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INTER-AMERICAN DEVELOPMENT BANK

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REPORT ON THE NINTH GENERAL INCREASE IN THE RESOURCES OF THE INTER-AMERICAN DEVELOPMENT BANK

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ABBREVIATIONS

ALCO	Asset and Liability Committee
CAM	Capital Adequacy Model
CDB	Caribbean Development Bank
CRCS	Credit Risk Classification System
DEF	Development Effectiveness Framework
DEM	Development Effectiveness Matrix
ECLAC	Economic Commission for Latin America and the Caribbean
EITI	Extractive Industries Transparency Initiative
FBS	Fee-based Services
FSO	Fund for Special Operations
GCI	General Capital Increase
GDP	Gross Domestic Product
GF	Grant Facility
HIPC	Highly Indebted Poor Countries
ICIM	Independent Consultation and Investigation Mechanism
IDA	International Development Agency
IDB	Inter-American Development Bank
IDB-8	Eighth General Increase of the Resources of the Bank
IDB-9	Ninth General Increase of the Resources of the Bank
IFI	International Financial Institution
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
IMM	Income Management Model
IT	Information Technology
KCP	Knowledge and Capacity Building Products
LAC	Latin American and the Caribbean
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NRTC	Non-Reimbursable Technical Cooperation
NSG	Non-Sovereign Guaranteed
OC	Ordinary Capital
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
OPC	Operations Policy Committee
OVE	Office of Evaluation and Oversight
RBB	Results-Based Budget
RF	Results Framework
RMG	Risk Management Office
SG	Sovereign Guaranteed
SME	Small and Medium Enterprise
SPD	Office of Strategic Planning and Development Effectiveness
TC	Technical Cooperation
UNDP	United Nations Development Program
VPP	Vice Presidency for Private Sector
WB	World Bank
WEO	World Economic Outlook

I. INTRODUCTION

1.1 In the 15 years since the Inter-American Development Bank's (IDB) Eighth General Increase in Resources (IDB-8), the Latin American and Caribbean (LAC) region has made significant progress in both economic and social dimensions. Between 1994 and 2008, the LAC region grew at an average annual rate of 3.3 percent, with a cumulative growth of 57.8 percent. Per capita income increased by 1.9 percent per year, reaching an average of $4,789[1] in 2008. Over the same period, poverty rates fell from 45.7 percent to 33.2 percent.[2] As the pace of economic growth accelerated after 2003 and income distribution improved in several countries, progress in poverty reduction accelerated between 2003 and 2008 and significant --albeit partial-- progress towards the Millennium Development Goals was made.

1.2 As economies grew and poverty fell in the LAC region, democracy consolidated. Since 1994, presidential elections have been held in the region with overall turnout rates that are comparable to those of consolidated democracies, and the democratic election of authorities has spread to thousands of subnational governments.

1.3 LAC countries have been hard hit by the international financial crisis that began in 2008. However, most countries are withstanding the external shock better than in prior episodes and better than other regions of the world. For 2009, regional GDP dropped by 1.8 percent, significantly below the 3.2 percent drop experienced in OECD countries. Fiscal prudence, improved financial regulation and the development of a new generation of social programs during the prior expansion reduced the fall in economic activity as well as its social cost. Unlike prior episodes, this time several countries in the region have been able to sustain the level of social spending and implement effective social protection measures in response to the crisis.

1.4 Thanks to IDB-8, the Bank has played an important role in the economic and social development of the region over the last 15 years. In this period, the IDB became the largest source of development finance to LAC countries, and provided countercyclical lending in 2008 and 2009. The Bank met all its targets for lending to poverty reduction and to the less developed countries in the region, and also diversified its lending to the private sector and subnational governments. The Bank also supported knowledge and capacity building through technical cooperation and nonfinancial products that helped countries to strengthen policies and institutions, as well as to manage more prudently in times of economic expansion.

1.5 The increase in demand for IDB lending that followed the Bank's Realignment of 2007 and the international economic crisis, however, exhausted its financial capacity. The participation of the Bank in international agreements for debt relief for the poorest countries also eroded the resources of the Fund for Special Operations (FSO). Under the current circumstances, the Bank would be forced to significantly reduce approvals and disbursements from the Ordinary Capital (OC) and the FSO in 2011, driving them below pre-crisis levels for the foreseeable future.

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[1] All monetary amounts in the document are in U.S. dollars unless otherwise stated.

[2] *Social Panorama of Latin America 2009*, Economic Commission for Latin America and the Caribbean (ECLAC), 2009.

1.6 Such limitation in the financial capacity of the Bank would be inconsistent with the needs for development finance in Latin America and the Caribbean over the next decade. Despite progress in stability, growth and poverty reduction, many challenges still lie ahead for the region and progress is far from consolidated. Full recovery from the crisis will still take several years; on top of the continuing needs in infrastructure, social development and financial intermediation, the LAC region faces emerging challenges related to equity of opportunities, social protection, decentralization, productive innovation, regional integration, carbon emissions, natural disaster protection and food security, among others.

1.7 Foreseeing these challenges, in March 2009 the Board of Governors of the IDB called for Management to initiate a review of the need for a General Capital Increase (GCI) of the OC and replenishment of the FSO. This review involved Management, the Board of Executive Directors, the Office of Evaluation and Oversight (OVE) and the Committee of the Board of Governors for more than a year. To guide the discussions, many studies and reports have been prepared, and a broad consultation with civil society and a survey of stakeholders have been carried out (see technical archives).

1.8 The outcome of this work is not only proposals to increase the financial capacity of the IDB, but also a new Institutional Strategy and an agenda to improve efficiency, transparency and governance at the Bank. In these proposals, proper attention has been given to the overarching objectives of reducing poverty and inequality, and fostering sustainable growth, as well as to providing preferential support to the less developed countries in the region and to promoting development through the private sector. The proposed aim of a capital increase is not only to make the Bank bigger, but, above all, to make it better. The Results Framework (RF) and the Agenda for a Better Bank raise accountability to unprecedented levels and should put the IDB in the lead of multilateral institutions in this dimension.

1.9 This document, the Report on the Ninth General Increase in Resources of the Inter-American Development Bank (IDB-9), reflects the agreements reached by the Governors in their deliberations on the Bank’s capital needs and strategic priorities, as set out in the Cancún Declaration (AB-2728) and its Overview Framework. The Overview Framework presents the time-bound agenda of institutional reforms agreed by the Board of Governors as part of the Bank’s increase in resources. This document includes a review of those elements of the framework already implemented, and specific measures to be taken to complete all elements of the agenda in the timeframe established by the Board of Governors.

1.10 The Report for IDB-9 is divided into six sections that cover (i) the situation of the LAC region at the time of IDB-9 discussions and the Bank’s capacity to address development needs; (ii) the Bank’s Institutional Strategy for IDB-9, including instruments for measuring results and ensuring accountability in the use of the new resources available due to the increased capital base; (iii) the Agenda for a Better Bank; (iv) the financial parameters for the increase of both the OC and the FSO; (v) the regulations for IDB-9; and (vi) recommended actions for the implementation of IDB-9.

II. The Region and the Bank since IDB-8

2.1 Under IDB-8, the Bank has become the largest source of development finance in the LAC region: it currently provides borrowing member countries close to 50 percent of their multilateral financing. Between 1994 and 2008, the Bank financed 1,230 loans for a total $108.6 billion. In this period, the Bank also actively participated in the Highly Indebted Poor Countries (HIPC) debt relief initiative and the Multilateral Debt Relief Initiative (MDRI) for the five FSO borrowers and expanded its window for lending to the private sector without a sovereign guarantee. Since 2007, lending to the region has increased sharply, reaching record levels in 2009 as the Bank has mobilized all its resources in response to the region's needs in the face of the international financial crisis.

2.2 IDB-8 included two specific lending mandates (i) the concentration of loans on poverty reduction and social equity, and (ii) particular attention to the poorest LAC countries.[3] Both mandates were complied with. Between 1994 and 2008, the cumulative amount of sovereign guaranteed (SG) lending for poverty reduction and social equity projects was 50.4 percent of SG total lending (against a target of 40 percent) and SG lending to Group II countries was 36.8 percent of total SG lending (against a target of 35 percent). Thanks to the increase in resources and renewed mandates in 1994, the Bank has made significant contributions to the region's progress in the economic, social and institutional dimensions reported above.

2.3 Despite the progress achieved over the last 15 years, LAC countries continue to face major challenges. The most immediate one is to recover from the effects of the current international financial crisis. While some countries have been able to weather it better than previous crisis, this is still one of the largest systemic shocks that the region has faced in over half a century, with a strong impact on finance, trade, economic activity, employment and fiscal balances. Beyond the current phase of the business cycle, LAC countries still need to address other long-term structural problems. Growth in the region has lagged that of other emerging regions, mostly due to a substantial productivity gap.

2.4 Although there has been recent progress in some of the countries, the LAC region is still the region in the world with the most unequal income distribution, which creates obstacles to faster growth, more sustainable poverty reduction and greater social inclusion. Social exclusion affects disproportionately major segments of the population that have been historically under-represented—such as women and indigenous groups—and institutions are not strong enough to counterbalance the unequal distribution of power and influence. The region's integration into the world economy is uneven and its trade performance is lackluster when compared with those of developing countries in Asia and the Pacific.

2.5 As the IDB's mission is to support the efforts of LAC countries to develop over time, these are challenges for the Bank as well. But, as a financial institution and a development organization, the Bank also faces challenges of its own. In the review of the Bank's performance under IDB-8 (RE-354), OVE identified a number of shortcomings

[3] Initially, IDB-8 had an indicative goal of 35 percent of total lending that was to be directed to Group C and D countries, the smallest countries in the region. In 1998, the governors changed the parameter to one based on per capita income and the poorest countries in the region were defined as Group II.

that hindered the effectiveness of its interventions. These include ambiguous corporate mandates, insufficient analytical work to sustain the design of operations, an "inward focus" on internal organization and procedures that tended to compromise country focus, and weakness in the results framework of projects. While some of these issues have been addressed by the 2007 realignment, others remain part of an evolving corporate agenda.

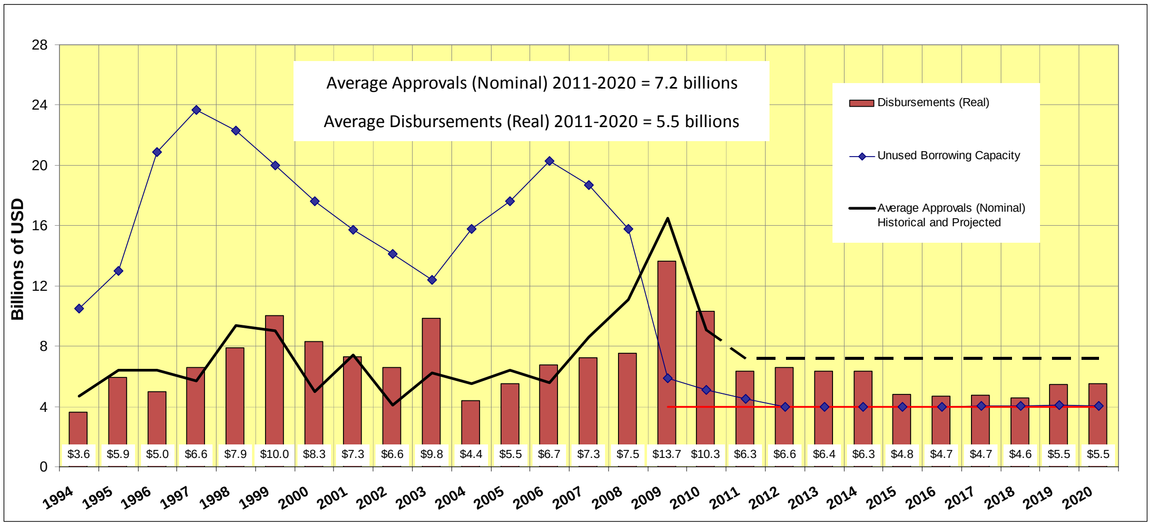
2.6 The Bank's ability to effectively face development challenges in LAC is now severely constrained by its financial capacity. Despite the Eighth GCI, over the last 15 years the Bank's financial capacity has decreased compared to the region's financing needs. The real lending program that the Bank can support is nearly half its value in 1995. The Bank's current disbursements relative to the average gross public and private capital formation in the region have fallen even further. Resources available for concessional lending have also decreased substantially between 1994 and 2008. The decrease is more marked after implementation of the debt relief initiatives and, if no measures are taken, will continue until the FSO is depleted.

