	Satisfactory (3)

<ul style="list-style-type: none"> + Some capacity to reorient resources in year to better performing countries – No real penalties if programmes perform poorly + Financial accountability process and policies are mostly robust. – IADB is still reviewing and improving budget allocation policies which address concerns on transparency and predictability. = Good financial management systems, but room for improvement on transparency. 	
<p>7. Cost and Value Consciousness</p> <ul style="list-style-type: none"> + Administrative budgets have been controlled. + Costs and time to deliver projects have declined significantly. + Increasing focus on cost control by borrowers because every dollar of administrative costs is reflected in loan charges. – Management concerned that the Bank is under-resourced and that administrative costs will need to rise in future in order to deliver the general capital increase agenda. = Good internal controls and links between costs and loan charges, but pressure to increase administrative budgets. 	<p>Satisfactory (3)</p>
<p>8. Partnership Behaviour</p> <ul style="list-style-type: none"> + Very strong partnerships with governments. + Commitment to Paris targets, including incorporating these into internal development effectiveness and results monitoring. – Some partners concerned about bureaucracy and limited decentralisation. = Very strong partnerships with governments but mixed partnerships with other donors and civil society, although good progress on Paris. 	<p>Satisfactory (3)</p>
<p>9. Transparency and Accountability</p> <ul style="list-style-type: none"> + Strong new policy on disclosure and publishing of relevant documentation. + Currently considering whether to sign up to IATI. + New and robust mechanism for redress of grievances. + Majority of shareholding by Latin American and Caribbean members. – Disclosure policy still under implementation and will need to be tested. – Low rating on accuracy of project information on website. = Accountability is good, but requires more evidence on transparency. 	<p>Satisfactory (3)</p>

Likelihood of Positive Change	Score (1-4)
<p>10. Likelihood of Positive Change</p> <ul style="list-style-type: none"> + Various major reform initiatives have already been undertaken and the results beginning to be achieved. + Management is responsive and flexible, and there is continued evidence of management's willingness to reform especially on operational issues. – It may be difficult to maintain the pace of reform as the GCI Better Bank Agenda and policy reforms are significant and past reforms are still working through the system. – Nationality-based restrictions on some senior management posts may limit full merit based recruitment. = Overall, good past performance, but some uncertainty about the pace of future reforms. 	<p style="text-align: center;">Likely (3)</p>