2.7 Between 2008 and the first half of 2009, the Board of Executive Directors—and in some cases the Board of Governors—approved a number of measures to provide a short-term response to the increased demand coming from countries in the wake of the financial crisis. These included frontloading the lending program, creating a liquidity line for growth sustainability, removing the lending limit on top of the statutory borrowing limit, allowing a temporary increase in the Callable Capital of Canada, transferring lending authority from the emergency program to the regular program, providing supplementary allocations to the four FSO borrowing countries (Bolivia, Guyana, Honduras and Nicaragua) and increasing the allocation to the IDB Grant Facility (GF) to provide more resources to Haiti.[4]

2.8 In all, thanks to these measures, disbursements increased to record levels in 2009 and can remain at high levels in 2010, but they have also created a serious financial shortfall for the years thereafter. According to the projections prepared by Management, the maximum disbursement capacity, based on the Bank's current OC for 2011 to 2020 and the recently approved short-term measures, has been reduced to approximately $5.5 billion annually, with a maximum level of annual approvals of $7 billion (Figure 1). These levels would imply not only a real reduction of 25 percent in real disbursements compared to the 1994–2010 average, but also negative net flows to the region.

[4] For more detail on these measures see: *Liquidity Program for Growth and Sustainability.* AB-2633
Fund for Special Operations: Options for Providing Additional Resources to D2 Countries in 2009–2010. AB-2703
Increase of US$4 billion in the Authorized Ordinary Capital Stock and Subscription by Canada. AB-2702

Figure 1. Approvals, Disbursements and Unused Borrowing Capacity
(Historical and Projected at Current Capital Levels)



2.9 The main risk now is that the Bank may be forced to reduce its lending to the LAC region when recovery from the international financial crisis is still well under way and development is not only far from consolidated but as new challenges are emerging from global processes. This risk is especially acute for less developed countries in the region that may be faced with additional risks in the areas of food security and natural disasters.

III. INSTITUTIONAL STRATEGY FOR IDB-9

A. Framework of a New Institutional Strategy

3.1 Increased financial capacity is a necessary condition for the IDB to support the continued social and economic development of the LAC region. However, to make effective use of additional resources, a new institutional strategy must be put into place. This strategy should include a clear vision of the Bank's priorities and how to meet them, as well as the identification of, and plans to build upon, its comparative advantages.

1. Comparative Advantages

3.2 The IDB must leverage its comparative advantages to increase the effectiveness of its interventions and to develop business lines in key areas for ensuring sustainable development in the region. Comparative advantages may spur from the structural features of an organization, from its trajectory and experiences and/or from changing conditions in its environment. The main structural advantage of the IDB is its nature as a cooperative where regional borrowing members hold a majority of the voting power. Over time, this has consolidated the Bank's role as a trusted partner that is driven, first and foremost, by the development needs and aspirations of its constituents. Emerging LAC countries already have a "voice" at the Bank; this representation has been built into its structure since its very inception.

3.3 On top of these intrinsic features, the Bank has acquired comparative advantages that include (a) a strong country focus, (b) coordination of public and private sector operations, (c) diversification of financial and nonfinancial products that allow the Bank to be more responsive to country needs and more consistent in its support for development over time, and (d) the knowledge and capacity to support regional trade and integration. Table III-1 presents a view of the performance of other sources of development finance in the Bank's areas of comparative advantages, based on their respective institutional mandates and tools. Such advantages are central to the Bank's new institutional strategy and are reflected in the sector priorities identified below, as well as in the Agenda for a Better Bank in Chapter IV.

Table III-1. Performance of other sources of development finance in areas of IDB comparative advantages

	IMF	WB	Subregional IFI's	Specialized Development Agencies, Bilaterals	Private Financial Capital Markets
Country Focus	SOME[5]	YES	YES	YES	SOME[6]
Development Expertise	NO	YES	YES	YES	NO
Development through Public and Private Sector	NO	YES	SOME[7]	SOME[8]	NO
Financial & Non-Financial Products	YES	YES	SOME[9]	SOME[10]	NO
Regional Development & Integration	NO	SOME[11]	YES	SOME[12]	NO
Regional Ownership	NO	NO	YES	NO	NO

3.4 This view is supplemented by feedback obtained through the public consultation process conducted by the Bank in preparation for IDB-9 through workshops with civil society and a survey of stakeholders, which are both summarized in the technical archives of this report. In particular, the survey of stakeholders –including civil society, government officials and opinion leaders—indicated that the IDB is recognized by its knowledge of

[5] The IMF defines its agreements with each individual country; however, it does not have substantial in-country presence and the design of its programs is based mostly on quantitative benchmarks rather than specific country conditions.
[6] Financial conditions for access to private markets are affected by country conditions
[7] CAF lends for development through the public and private sectors, while other regional development agencies do not or do so on a very limited basis.
[8] Some specialized agencies and bilaterals channel support through private sector entities like cooperatives or associations.
[9] Subregional IFIs complement their financial products with a limited offering of non-financial products or analytical services
[10] Specialized agencies provide mostly non financial products, while some bilaterals also provide financing
[11] The WB provides some regional TA but not to the extent that the IDB does.
[12] For example, the UN ECLAC Trade and Integration Division.

the countries it serves and its capacity to respond to their specific needs, by its presence in the field and by its institutional commitment to the region´s development. The survey also indicated a marked preference for the IDB as a source of development finance in a number of dimensions with the sole exception of emergency financing at the time of crisis, where the IMF is preferred. The three groups consulted in the survey particularly coincided in prioritizing the IDB as a source of financing for (i) preserving the continuity of reforms and protecting investment in key development areas; (ii) generating specialized knowledge about the countries in the region, and (iii) disseminating good practices.

2. Overarching Objectives and Strategic Goals

3.5 The Agreement Establishing the Inter-American Development Bank defines its purpose as "*to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively*." This mission maintains its full relevance today.

3.6 For the years to come, development in the LAC region will have two key components: reducing poverty and inequality, and achieving sustainable growth. These two centerpieces of LAC development should be at the core of the Bank's efforts to mobilize resources aimed at fulfilling its corporate mission over the next decade. These are identified as the Bank's overarching objectives under the new institutional strategy.

3.7 *Reducing poverty and inequality* is important not only because of the unacceptable degree of inequality in the region, but because there is growing evidence that inequality across a broad range of areas hampers economic and social development. High levels of inequality in terms of access to good jobs, credit and institutions in charge of enforcing the rule of law lead to forgone economic opportunities, even in countries that have high economic potential. Unequal access to education, health services and housing reproduce structural conditions that are determinants of social exclusion.

3.8 *Sustainable growth* in the LAC region requires that the countries broaden their economic base, including through the promotion of regional integration beyond the traditional trade agenda, to improve the living standards of their citizens, while remaining committed to confront one of the largest challenges of this century: achieving global environmental sustainability and dealing with climate change at the same time that energy requirements for development are met.

3.9 Alongside these overarching objectives, the Bank should also focus on two strategic goals that build on the Bank's comparative advantages and are essential to achieve its corporate mission: *address the special needs of the less developed and smaller countries* and *foster development through the private sector*.

3.10 To pursue equity and sustainable development in the LAC region as a whole, it is essential *to address the needs of the less developed and small countries*. Just as the countries in the region lag behind those of the developed world and the most dynamic emerging countries in several dimensions, there are also significant intra-regional development gaps. Countries such as Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay have a per capita GDP that is only a quarter of the regional average, and their poverty rates are nearly twice as high as the average for the region as a whole. These gaps are reflected in most indicators of social welfare and access to services. It has been, and will continue to be, a priority for the Bank to support the efforts of these countries to accelerate their pace of development.

3.11 *Development through the private sector*, in turn, is essential for robust and sustainable growth. Since the private sector creates on average nearly 90 percent of all the jobs in the LAC countries,[13] increasing support for the private sector, especially for SMEs, can be a very effective tool to speed up the region's lagging growth, create more jobs, and improve the lives of the poor.

3. Operationalizing the Institutional Strategy

3.12 In order to make the institutional strategy operative, comparative advantages, overarching objectives and strategic goals should be translated into priorities, goals, policies and performance measures. In the remainder of this chapter, the institutional strategy is broken down into (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.

B. Sector Priorities

3.13 The overarching objectives of reducing poverty and inequality and promoting sustainable growth can be broken down into five sector priorities for the Bank.

3.14 ***(a) Social policy for equity and productivity***. In order to achieve sustainable reduction in poverty and inequality, LAC countries need a new generation of social programs that foster equality of opportunities regardless of labor status, race, ethnicity or gender. The focus needs to be placed on increasing the quality and relevance of education, improving health outcomes, protecting households against risks, and redistributing income effectively while fostering increases in labor productivity. The LAC region needs social programs to enhance labor market performance, as indicated by the capacity to create jobs with higher wages and social security coverage. Areas of Bank's strategic engagement with the region include: (i) building well-articulated safety nets, (ii) improving the functioning of labor markets for higher productivity and increased social security coverage, (iii) raising the quality and equity of education, (iv) promoting equity in health outcomes, and (v) tackling cross-cutting gender and diversity issues.

3.15 (***b) Infrastructure for competitiveness and social welfare.*** The region needs to step up investments in productive infrastructure to close the gap with other emerging markets and ensure sustainable growth. Transportation is critical, given the large positive externalities associated with low transport costs and the importance of dense networks for balanced regional development and for breaking geographical isolation for entire communities. Furthermore, access to sustainable sources of energy and low-cost telecommunications contributes to raise labor and capital productivity and directly benefits households. Competitive firms can create and sustain jobs with higher labor productivity, but these

[13] Estimate based on data for 2008 or latest year available as reported in *Social Panorama of Latin America 2009*, Table 17 Statistical Annex, Economic Commission for Latin America and the Caribbean (ECLAC).

firms need basic infrastructure to enhance their competitiveness in a globalized world. Investment in infrastructure is also critical to raise basic households' welfare along critical dimensions, such as providing access to water and sanitation.

3.16 ***(c) Institutions for growth and social welfare.*** The presence of strong and effective institutions is a determining factor of a country's development. There is ample evidence that countries that have benefited the most from economic reforms are those that have advanced the furthest in implementing successful institutional reforms. Successful decentralization in the delivery of social services requires the existence of subnational institutions that operate under a framework of transparency and accountability. Effective regulatory capabilities are indispensable for the development of credit and financial markets which have a direct effect on the emergence of strong private sector institutions. Equally important is the introduction of effective and socially balanced tax systems. Furthermore, the role of well-functioning institutions responsible for citizens' security plays a critical role for democracy and social welfare.

3.17 ***(d) Competitive regional and global international integration***. Since the late 1980s and early 1990s, the LAC region has begun to pursue a dynamic multipolar economic integration strategy. Over the past two decades, most countries have signed and implemented multilateral and regional trade agreements or have pursued unilateral commercial liberalization. Despite considerable progress, trade performance in LAC is still lackluster compared with Organization for Economic Co-operation and Development (OECD) and Asian developing countries. Investments in areas such as the administration and harmonization of rules of origin, customs procedures, sanitary and technical standards, and upgrading trade-related institutions are needed to take full advantage of the benefits of opening markets. In addition, the Bank should expand this traditional agenda to include new issues associated with trade in services, such as technical know-how and financial flows, and it should design convergence mechanisms among existing bilateral and regional trade investment agreements.

3.18 ***(e) Protect the environment, respond to climate change, promote renewable energy, and ensure food security***. Given its weight as a source of development finance to the LAC region, the IDB must have a strong presence in environmental protection, sustainable energy, climate change and food security. The Bank can help countries better understand these phenomena, design policies necessary for the transition to a green economy and enhance the countries' institutional capacities to implement those policies. In order to do so, the IDB has been strengthening its expertise and expanding its capabilities in this sector. Local interventions to protect vulnerable populations from drastic deteriorations in their welfare will be fundamental over the next decade. To achieve reductions in carbon emissions, the LAC region should further develop the adequate institutional and regulatory frameworks to allow investments in sustainable transport, alternative fuels, renewable energy and energy efficiency. In addition, the region needs to adapt to climate change impacts in priority sectors such as water supply, agriculture and energy. It is also essential that food security be built through enhanced agricultural productivity.

3.19 Within these five priorities there are specific themes that have strategic value for the region and for the IDB over the next decade. These are areas where IDB involvement can make a substantial contribution to growth and equity, through either public or private operations. They are also areas where the IDB could leverage its comparative advantage on the basis of prior experience, good practice, innovation and ongoing investments in the development of policy-oriented knowledge. Some of the areas of emerging demand and business development for the Bank are social safety nets, early childhood care, quality of primary and secondary education, functioning of labor markets and informality, social protection systems, cross-cutting gender and diversity issues, access to water and sanitation, expanding access to financial services, improving the efficiency of tax systems, citizens' security, trade in services, food security, enhanced agricultural productivity, prevention and effective management of natural disasters and the effects of climate change.[14] These areas of emerging demand are likely to require a substantial part of the incremental resources from a new capital increase. Additional lending capacity will be crucial to deepen IDB's expertise, since accumulating a critical mass of projects is required to establish a widely recognized track record and generate cross-fertilization across projects and countries. The areas of IDB on-going involvement are mapped to new areas for development in Table III-2 below.

[14] See GN-2518-3, Chapter III for a more detailed description of the Bank's work in these specific themes.

Table III-2. The Bank's Strategic Priorities and Its Relation to Ongoing Activities and Business Development Areas

Sector priorities	On-going involvement	Development areas
1. Social policy for equity and productivity		
Safety nets for the poor	Expansion and improvement of conditional cash transfer programs; temporary employment programs	Incentive-compatible design of social safety nets; articulation with labor markets
Labor markets	Training, labor intermediation services	Design and financing of social insurance systems; expansion of social security to informal workers; functioning of labor markets and informality
Education	Expansion of coverage in preschool and secondary levels	Early childhood development; school to work transition; quality of primary and secondary education
Health	Expansion of access to basic health and nutrition services	Preventive health protocols; tackling epidemiological transition
Gender and diversity	Expansion of basic services and social safety nets to Afro-descendents and indigenous communities	Labor market outcomes for women; narrowing gaps in indigenous women's education and health outcomes; strengthening the legal framework against discrimination
2. Infrastructure for competitiveness and social welfare		
Basic services	Infrastructure investment to expand access to water and sanitation	Governance and efficiency of the water and sanitation sector; waste management
Productive infrastructure	Expansion of transport and energy infrastructure	Sustainable transport alternatives in urban areas; energy efficiency
3. Institution for growth and social welfare		
Financial services	Strengthening SME lending through second-tier vehicles	Institutions and policy reforms for improved credit markets and financial services
Fiscal efficiency and sustainability	Institutional strengthening at national and subnational levels; continued support to decentralization agenda	Tax policies and administration; public expenditure management
Citizens' security	Social rehabilitation; modernization of criminal justice	Multidimensional interventions in citizen's security; anticorruption and anti-money laundering initiatives
4. Competitive regional and global international integration		
Trade and Integration	Negotiation and implementation of trade agreements; trade facilitation and customs procedures; administration and harmonization of trade regulations; export and foreign investment promotion; regional infrastructure corridors; regional public goods	Convergence mechanisms among multiple trade agreements; trade security and logistics; regulatory frameworks for capital and labor migration; trade in services; multi-country infrastructure projects; coordination of national sovereign operations featuring cross-border externalities; large-scale regional public goods
5. Protect the environment, respond to climate change and enhance food security		
Environment and climate change	Development of institutional and regulatory frameworks to allow investments in sustainable transport, alternative fuels, renewable energy and energy efficiency	Climate change adaptation in priority sectors such as water, agriculture and energy; development and use of sustainable (including renewable) energy sources, energy efficiency technologies and practices, and carbon finance; risk management for natural disasters
Food security	Agricultural development; land tenure	Increasing food security through agricultural productivity

3.20 These five priorities are broad enough so as to reflect the needs of the Bank's borrowing members, yet narrow enough to ensure effective engagement based on comparative advantages and development of deep sector expertise. These priorities need to be complemented by strengthened cross-sector policies that address critical policy concerns that are common to more than one sector. Additionally, to be able to support the on-going dialogue with the countries and reflect the constantly evolving sector knowledge that is generated both through the Bank's work and the work of other sources in the region and beyond, the development of strategies, policies and guidelines will define the main priorities in a sector and offer guidance to staff on the design and implementation of programs and projects. The Bank will submit for consideration of the Board, prior to the first quarter of 2011, the following strategies: (a) a strategy for regional integration; (b) an integrated strategy for climate change adaptation and mitigation and for sustainable and renewable energy; (c) a strategy on social policy for equity, and productivity with a special focus on the issue of improving education; (d) a strategy for institutions for growth and social welfare with a special focus on access to financial markets, particularly for SMEs. Following the presentation of said strategies, Management will present guidelines for specific sectors. The first guidelines to be presented will be on education, sustainable energy (including renewable energy) and access to finance, particularly for SMEs.

3.21 In order to stimulate progress in the five sector priorities and to strengthen their link with the Bank's overarching objectives, the Results Framework for IDB-9 includes specific lending targets for poverty reduction and equity enhancement; climate change, renewable energy and environmental sustainability; and regional cooperation and integration.

C. Preferential Support to the Less Developed LAC Countries

3.22 IDB's support to less developed and smaller countries in the region should be reflected in sector priorities for Bank lending and in the development of special programs and products tailored to these countries' specific needs. The principle that "one size does not fit all" is especially relevant in this case. IDB loans to these countries should be targeted at building the human, institutional, and physical resources for development. The Bank will expand special programs aimed at developing the capacity to generate and execute development projects in these countries. The Bank's commitment to expand the support for these countries is reflected in the lending targets of the RF for IDB-9 (see section III F and Annex 1). The RF includes a target of 35 percent of total lending by the end of 2015 for small and vulnerable countries[15].

3.23 In order to follow through on the commitment to offer preferential support to the less developed countries, the Bank must renew its ability to lend to these countries under pricing and repayment conditions that are consistent with debt sustainability frameworks. Under IDB-9, the Bank will continue to extend concessional financing to borrowing members with acute development challenges. This group includes Haiti, in the form of grants, Bolivia, Guyana, Honduras and Nicaragua. Prior to the devastating earthquake in Haiti, management estimated effective demand for concessional resources by the five

[15] Characteristics of small and vulnerable countries are defined in Annex 1. The group consists of: Bahamas, Barbados, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad and Tobago, and Uruguay,

countries at an average of $1.1 billion annually, including $150 million for other eligible countries (Guatemala and Paraguay), between 2011 and 2020. This demand is consistent with the countries' absorptive capacity and debt sustainability analysis.

3.24 The earthquake of January 12, 2010 in Haiti has brought devastation to the hemisphere's most vulnerable country, and reiterated the importance of the Bank's continued support. Early estimates on the economic effects of the disaster refer to a range of 30-60 percent of GDP lost due to the quake. The impact has been worse in terms of lives lost and displaced, and has taken a greater toll in the center of government and commerce in Port au Prince. The Haiti earthquake is a major shock to an economy that was beginning to recover from the 2008 hurricanes and from the external shocks, with a growth of 2.9 percent in 2009. The current portfolio consists of $770 million and the 2010 pipeline is $128 million. The pipeline's redirection of financing focuses on reprioritizing works in the Bank's areas of expertise where needs were already substantial, and are likely to surpass the demand estimates done prior to the earthquake. The Bank has joined the coordinating group of agencies (UNDP, World Bank, and EC) to work on the needs assessment and has offered support to the Government of Haiti in developing a reconstruction and economic recovery strategy as well as in prioritizing and sequencing reconstruction activities.

3.25 The Bank will continue its work in partnership with the Caribbean Development Bank (CDB), particularly in order to ensure support for the International Development Agency (IDA) eligible non-IDB member countries of the Organization of Eastern Caribbean States (OECS). To this end, Management will propose a mechanism for approval by the Board of Executive Directors to provide FSO resources to the CDB for these to be on-lent to eligible OECS states at comparable rates. IDB lending of FSO resources to OECS countries through the CDB, given its small magnitude, would not undermine the Fund's capacity to cover total demand from the FSO-eligible countries through 2020.

3.26 In order to meet these objectives, IDB-9 will strengthen the Fund for Special Operations as an important tool to mobilize resources in support of the less developed countries in the LAC region. To this end, the FSO share of administrative expenses will be reduced to 3%, funding for the non-reimbursable technical cooperation will be transferred to the OC, and the transfers from FSO to the Grant Facility will be discontinued. In addition, $479 million in new contributions to the FSO will be made to provide full debt relief and additional resources to Haiti, and ensure the sustainability of the FSO until 2020. To ensure efficient use of FSO resources, the current blend of OC and FSO financing will be maintained, preserving the degree of concessionality consistent with the debt sustainability framework of each country. Governors, in accordance with the Cancún Declaration, will review the need for a new FSO replenishment before 2020.

3.27 The IDB Grant Facility (GF) that currently provides resources to Haiti will be further expanded. The $479 million in new contributions to the FSO will enable the Bank to: (i) provide 100% relief of Haiti's debt in the form of repayments due on loans from the FSO; (ii) cancel Haiti's obligation for conversion of local currency in the FSO; and (iii) provide that all undisbursed loan balances payable to Haiti from the FSO shall be payable from the GF so that such resources, when disbursed from the GF, shall be provided to Haiti on a nonreimburseable basis. For the 2010 program, an additional $72 million will be transferred from the OC income to the GF to ensure capacity to fund a $200 million program for the year. Beginning in 2011, the Bank's continued support for Haiti's reconstruction and development will include $200 million annually in transfers of OC income to the GF through 2020, subject to annual approvals of such transfers by the Board of Governors and the requirements of the Agreement Establishing the Inter-American Development Bank.

3.28 The quantum leap necessary to lift the most vulnerable LAC countries from stagnation and volatility requires a coordinated effort of the development community at large. The IDB may play a catalytic role in mobilizing international support around bold and ambitious agendas to lift these countries out of poverty. The economy of the region's poorest country, Haiti, grew slower than any other country in the region from 2000 to 2008 and the hurricanes of 2008 and devastating earthquake in 2010 have further burdened the country's economy. Without a major change in growth trends, Haiti and other less developed and slow growing economies will be left behind while the rest of the region becomes more prosperous.

D. Development through the Private Sector

3.29 The private sector can be a major agent for sustainable growth and equality of opportunities in the LAC region. However, the private sector faces many barriers that impede investment, firm expansion, job creation, and sustainable growth. Some of these barriers result from market failures that limit the ability of price mechanisms to adequately reflect economic costs and benefits, which lead to undesirable social outcomes. Similarly, policy failures can worsen outcomes when the "rules of the game" are not well established, owing to excessive bureaucracy and legal frameworks with poorly defined property rights. The lack of clear rules adds to the costs incurred by firms, making them less likely to invest and grow.

3.30 The Bank has accumulated a rich experience in private sector activities. From its very beginning, IDB has supported private sector development through operations to enhance competitiveness and access to credit with the intermediation of public bodies and under sovereign guaranteed operations. Under IDB-8, the Board of Governors agreed to launch a program of direct lending to the private sector to encourage greater private provision of infrastructure. The mandate also included an initial limitation of 5 percent of commitments within the IDB-8 lending program. In 1998, the ceiling on Private Sector Operations changed to 5 percent of outstanding loan balances (excluding emergency lending). In 2001, the ceiling on NSG loans was raised to 10 percent of the aggregate outstanding amount of loans and guarantees (excluding emergency loans). Over the last five years, the IDB has approved $13.4 billion in loans and guarantees in support of private sector development through its SG and NSG windows, representing 36.1 percent of overall Bank lending for the period, as well as technical assistance amounting to some $24.8 million.[16]

3.31 The Private Sector Development Strategy for the IDB-9, which will be submitted to the Board of Executive Directors before the end of Q4 of 2010, and which will reflect the NSG Strategy, will emphasize an integrated approach with the aim of maximizing development impact. The main thrust of this plan is to promote development through the

[16] For details on the IDB support to the private sector over the last 15 years, see GN-2518-12, of Chapter I.

private sector and not pursue private sector development per se. The NSG Strategy will be prepared by Management (VPP), before the end of Q3 of 2010 and updated within the framework of the Institutional Strategy.

3.32 The strategy takes account of the full range of activities that contribute to development through the private sector. Private Sector Operations (PSO) provide direct financial and nonfinancial support to creditworthy entities for NSG investments. Each area of the IDB group involved in the provision of PSO focuses on different core constituencies—from the base of the pyramid and microenterprises, to small- and medium-sized enterprises (SMEs), to large companies and projects in an array of sectors, to financial institutions of all sizes—, addressing different types of market failures. At the same time, public sector projects can have direct benefits for the private sector, through Private Sector Development Operations (PSDs). PSDs promote the private sector by focusing on specific market or policy failures based on the Bank's programming dialogue with its borrowing members

3.33 The strategy aims to increase the development impact of private sector activities by capitalizing on the IDB's comparative advantages in a manner consistent with its institutional goals. To this end, an integrated approach to the private sector will be applied, with the following components:

i. To enhance the development effectiveness of NSG operations, it will be necessary to align them with overall corporate priorities, identify and address market failures that justify support from the Bank and respond to the needs of less developed countries, taking into account available in-house expertise. The Bank will report on the contribution of private sector activities to the lending priorities, outcomes and outputs of the RF for IDB-9, within the analysis to be provided annually in the Development Effectiveness Overview (DEO).

ii. The Bank will seek a better coordination of its private sector operations across the different operational windows. Country strategies and country programming should fully incorporate private sector development and private sector operations.

iii. Management, through VPP, and the Board of Executive Directors will review the guidelines for NSG lending to public, municipal and semipublic (autonomous state) entities to facilitate public-private partnerships, foster joint ventures and avoid potential regulatory arbitration.

iv. The Bank will gradually move from the 10 percent statutory ceiling on NSG lending set by the Governors to prudential risk limits based on a risk management approach. On a transitional basis, until December 31, 2012, the Bank will cap NSG operations to an amount such that risk capital requirements for NSG operations will not exceed 20 percent of total Bank equity calculated in the context of the Bank's capital adequacy policy[17]. As of January 1, 2013, limitations on NSG operations different from such 20 percent shall be established by the Board of Executive Directors, subject to the Bank's NSG Strategy and capital adequacy policy. The

[17] The Bank's current approved policy for capital adequacy appears in Document FN-568-8 (CGA/10-04). The formula for calculating total Bank equity appears in paragraph 6.3 the Document.

aforementioned limitations shall supersede the limitations established by AB-2148, approved by Resolution AG-9/01 of December 12, 2001.

v. Countries will be able to decide the public-private mix that best suits their development strategies. The new prudential limits for NSG lending will be applied with flexibility at the country level while preserving consistency with the overall framework.

vi. The Bank will diversify its instruments to support development through the private sector by establishing advisory services and an expanded support to the Inter-American Investment Corporation (IIC). Advisory services may be provided under a fee-based scheme and will focus on core competencies that are consistent with the development nature of the Bank. Expanded support to the IIC will be provided through a subordinated, long-term loan of at least $500 million, aimed at strengthening the IIC's ability to finance small and medium enterprises in the region[18].

E. Complementarity and Coordination with Development Partners

3.34 Complementarity and coordination with development partners is consistent with the Bank's renewed focus on developing comparative advantages and adding value for its clients. The Bank has a comparative advantage in the support of development projects vis-à-vis providing balance of payments and liquidity support, especially after the reforms undergone by the IMF in response to the international financial crisis; similarly, it is better equipped to provide advice on the basis of experience and good practice, rather than surveillance.

3.35 The World Bank and the IDB can complement each other in generating knowledge on development issues and adapting this knowledge to local realities. This includes working jointly, especially when the scale and complexity of the projects are so large that they exceed the capabilities of any institution alone. Furthermore, there are also growing opportunities for the IDB to work with subregional financial institutions and bilateral cooperation agencies, as well as to coordinate with development partners through agreements such as the Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action of 2008.

F. Accounting for Results during IDB-9: the Bank's Results Framework

3.36 The Bank's Results Framework (RF) for IDB-9, which is modeled after lessons learned and best practices of others in t he development community, is aligned to the institutional strategy. The RF will allow shareholders to monitor the Bank's contribution to the five sector priorities and select regional development goals, as well as its progress on output indicators and operational effectiveness. The RF is an integral part of the Bank's efforts to use empirical evidence to manage for development results and is central to ensure accountability for delivering results. It covers both SG and NSG operations.

3.37 The RF contains baseline measures, which are an average of the 2006 to 2009 period, for all indicators and specific targets to be achieved by the end of the period 2012–2015

[18] Any loans or guarantees to the IIC will not count as part of risk capital requirements for NSG operations due to the related-entity nature of such operations.

under the assumption of an average annual lending program of $12 billion. The Operations Policy Committee (OPC) will review the progress on the achievement of the lending targets for IDB-9 on a quarterly basis. Progress of all the targets of the RF will be reported annually through the Development Effectiveness Overview (DEO). An evaluation will be carried out at the end of the four-year period to provide inputs for reviewing the institutional priorities put forth in this strategy. Results achieved in 2011 will also be monitored with the indicators contained in the RF. Annex 1 includes detailed definitions of the indicators, baselines and targets for the RF for IDB-9, and a detailed mapping of RF indicators to the Paris Declaration indicators.

3.38 The RF represents an important change in relation to the agreement of IDB-8. The Bank's monitoring efforts in IDB-8 focused on achieving the main mandates of two specific lending targets: one for poverty reduction and social equity (40 percent in volume and 50 percent in number of operations) and the other one for lending to the poorest countries in the region (35 percent in volume to Group II countries). No other specific indicators for reporting on results were set. The RF for IDB-9 considers what was done in IDB-8 in measuring efforts (lending targets), but goes beyond that to monitor development indicators that are the focus of these efforts. The RF includes specific indicators, baselines and targets to measure outcomes and outputs supported by the Bank, as well as performance measures on effectiveness and efficiency of the Bank's business model. The four areas of indicators of the RF are detailed below.

3.39 **(a) Lending program priorities** are an expression of the Bank's highest priorities and mandates. Lending targets, expressed as a percentage of total lending (SG and NSG), are for the end of 2015, and include (i) small and vulnerable countries; (ii) poverty reduction and equity enhancement; (iii) climate change, sustainable (including renewable) energy, and environmental sustainability; and (iv) regional cooperation and integration. Each of the lending categories has a series of rules under which loans qualify to be included and are not mutually exclusive. At all times, the pursuit of the lending volume targets are subject to risk assessment and prudency of debt constraints, particularly for small and vulnerable countries.

3.40 **(b) Regional development goals** will provide data on development challenges in the LAC region by tracking the progress on key development indicators in the five institutional priorities defined in Chapter III of this report. These indicators provide a picture of the key development challenges for the region and demonstrate where gaps have been identified. Regional development goals provide information on the longer-term development progress that cannot be solely attributed to the Bank's interventions given that, in some instances, the IDB has a relatively small contribution to the attainment of the goal or that there are other causal factors affecting the goal that creates difficulty in establishing attribution.

3.41 **(c) Output contributions to regional goals** identify indicators to monitor the direct contribution of the Bank's interventions towards achieving regional development goals and promote accountability of the use of the Bank's resources. Outputs are direct products and services that result from the completion of a project's activities. Each output indicator has a link to the regional development goals in the same institutional priority area. However, links should not be considered exclusive, as there are some outputs that also contribute to goals in other priority areas. The indicators selected represent a large share of the Bank's financial interventions, but are not exhaustive of the outputs produced by the Bank. The indicators are disaggregated by gender, Indigenous and Afro-descendants where pertinent.

3.42 **(d) Operational effectiveness and efficiency** comprises three sets of indicators: (i) effectiveness indicators, which are based on the DEF and aim to measure progress on setting clear standards and metrics for the evaluation of all of the Bank's development interventions, progress on Knowledge and Capacity Building Products (KCP), client satisfaction through the External Feedback System, and advancement on the targets established for the five principles of the Paris Declaration; (ii) efficiency indicators, that monitor the Bank's commitment to lower transaction costs for project preparation and implementation, reduce documentation requirements and decentralize decision making to country offices; and (iii) human resources, aimed at increasing gender equality and the number of professional staff based in country offices as a way to the increase technical capacity and allow the Bank to better respond to country needs.

3.43 ***Establishing a Results Based Budget Framework aligned to the RF***. The RF is the basis for an effective Results Based Budget (RBB) framework of the Bank. It establishes the priorities for budget planning and execution and the metrics under which to monitor the link between resources and outcomes. Management and the Board can monitor, on an ongoing basis, the flow of resources within the Bank and the effectiveness of their use in achieving the agreed results. Milestones, aligned with the RF will be established in the various units' business plans and their achievement will be monitored and subject to the Bank's performance evaluations.

IV. AGENDA FOR A BETTER BANK

4.1 The substantial increase in lending among borrowing member countries after the realignment of 2007 indicates that demand is highly sensitive to a more responsive and efficient Bank. An expansion in lending would give greater impetus to changes that improve effectiveness in fulfilling the Bank's mission of fostering development in the LAC region, and these changes are also required for the IDB to play a greater role in responding to these demands.

4.2 The Agenda for a Better Bank reflects the key commitments of the institution towards its shareholders. The agenda describes the actions necessary to maximize the effectiveness and impact of IDB's interventions in the context of the GCI and focuses on Management's functions and operations.[19] A sizable part of the agenda is not new. Some initiatives have been implemented over the last several years, while Management and the Board of Executive Directors are still working on others. Some, however, are new and will be developed into specific proposals by Management and the Board of Executive Directors, according to the work plan agreed with the Board of Governors and the Board of Executive Directors (see section C of this chapter).

4.3 The Agenda encompasses two main areas. The first includes improvements in what the Bank does by providing innovative products, services and modalities of engaging with

[19] The Executive Directors or the Board of Governors may originate further corporate governance reforms that affect the operation of the Board of Executive Directors and OVE.

clients with the objective of increasing development effectiveness. It supports the integration of the Bank's financial resources with the knowledge needed to design and implement successful policies and projects, financial and nonfinancial products and services and different modalities of engagement with a diverse client-base. The second addresses initiatives to improve how the Bank works with the objective of strengthening the institution's capacities to successfully handle a capital increase, including adjustments to its management model to increase efficiency and accountability and ensure the highest ethical and risk management standards, building on the organizational model set forth in the 2007 realignment.

A. What the Bank Does

4.4 In order for the Bank to be an effective development institution, it must integrate, in a flexible manner, its financial resources, the knowledge needed to design and implement successful policies and projects, a variety of financial and nonfinancial products and services and different modalities of engagement with a client base that tends to be more diverse. What the Bank does is framed by internationally adopted standards and declarations that the Bank has subscribed and adopted. Additionally, the Bank has systematically benchmarked best practices of other MDBs in developing these proposals.

4.5 *Development Effectiveness Framework*. The DEF (GN-2489), a policy that pairs a set of tools for learning and accountability for results with an effort to build up evaluation capacity, is the centerpiece to improve what the Bank does. Accountability requires aligning incentives for development effectiveness through metrics within the proposed RF (Annex 1) and revamping monitoring and evaluation instruments to focus on delivery of outputs and outcomes, on the sustainability of results, and on evaluating what works. To enhance evaluation capacity, the Bank will increase its support in the design of rigorous evaluations, the implementation of impact evaluations of key programs, and increased evaluation capacity in the region through training and seminars for practitioners and policymakers.

4.6 The progress in development effectiveness will be reported annually through the Development Effectiveness Overview (DEO), which will be disclosed publicly. Among the analyses that are to be included in every DEO are: project-level evaluability at approval, compliance with institutional priorities, ERR (or if ERR cannot be calculated, cost-benefit and other calculations for projects approved that year will be applied), and ex-post impact evaluations for any projects evaluated in that year, including for NSG projects. Additionally, the DEO will consider how to incorporate into the design and implementation of operations those OVE recommendations endorsed by the Board of Executive Directors to improve loan quality.

4.7 Governors endorse a further strengthening of the Operations Policy Committee (OPC) and the programming process, by the President of the Bank and Senior Management, to ensure that projects meet minimum evaluability thresholds. In this respect, Management will amend operational procedures, by end of Q3 of 2010, according to the following criteria: (i) all SG and NSG projects must be rated for evaluability; (ii) the evaluability score includes only the dimensions of evaluability of the DEM; (iii) SPD will support teams in meeting evaluability standards from project profile to project proposal, and will validate the final evaluability score for OPC consideration: RES will review the existing methodologies for scoring evaluability to determine any required improvements; OVE will report annually to the Board of Executive Directors on project evaluability (ex-ante), as well as validate achieved results in completed projects (ex-post): (iv) a minimum evaluability threshold of 5 will be required for all operations to be submitted to the Board of Executive Directors; (v) in cases of extraordinary humanitarian or financial crisis (acute payment pressures), and upon the presentation of a properly justified request by the President, the Board of Executive Directors may waive the required threshold prior to approving an operation, so long as the request is accompanied by a timetable giving the shortest possible time period, not to exceed 90 days, for achieving the said threshold.

4.8 *Assessments of Macroeconomic Sustainability.* Unsustainable macroeconomic conditions will be understood to exist in a country when, whatever their cause, there is a strong likelihood that within the next two years it will experience events such as: (a) inability to fulfill internal or external public debt obligations, (b) shortage of foreign exchange for the normal functioning of external trade, financial, or capital operations, (c) need to rescue financial institutions that threaten fiscal sustainability or the functioning of the payment system; (d) price increases that lead to prolonged and destabilizing inflationary processes. The sustainability analysis, carried out independently by the Bank under the responsibility of the Chief Economist and the Research Department, will be based on objective standard measures and criteria in accordance with the norms and the practices of multilateral lending institutions. When a recent International Monetary Fund report or evaluation is available, it will be taken into account. Terms of access to international financial markets and indicators of international liquidity and fiscal and external sustainability of standard use in the profession will also be taken into account. The macroeconomic sustainability analysis will be performed in the context of the financial programming exercise with the country at least once a year, as one of the prerequisites, among others, for maintaining the Bank's aggregate exposure with the country including both sovereign and non sovereign operations.

4.9 *Operational Instruments.* The Bank’s operational instruments need to effectively support development purposes and reflect changing country needs and context. Over the last years the Bank has created an array of operational instruments that have focused more on administrative processes than on supporting development outcomes. While the current lending categories of policy-based and investment loans will be maintained, a review of existing instruments will consider simplifying the menu of instruments and updating administrative policies to emphasize development results, and tailoring instruments to specific needs. The Bank’s annual programming document will reflect the alignment of the project pipeline with the Country Strategy that provides the development framework, including the macro-fiscal framework, for the country.

4.10 *Knowledge and Capacity Building Products.* To ensure a relevant mix of products, the Bank is improving its framework to deliver nonfinancial value-added products. The platform for KCPs will strengthen these products as a component of the Bank’s core business and to adapt their funding strategy, operational and accountability arrangements. Additionally, a Fee-based Services (FBS) funding option to tap the unexplored potential for substantial cost recovery has been proposed. FBS will require that the Bank effectively match the demand from clients with the supply of high-quality, fast-turnaround, highly relevant products. In parallel, the Bank will continue to enhance its role as a conduit of external, untied, multidonor funds to finance nonreimbursable Technical Cooperations (TCs).

4.11 *Environmental and Social Sustainability.* The Bank continues to expand its focus on environmental and social sustainability directed to sustaining the underpinnings of development, ensuring accountability and transparency, and continuously working towards strengthening its safeguard system. The recently established Independent Advisory Group on Sustainability will provide an independent review and make recommendations to: (i) increase the effectiveness of the Environment and Safeguard Compliance Policy approved in 2006, (ii) updates to the policy; (iii) how the Bank can continue to provide leadership on emerging sustainability issues in the Region. The final report of the IAG will be formally presented to the President and the Board of Executive Directors in October of 2010.Subsequently, Management will present and the Board of Executive Directors will approve by the end of the first quarter of 2011, an action plan with a revised set of environmental and social safeguards fully consistent with the recommendations of the IAG.

4.12 *Additionally, a draft Profile Operational Policy on Gender has undergone a public* consultation process, and with those inputs an Operational Policy on Gender will be developed which, once adopted, will make the Bank the first MDB to apply gender-based safeguards to its interventions. At the same time, the Bank has sought to improve its accountability framework on environmental and social safeguards through a new Independent Consultation and Investigation Mechanism (ICIM). The proposal for the ICIM underwent a far-reaching public consultation. Management will support the Board of Directors to implement the ICIM by Q2 of 2010. Implementation implies completing the staffing and institutional arrangements necessary to start processing requests before the ICIM. Once the ICIM becomes effective, the phasing in of all operational policies contemplated in the approved ICIM policy will commence. The recent endorsement of the Extractive Industries Transparency Initiative (EITI), which advocates for transparency and accountability in contracts and payments in extractive industries through the adoption of voluntary standards, is also part of the Bank's agenda for strengthening its accountability framework.

B. How the Bank Works

4.13 The second part of the Agenda complements what the Bank does with improvements in how the Bank works. The capital increase presents both a challenge and an opportunity for the Bank to make a qualitative leap forward on how it conducts its business. The actions in this area complement, and build upon, the achievements of other recent initiatives. Their objective is two-fold: (i) address ways to optimize financial and human resources; and (ii) ensure that rules and practices of the institution abide by the highest standards of accountability, prudency and integrity.

4.14 *Initiatives for better strategic and resource management.* To ensure that the Bank is able to make the best possible use of its resources, Management proposes a combination of initiatives.

4.15 **(a) Institutional strategy update**. To have clear strategic guidance, the institutional strategy contained in this document will be the Bank's core strategic guidance document. Every four (4) years, the Board of Governors will review and evaluate the execution of the GCI through updates to the strategy and its RF in the context of emerging challenges and changes in the LAC region.

4.16 **(b) Lending program**. The four-year review cycle of the institutional strategy will be supplemented by a lending program, which will be re-evaluated each year and based on management's estimates of development needs and availability of Bank financial resources over the period. The lending program, will be based on the Bank's dialogue and programming process with its borrowing members. As such, the Country Strategies and their updates will be the key documents to ensure that the Bank's priorities are aligned to country needs and to determine the extent and scope of the demand for Bank services, both financial and nonfinancial.

4.17 **(c) Income management model.** The Bank's income management model allocates income according to the following criteria: (i) minimum annual transfers of $200 million to the grant facility for Haiti; (ii) a capital accumulation rule that preserves the financial soundness of the bank: (iii) loan charges set as to cover administrative expenses, consistent with the Bank's multiyear budget; (iv) parameters of the Capital Adequacy Policy; (v) FSO administrative expenses fixed at 3 percent; (vi) non-reimbursable TC fully funded by OC; and (vii) pricing and expenses will be adjusted to meet these constraints. Based on the Income Management Model (attached as Annex 2), Management will prepare a document for consideration by the Board of Executive Directors proposing the annual allocation for the following year, based on medium-term financial projections. The implementation of the IMM will be reviewed by OVE as part of the evaluation mentioned in paragraph 4.27. As informed by that review, the Board of Executive Directors may make recommendations to the Board of Governors on technical adjustments to the IMM concerning: a) the percentage of administrative expenses to be covered by loan charges; b) the portion of NSG income to be used to offset SG loan charges; and, c) the calibration of the operational band. The constraints set forth in the Cancun Declaration shall be fully preserved**.**

4.18 **(d) Results-based budget**. The Bank will transition to a comprehensive Results-Based Budgeting (RBB) strategy and methodology that: (a) assigns resources to achieve the key performance targets of the RF; (b) measures costs of achieving these results; (c) adapts budget classifications to link resources and outcomes clearly; (d) adjusts budget procedures to ensure that results are considered in a timely manner in the decision-making process; (e) assigns institutional responsibility for resource usage and the delivery of results; (f) modifies Bank information systems to capture and monitor results-based budget allocation and execution; and (g) reports to the Board regularly on results achieved, resources utilized and the percent distribution of the administrative budget between Bank operational and support programs. In this process, Management will draw from international best practices in RBB implementation. Management will present the initial application of the RBB methodology in the 2011 Program and Budget Proposal scheduled for Board submission in October of 2010.

4.19 *Build up and use country systems*. As the Bank focuses on the impact of its interventions and in allocating resources more effectively, alignment with the countries' capacities to implement development programs will provide greater country ownership of the development process, as well as greater effectiveness and efficiency. In this regard, the Bank's framework to improve and use country systems sets clear standards that allow for greater reliance on these systems in programs financed with Bank resources. The Bank's prior review of a country system will allow it to become the normal channel to deliver resources for development purposes. The Board of Executive Directors will receive this review for their validation of the compliance of the system with international standards.

4.20 The strategy for country systems is complemented by the Bank's new fiduciary supervision model that focuses on managing risks. The model establishes a set of principles for the performance of the following fiduciary functions: (i) support and strengthen alignment with country fiduciary systems, (ii) increase effectiveness and efficiency, (iii) manage fiduciary oversight with the objective of achieving development results, (iv) reduce transaction costs, and (v) provide value-added services in implementing fiduciary supervision to the benefit of the Bank's clients.

4.21 *Efficient delivery of services.* To ensure that the Bank provides effective services, information is essential. With this aim, a comprehensive assessment of information technology (IT) capabilities and adequacy was conducted between 2008 and 2009, leading to the creation of Program Optima. Its centerpiece is the implementation of an Enterprise Resource Planning Solution that provides integrated support to the operational business and corporate processes of the IDB and its clients.

4.22 *Human resource development.* The Bank's human resources are key elements in addressing the LAC region's needs. After the 2007 realignment, IDB human resources experienced a visible structural change, leading to greater technical specialization, more operational staff in the country offices and the private sector and a renewal of the Bank's supervisory positions through competitive processes. This new staff architecture has already accommodated a substantial operational growth since 2007. This structure should be able to address the increased operational demands that come with a capital increase, although it will be necessary to revisit issues of staffing and headcount. A number of new and on-going initiatives to attract, retain and reward talent will ensure continued capacity to respond to client demands. These actions include a results-based performance framework for staff, aligning talent to business priorities, a reform to the process to contract consultants, continued capacity building in country offices, and continued promotion of diversity in the Bank's human resources—including a Gender and Minority Equality Framework to accomplish a better representation of women and minority groups across professional and leadership levels. Meritocracy and transparency will be the guiding principles in filling all Bank positions.

4.23 *Information disclosure.* The Bank has reviewed its Information Disclosure Policy in light of recent innovations and best practices by other MDBs. In accordance with the Cancun Declaration, the Board of Executive Directors has approved a new information disclosure policy that includes the following elements: (i) presumption in favor of disclosure; (ii) the replacement of a "positive list" of disclosed policies with a limited "negative list"; (iii) release of Board/Committee minutes, with the exception of those related to confidential matters; (iv) independent appeals mechanism; (v) voluntary disclosure of Executive Directors' statements; and (vi) disclosure of project-level results.

4.24 *Combating fraud and corruption.* To ensure that the Bank maintains its leadership position on the issue of combating fraud and corruption, an independent external review of the Bank's capacity and mechanisms to detect fraud and corruption was conducted in

2008, leading to three key recommendations. First, to improve the capacity to ensure that Bank-financed activities are free of fraud and corruption, a series of modifications have focused on the functions of the various bodies charged with oversight, sanctions and investigation. Second, strategic plans for effective treatment of fraud and corruption have been developed to support anticorruption and transparency efforts in the region. Third, a series of reforms related to integrity standards for Bank staff have been implemented, including creating the Ethics Office, a new Code of Ethics and Professional Conduct, Bank-wide training on ethics and the implementation of the financial disclosure system for potential conflicts of interest. Also, the Board of Executive Directors approved a new Board Code of Conduct that includes regulations for a new Board Conduct Committee and a new financial disclosure system for potential conflicts of interest for Executive Directors.

4.25 *Risk management.* The Bank undertakes its operations and support activities within a framework of prudent financial and risk management processes. It promotes a risk awareness culture and it is building its risk management practice. The Bank's risk management oversight approach enables the Office of the President to focus on risk exposures consistent with the Bank's institutional strategy. The Board and Management are reviewing the possible risks facing the Bank and the current measures to monitor and mitigate them in order to identify possible gaps and inconsistency, if any. Based on that review, further adjustments to the risk management framework, including the organizational aspects and consideration of the IIC and the MIF, will be defined. Other initiatives proposed here aim to ensure effective risk management through an integrated approach to governance, policies and strategies and capabilities and systems. Regarding governance, the 2007 Realignment assured the independence of the risk management function by creating the Risk Management Office (RMG) reporting directly to the Executive Vice President and the President. Proposed changes include strengthening the Board's oversight function with respect to financial matters and adjusting the terms of reference of the Asset and Liability Committee (ALCO) of Management to improve effectiveness and adapt to fast changing market conditions. Regarding policies and strategies, Management has been overhauling the risk management framework to (i) upgrade and further align Bank practices to modern financial industry standards; (ii) update and streamline the asset and liability management framework; and (iii) review and adjust the investment strategy and liquidity policy which has led to proposals for changes to the investment authority. To improve the Bank's analytic capacities and systems for risk management three initiatives have been completed or are underway: (i) a new Credit Risk Classification System (CRCS) for the NSG portfolio to improve the quality of the Bank's credit risk assessment has been approved; (ii) the new Integrated Capital Adequacy Policy and Portfolio Analytics system, that includes a new capital adequacy model, a portfolio analytics element, financial forecasting and an asset and liability management component; and (iii) an operational risk framework to improve coordination of the management of operational risks at the level of business unit is currently being reviewed by Management for approval.

4.26 The new Capital Adequacy Policy (FN-568-8) was approved by the Board of Executive Directors on February 17, 2010. The policy defines the amount of capital necessary to maintain the Bank's AAA credit rating while being able to sustain lending during downturns. This mandate is translated into capital requirements for the different kinds of risk the Bank encounters in its operations. The policy includes assessments for market and credit risk in both the Bank's lending and treasury operations, as well as operational risk. Capital requirements for credit risk are determined at a level that ensures the Bank's ability to sustain extended delay of payments during non-accrual events of sovereign borrowers and defaults of non-sovereign guaranteed borrowers. For supporting activities, such as investing the Bank's liquidity and contracting derivatives for hedging purposes, risk limits are set for credit and market risk that correspond to the Bank's risk tolerance. The full implementation of the approved policy requires Management to report quarterly, to the Board of Executive Directors, on the status of the Bank's Capital Adequacy and other related matters, and to provide an annual review of the main input parameters and methodologies.

C. Implementation and Evaluation

4.27 Management will implement a rigorous and time-bound reform agenda as set forth in the Overview Framework, including certain reforms that will be completed before the capital increase contributions are finalized. Starting in 2011, Management will present yearly reports to the Board of Executive Directors on the progress of the implementation of the Agenda for a Better Bank. At the midterm point of the subscription of IDB-9, OVE will conduct an evaluation to assess that the reforms are being implemented fully and effectively as set forth in the Overview Framework of the Cancún Declaration (AB-2728) and as further elaborated in this report. This evaluation is to be considered by Governors on or before March 31, 2013. Governors will then formally determine that reforms have been implemented. Table IV-1 below presents the Overview Framework of the Cancún Declaration and the actions and timeline for its implementation.

Table IV-1
Evaluation of the Overview Framework of the Cancún Declaration

		Specific conditions to be met	*Actions and timeline for implementation*
1	Clarify key institutional priorities.	Governors affirm the following institutional priorities: (a) reducing poverty and inequality; (b) ensuring sustainable development; (c) addressing sustainable energy and climate change (d) addressing the special needs of the poorest countries, (e) promoting regional integration, and (f) fostering development through the private sector.	Implementation of the Institutional Priorities to be monitored through RF and reported in DEO annually.
2	Adopt sector strategies and notional lending targets to address urgent regional needs.	Governors instruct Management to submit for Board consideration strategies (by target date) to promote: (a) regional integration infrastructure and technical assistance, (b) better education performance, (c) broader private sector access to finance, particularly for SMEs, (c) renewable energy, and (d) climate change adaptation and mitigation. Governors also direct Management to integrate lending targets into performance evaluations and budgeting policies by target date.	The Bank will submit for consideration of the Board, prior to the Q1 of 2011, the following strategies: (a) a strategy for regional integration; (b) an integrated strategy for climate change adaptation and mitigation and for sustainable and renewable energy; (c) a strategy on social policy for equity, and productivity with a special focus on the issue of improving education; (d) a strategy for institutions for growth and social welfare with a special focus on access to financial markets, particularly for SMEs. By Q1 of 2011, specific guidelines for education; sustainable energy (including renewable energy); and access to finance, particularly for SMEs.
3	Adopt a comprehensive Income Management Model.	Governors adopt a model that allocates income to cover the following constraints: • Minimum annual transfers of $200 million to the grant facility for Haiti • A capital accumulation rule that preserves the financial soundness of the bank • Loan charges set as to cover administrative expenses consistent with the Bank's multiyear budget. • Parameters of the Capital Adequacy Policy • FSO administrative expenses fixed at 3 percent, non-reimbursable TC fully funded by OC • Pricing adjusted to meet these constraints	Annually, starting FY 2011, and based on the IMM, Management will submit for consideration and approval by the Board of Executive Directors a document proposing the annual allocations for the following year, based on medium-term financial projections.
4	Disclose project-level reporting with stronger metrics.	Governors direct Management to provide public disclosure in the Development Effectiveness Overview (DEO) of ex-ante project-level evaluability analysis, compliance with institutional priorities, and ERR calculations for projects approved that year, and ex-post impact evaluations for any projects evaluated in that year, including for NSG projects.	Annually, by the end of Q1, public disclosure of the Development Effectiveness Overview (DEO)
5	Ensure quality of loan portfolio through use of new development effectiveness matrix.	Governors endorse a further strengthening of the Operations Policy Committee by the President of the Bank and Senior Management to ensure that projects meet minimum development effectiveness thresholds as assessed in consultation with the Chief Economist office.	By end of Q3 of 2010: (a) Review of methodologies for evaluability; (b) amend programming process and operational procedures to ensure that all projects meet minimum evaluability thresholds Annually OVE provides yearly reports on project evaluability and validate achieved results for completed projects annually.

		Specific conditions to be met	*Actions and timeline for implementation*
6	Strengthening Development Effectiveness	Governors direct Management to produce the DEO annually, incorporate OVE recommendations previously endorsed by the Board of Executive Directors and consider future OVE recommendations to improve loan quality.	Annually by end of Q1, OVE recommendations incorporated as part of the DEO.
7	Staffing and resourcing the new Inspection Mechanism (ICIM).	Governors direct Management to rapidly staff and implement the new Inspection Mechanism with phased-in coverage of all Bank policies by the time of the overview process.	Completed staffing and institutional arrangements necessary to start processing requests before the ICIM by Q2 2010. Phasing in of all policies in Q2 of 2010.
8	Adopt a new disclosure policy consistent with best practice.	Governors instruct Management to implement a new disclosure policy that meets the highest standards applied by other Multilateral Financial institutions including the following elements: • The replacement of a “positive list” of disclosed policies with a limited “negative list” • Presumption of disclosure • Release of Board/Committee minutes • Independent appeals mechanism • Voluntary disclosure of ED’s statements • Disclosure of project-level results	Implementation Plan to be submitted to the Board of Executive Directors by July 31, 2010. Effective date of the policy January 1, 2011.
9	Adopt process to update environmental and social safeguards.	Governors instruct the Board of Executive Directors to adopt a revised set of environmental and social safeguards fully consistent with the recommendations of the independent advisory group on sustainability in its final report, and a revised set of social safeguards in line with international best practices.	Action plan with a revised set of environmental and social safeguards fully consistent with the recommendations of the IAG approved by the Board of Executive Directors, by Q1 2011
10	Expand private sector operations.	Governors agree that private sector operations shall be capped at 20% of the Bank’s Equity through 2012, after which private sector operations will be subject to the Bank’s new NSG strategy and capital adequacy policy.	NSG Strategy presented to the Board of Executive Directors by end of Q3 2010. Private sector strategy presented to the Board of Executive Directors by end of Q4 2010. Annual reporting of NSG operations in the DEO. The Board of Executive Directors will establish new limits after 2012.
11	Adopt results-based budgeting.	Governors direct Management to develop and adopt a corporate strategy for results-based budgeting for the FY2011 budget.	Initial application of the RBB methodology in the 2011 Program and Budget Proposal, implementation beginning in FY 2011.
12	Implementation of the new capital adequacy policy.	Governors direct Management to implement the new capital adequacy policy as approved by Board of Executive Directors.	Implementation of the policy by Q1 of 2010.
13	Ensure adequate safeguards against lending into unsustainable macroeconomic situations.	The Chief Economist and Research Department of the Bank will produce rigorous assessments of macroeconomic sustainability based on objective criteria when called for by country conditions; loans for consideration by the Board of Executive Directors shall meet the criteria.	Macroeconomic sustainability analysis annually for each country as part of the programming exercise, starting in 2011.

V. FINANCIAL PARAMETERS FOR THE NINTH GENERAL INCREASE IN THE RESOURCES OF THE BANK

A. Parameters for the Increase of the Ordinary Capital

1. Size of the Increase of the Ordinary Capital

5.1 IDB-9 will provide an additional US$70 billion in Ordinary Capital resources to the Bank. The paid-in portion of the increase in the Ordinary Capital will be 2.43 percent, amounting to US$1.7 billion; the remaining 97.57 percent, or US$68.3 billion, will be provided in the form of callable capital.

a. Paid-in Ordinary Capital

5.2 The amount of paid-in Ordinary Capital to be subscribed by individual members will be based on: (i) their share and voting power; and (ii) the proportion of paid-in Ordinary Capital with respect to the total increase of capital resources.

b. Callable Ordinary Capital

5.3 The amount of callable Ordinary Capital to be subscribed by individual members will be based on: (i) their share and voting power; and (ii) the proportion of callable Ordinary Capital in respect of the total increase of capital resources.

5.4 Table V-1 shows the U.S. dollar amount for IDB-9 paid-in, callable and total capital for each member country. Table V-2 shows the cumulative U.S. dollar amount of paid-in, callable and total capital for each member country after the IDB-9.

Table V-1
SHARE SUBSCRIPTION BY MEMBER COUNTRIES
OF AUTHORIZED ORDINARY CAPITAL OF THE BANK FOR IDB-9
(IN US$)

Country	IDB-9 Paid-in in US$	IDB-9 Callable in US$	IDB-9 Total in US$
I. REGIONAL MEMBERS			
A. Developing			
Argentina	182,761,001	7,342,999,226	7,525,760,227
Bahamas	3,558,713	143,011,991	146,570,703
Barbados	2,207,608	88,931,624	91,139,232
Belize	1,893,959	75,963,434	77,857,393
Bolivia	14,693,261	590,456,761	605,150,022
Brazil	182,761,001	7,342,999,226	7,525,760,227
Chile	50,195,942	2,017,030,021	2,067,225,963
Colombia	50,195,942	2,017,030,021	2,067,225,963
Costa Rica	7,370,757	295,698,854	303,069,612
Dominican Republic	9,807,571	394,413,922	404,221,492
Ecuador	9,807,571	394,413,922	404,221,492
El Salvador	7,370,757	295,698,854	303,069,612
Guatemala	9,807,571	394,413,922	404,221,492
Guyana	2,750,463	110,344,216	113,094,679
Haiti	7,370,757	295,698,854	303,069,612
Honduras	7,370,757	295,698,854	303,069,612
Jamaica	9,807,571	394,413,922	404,221,492
Mexico	117,485,768	4,720,577,915	4,838,063,683
Nicaragua	7,370,757	295,698,854	303,069,612
Panama	7,370,757	295,698,854	303,069,612
Paraguay	7,370,757	295,698,854	303,069,612
Peru	24,476,704	983,483,388	1,007,960,093
Suriname	1,519,992	60,992,714	62,512,707
Trinidad & Tobago	7,370,757	295,698,854	303,069,612
Uruguay	19,627,204	788,224,672	807,851,876
Venezuela	97,943,007	3,934,597,042	4,032,540,049
Total	850,266,904	34,159,888,773	35,010,155,677
B. Canada	68,001,568	2,732,548,386 [2/]	2,800,549,954
C. United States	510,090,175	20,493,974,162	21,004,064,337
Total	1,428,358,648	57,386,411,320	58,814,769,968
II. NON-REGIONAL MEMBERS			
Austria	2,726,336	109,680,727	112,407,063
Belgium	5,597,433	224,898,570	230,496,002
China	60,317	2,605,701	2,666,019
Croatia	844,440	33,862,055	34,706,495
Denmark	2,907,287	116,568,947	119,476,234
Finland	2,726,336	109,680,727	112,407,063
France	32,233,491	1,294,997,403	1,327,230,894
Germany	32,233,491	1,294,997,403	1,327,230,894
Israel	2,690,145	108,160,735	110,850,880
Italy	32,233,491	1,294,997,403	1,327,230,894
Japan	85,011,008	3,415,664,371	3,500,675,379
Korea	60,317	2,605,701	2,666,019
Netherlands	5,742,194	231,171,555	236,913,749
Norway	2,907,287	116,568,947	119,476,234
Portugal	928,884	37,589,655	38,518,540
Slovenia	521,485	20,951,425	21,472,910
Spain	32,233,491	1,294,997,403	1,327,230,894
Sweden	5,561,242	223,511,275	229,072,517
Switzerland	8,022,183	322,009,201	330,031,383
United Kingdom	16,370,078	658,096,427	674,466,504
Total	271,610,937	10,913,615,629	11,185,226,566
GRAND TOTAL [1/]	1,699,969,585	68,300,026,949	69,999,996,534

1/ Total US$ amounts calculated using share price of US$12,063.43238 multiplied by the number of shares, which when rounded achieves the proposed US$70 billion capital increase.
2/ Excludes Canada's 334,887 non-voting temporary callable shares with a par value of $4,039.9 million.

Table V-2
CUMULATIVE SUBSCRIPTION BY MEMBER COUNTRIES
OF AUTHORIZED ORDINARY CAPITAL OF THE BANK AFTER IDB-9
(IN US$)

Country	Cumulative Paid-in after IDB-9 in US$	Cumulative Callable after IDB-9 in US$	Cumulative Total after IDB-9 in US$
I. REGIONAL MEMBERS			
A. Developing			
Argentina	647,878,699	17,736,828,438	18,384,707,137
Bahamas	15,091,354	341,358,946	356,450,300
Barbados	7,841,231	213,184,977	221,026,208
Belize	9,095,828	179,479,747	188,575,575
Bolivia	52,017,520	1,424,811,998	1,476,829,519
Brazil	647,878,699	17,736,828,438	18,384,707,137
Chile	177,911,501	4,870,948,600	5,048,860,100
Colombia	177,911,501	4,870,948,600	5,048,860,100
Costa Rica	26,032,887	712,779,966	738,812,853
Dominican Republic	34,718,558	951,201,643	985,920,202
Ecuador	34,718,558	951,201,643	985,920,202
El Salvador	26,032,887	712,779,966	738,812,853
Guatemala	34,718,558	951,201,643	985,920,202
Guyana	10,543,440	264,116,789	274,660,228
Haiti	26,032,887	712,779,966	738,812,853
Honduras	26,032,887	712,779,966	738,812,853
Jamaica	34,718,558	951,201,643	985,920,202
Mexico	416,465,876	11,401,885,812	11,818,351,688
Nicaragua	26,032,887	712,779,966	738,812,853
Panama	26,032,887	712,779,966	738,812,853
Paraguay	26,032,887	712,779,966	738,812,853
Peru	86,711,952	2,374,228,254	2,460,940,206
Suriname	7,238,059	143,844,368	151,082,427
Trinidad & Tobago	26,032,887	712,779,966	738,812,853
Uruguay	69,497,434	1,902,560,111	1,972,057,545
Venezuela	347,282,091	9,503,053,301	9,850,335,393
Total	3,020,502,516	82,471,124,675	85,491,627,191
B. Canada	241,678,804	6,598,757,829 [2/]	6,840,436,633
C. United States	1,813,109,760	49,500,678,271	51,313,788,031
Total	5,075,291,081	138,570,560,775	143,645,851,856
II. NON-REGIONAL MEMBERS			
Austria	9,626,619	263,368,856	272,995,475
Belgium	19,832,283	541,660,177	561,492,460
China	156,825	4,728,865	4,885,690
Croatia	2,931,414	80,245,952	83,177,366
Denmark	10,253,918	280,004,329	290,258,246
Finland	9,626,619	263,368,856	272,995,475
France	114,506,100	3,126,443,580	3,240,949,680
Germany	114,506,100	3,126,443,580	3,240,949,680
Israel	9,493,921	259,701,572	269,195,494
Italy	114,506,100	3,126,443,580	3,240,949,680
Japan	302,116,601	8,248,818,237	8,550,934,837
Korea	156,825	4,728,865	4,885,690
Netherlands	20,375,137	556,811,848	577,186,986
Norway	10,253,918	280,004,329	290,258,246
Portugal	3,245,063	89,245,273	92,490,336
Slovenia	1,788,145	49,047,159	50,835,304
Spain	114,506,100	3,126,443,580	3,240,949,680
Sweden	19,699,585	538,318,607	558,018,192
Switzerland	28,433,510	776,257,747	804,691,257
United Kingdom	58,145,744	1,588,042,302	1,646,188,046
Total	964,160,527	26,330,127,293	27,294,287,819
GRAND TOTAL [1/]	6,039,451,608	164,900,688,068	170,940,139,675

1/ Total US$ amounts calculated using share price of US$12,063.43238 multiplied by the number of shares, which when rounded achieves the proposed 9th general capital increase amount.

2/ Excludes Canada's 334,887 non-voting temporary callable shares with a par value of $4,039.9 million.

2. Subscriptions

5.5 All subscriptions to the Ordinary Capital are to be made in U.S. dollars in five equal installments effective on October 31st of each year between 2011 and 2015, or such later dates as the Board of Executive Directors shall determine. For paid-in capital, the corresponding payment is due 30 days from the effective date of each installment. Members will have the option to make a payment in the form of cash or by delivering a non-interest-bearing promissory note or similar instrument to the Bank. Such instrument, if applicable, shall be payable and redeemed in the total amount due for the respective installment as of such due date.

B. Capital structure at the conclusion of IDB-9

5.6 At the conclusion of IDB-9, the relative voting power among member countries and certain country groups, i.e. Latin America and the Caribbean, the non-regional members, the United States, and Canada, will remain unchanged and will be the following: (i) Latin America and the Caribbean will have 50.015 percent; (ii) the United States will have 30.006 percent; (iii) Canada will have 4.001 percent; and (iv) the non-regional members will have 15.979 percent. Table V-3 below indicates the paid-in, callable and total number of Ordinary Capital shares to be subscribed by each member in IDB-9. Table V-4 shows the cumulative paid-in, callable and total shares and the corresponding voting power at the conclusion of IDB-9.

Table V-3
SHARE SUBSCRIPTION BY MEMBER COUNTRIES
OF AUTHORIZED ORDINARY CAPITAL OF THE BANK FOR IDB-9

Country	IDB-9 Paid-in Shares	IDB-9 Callable Shares	IDB-9 Total Shares
I. REGIONAL MEMBERS			
A. Developing			
Argentina	15,150	608,699	623,849
Bahamas	295	11,855	12,150
Barbados	183	7,372	7,555
Belize	157	6,297	6,454
Bolivia	1,218	48,946	50,164
Brazil	15,150	608,699	623,849
Chile	4,161	167,202	171,363
Colombia	4,161	167,202	171,363
Costa Rica	611	24,512	25,123
Dominican Republic	813	32,695	33,508
Ecuador	813	32,695	33,508
El Salvador	611	24,512	25,123
Guatemala	813	32,695	33,508
Guyana	228	9,147	9,375
Haiti	611	24,512	25,123
Honduras	611	24,512	25,123
Jamaica	813	32,695	33,508
Mexico	9,739	391,313	401,052
Nicaragua	611	24,512	25,123
Panama	611	24,512	25,123
Paraguay	611	24,512	25,123
Peru	2,029	81,526	83,555
Suriname	126	5,056	5,182
Trinidad & Tobago	611	24,512	25,123
Uruguay	1,627	65,340	66,967
Venezuela	8,119	326,159	334,278
Total	70,483	2,831,689	2,902,172
B. Canada	5,637	226,515 [2/]	232,152
C. United States	42,284	1,698,851	1,741,135
Total	118,404	4,757,055	4,875,459
II. NON-REGIONAL MEMBERS			
Austria	226	9,092	9,318
Belgium	464	18,643	19,107
China	5	216	221
Croatia	70	2,807	2,877
Denmark	241	9,663	9,904
Finland	226	9,092	9,318
France	2,672	107,349	110,021
Germany	2,672	107,349	110,021
Israel	223	8,966	9,189
Italy	2,672	107,349	110,021
Japan	7,047	283,142	290,189
Korea	5	216	221
Netherlands	476	19,163	19,639
Norway	241	9,663	9,904
Portugal	77	3,116	3,193
Slovenia	43	1,737	1,780
Spain	2,672	107,349	110,021
Sweden	461	18,528	18,989
Switzerland	665	26,693	27,358
United Kingdom	1,357	54,553	55,910
Total	22,515	904,686	927,201
GRAND TOTAL	140,919	5,661,741	5,802,660

1/ Total US$ amounts calculated using share price of US$12,063.43238 multiplied by the number of shares, which when rounded achieves the proposed 9th general capital increase amount.

2/ Excludes Canada's 334,887 non-voting temporary callable shares with a par value of $4,039.9 million.

Table V-4
CUMULATIVE SHARE SUBSCRIPTIONS BY MEMBER COUNTRIES
OF AUTHORIZED ORDINARY CAPITAL OF THE BANK AFTER IDB-9
AND VOTING POWER

Country	Voting Power Percentages as of Dec. 31, 2009	Cumulative Paid-in Shares after IDB-9	Cumulative Callable Shares after IDB-9	Cumulative Total Shares after IDB-9	Voting Power Percentages after IDB-9
I. REGIONAL MEMBERS					
A. Developing					
Argentina	10.751%	53,706	1,470,297	1,524,003	10.751%
Bahamas	0.209%	1,251	28,297	29,548	0.209%
Barbados	0.130%	650	17,672	18,322	0.130%
Belize	0.111%	754	14,878	15,632	0.111%
Bolivia	0.865%	4,312	118,110	122,422	0.865%
Brazil	10.751%	53,706	1,470,297	1,524,003	10.751%
Chile	2.953%	14,748	403,778	418,526	2.953%
Colombia	2.953%	14,748	403,778	418,526	2.953%
Costa Rica	0.433%	2,158	59,086	61,244	0.433%
Dominican Republic	0.577%	2,878	78,850	81,728	0.577%
Ecuador	0.577%	2,878	78,850	81,728	0.577%
El Salvador	0.433%	2,158	59,086	61,244	0.433%
Guatemala	0.577%	2,878	78,850	81,728	0.577%
Guyana	0.162%	874	21,894	22,768	0.162%
Haiti	0.433%	2,158	59,086	61,244	0.433%
Honduras	0.433%	2,158	59,086	61,244	0.433%
Jamaica	0.577%	2,878	78,850	81,728	0.577%
Mexico	6.912%	34,523	945,161	979,684	6.912%
Nicaragua	0.433%	2,158	59,086	61,244	0.433%
Panama	0.433%	2,158	59,086	61,244	0.433%
Paraguay	0.433%	2,158	59,086	61,244	0.433%
Peru	1.440%	7,188	196,812	204,000	1.440%
Suriname	0.089%	600	11,924	12,524	0.089%
Trinidad & Tobago	0.433%	2,158	59,086	61,244	0.433%
Uruguay	1.154%	5,761	157,713	163,474	1.154%
Venezuela	5.761%	28,788	787,757	816,545	5.761%
Total	50.015%	250,385	6,836,456	7,086,841	50.015%
B. Canada	4.001%	20,034	547,005 2/	567,039	4.001%
C. United States	30.006%	150,298	4,103,366	4,253,664	30.006%
Total	84.021%	420,717	11,486,827	11,907,544	84.021%
II. NON-REGIONAL MEMBERS					
Austria	0.161%	798	21,832	22,630	0.161%
Belgium	0.329%	1,644	44,901	46,545	0.329%
China	0.004%	13	392	405	0.004%
Croatia	0.050%	243	6,652	6,895	0.050%
Denmark	0.171%	850	23,211	24,061	0.171%
Finland	0.161%	798	21,832	22,630	0.161%
France	1.896%	9,492	259,167	268,659	1.896%
Germany	1.896%	9,492	259,167	268,659	1.896%
Israel	0.158%	787	21,528	22,315	0.158%
Italy	1.896%	9,492	259,167	268,659	1.896%
Japan	5.001%	25,044	683,787	708,831	5.001%
Korea	0.004%	13	392	405	0.004%
Netherlands	0.338%	1,689	46,157	47,846	0.338%
Norway	0.171%	850	23,211	24,061	0.171%
Portugal	0.055%	269	7,398	7,667	0.055%
Slovenia	0.031%	148	4,066	4,214	0.031%
Spain	1.896%	9,492	259,167	268,659	1.896%
Sweden	0.327%	1,633	44,624	46,257	0.327%
Switzerland	0.471%	2,357	64,348	66,705	0.471%
United Kingdom	0.964%	4,820	131,641	136,461	0.964%
Total	15.979%	79,924	2,182,640	2,262,564	15.979%
GRAND TOTAL	100.000%	500,641	13,669,467	14,170,108	100.000%

1/ Total US$ amounts calculated using share price of US$12,063.43238 multiplied by the number of shares, which when rounded achieves the proposed 9th general capital increase amount.

2/ Excludes Canada's 334,887 non-voting temporary callable shares with a par value of $4,039.9 million.

C. Parameters for the Increase of the FSO

1. Size of the increase of the FSO

5.7 There will be an additional US$479 million equivalent of new contributions to the FSO. As further described in paragraphs 5.19 to 5.22 below, these contributions to the FSO will enable the Bank to (i) provide 100% relief of Haiti's debt in the form of repayments due on loans from the FSO; (ii) cancel Haiti's obligation, as established in Resolution AG-1/99 (as amended by Resolution AG-3/07 and Resolution AG-11/09) for conversion of currency in the FSO; (iii) provide that all undisbursed loan balances payable to Haiti from the FSO shall be payable from the IDB Grant Facility so that such resources, when disbursed from the IDB Grant Facility, shall be provided to Haiti on a non-reimbursable basis; and (iv) provide additional resources for the FSO.

5.8 The Board of Executive Directors will determine the appropriate FSO allocation of resources every two years and the annual lending program on the basis of availability of resources and development needs in accordance with eligibility criteria established by the Board of Governors pursuant to Resolution AG-3/07 adopted on March 15, 2007.

5.9 In accordance with the Cancún Declaration, before 2020 the Board of Governors will review the need for a new FSO replenishment

2. Schedule of Contributions and Advance Contributions to the FSO

5.10 All contributions to the FSO are to be made in U.S. dollars. A member may make its contribution to the FSO either in one payment, or in five equal annual installments. The corresponding payment is due 30 days from the effective date of each installment. Members will have the option to make a payment in the form of cash or by delivering a non-interest-bearing promissory note or similar instrument to the Bank. Such instrument, if applicable, shall be payable and redeemed in the total amount due for the respective installment as of such due date.

5.11 If a member elects to contribute in one installment, the effective date of the contribution shall be October 31, 2011, or such later date as the Board of Executive Directors shall determine. In such case, the country will contribute its share of the US$479 million increase in the FSO as presented in Table V-5. If a member elects to contribute in five equal installments, the effective date of each installment will be on October 31st of each year between 2011 and 2015, or such later dates as the Board of Executive Directors shall determine. In such case, the country will contribute its share of US$517.3 million[20] increase in FSO as presented in Table V-6.

[20]This figure constitutes the total amount payable over the five installments, the present value of which equals US$479 million.

Table V-5 FSO Contributions[1]
(One installment contribution)

FSO Contribution Amount: US$479,000,000

Members	Subscriptions as of Year-end 2009	Participation as of Year-end 2009	IDB-9 Contribution	After IDB-9 Cumulative Contributions	Participation after IDB-9
Argentina.	505,381,958	5.18%	24,797,175	530,179,133	5.18%
Austria.	20,000,299	0.20%	981,339	20,981,638	0.20%
Bahamas.	10,553,125	0.11%	517,802	11,070,927	0.11%
Barbados.	1,820,573	0.02%	89,329	1,909,902	0.02%
Belgium.	42,482,948	0.44%	2,084,477	44,567,425	0.44%
Belize.	7,561,507	0.08%	371,014	7,932,521	0.08%
Bolivia.	48,662,860	0.50%	2,387,702	51,050,562	0.50%
Brazil.	544,413,315	5.58%	26,712,296	571,125,611	5.58%
Canada.	310,175,568	3.18%	15,219,138	325,394,706	3.18%
Chile.	157,668,964	1.62%	7,736,218	165,405,182	1.62%
China.	125,000,000	1.28%	6,133,276	131,133,276	1.28%
Colombia	153,672,318	1.57%	7,540,118	161,212,436	1.57%
Costa Rica	23,364,342	0.24%	1,146,400	24,510,741	0.24%
Croatia	5,906,494	0.06%	289,809	6,196,303	0.06%
Denmark.	20,010,557	0.20%	981,842	20,992,399	0.20%
Dominican Republic .	33,901,312	0.35%	1,663,409	35,564,721	0.35%
Ecuador.	30,291,478	0.31%	1,486,288	31,777,766	0.31%
El Salvador.	21,388,316	0.22%	1,049,444	22,437,759	0.22%
Finland.	18,987,639	0.19%	931,651	19,919,290	0.19%
France.	221,115,217	2.26%	10,849,285	231,964,501	2.26%
Germany.	230,022,649	2.36%	11,286,339	241,308,988	2.36%
Guatemala.	32,835,960	0.34%	1,611,136	34,447,096	0.34%
Guyana	8,331,431	0.09%	408,792	8,740,223	0.09%
Haiti.	21,769,487	0.22%	1,068,146	22,837,633	0.22%
Honduras	26,525,986	0.27%	1,301,530	27,827,516	0.27%
Israel.	18,010,386	0.18%	883,701	18,894,088	0.18%
Italy.	215,741,679	2.21%	10,585,626	226,327,305	2.21%
Jamaica.	28,783,478	0.29%	1,412,296	30,195,774	0.29%
Japan.	591,865,776	6.06%	29,040,608	620,906,384	6.06%
Korea[2].	-	0.00%	-	-	0.00%
Mexico.	329,016,458	3.37%	16,143,589	345,160,047	3.37%
Netherlands.	36,937,164	0.38%	1,812,367	38,749,531	0.38%
Nicaragua.	24,159,933	0.25%	1,185,436	25,345,369	0.25%
Norway.	19,993,171	0.20%	980,989	20,974,160	0.20%
Panama.	25,356,299	0.26%	1,244,137	26,600,437	0.26%
Paraguay.	27,913,944	0.29%	1,369,631	29,283,575	0.29%
Peru.	79,749,987	0.82%	3,913,029	83,663,017	0.82%
Portugal.	7,837,822	0.08%	384,572	8,222,394	0.08%
Slovenia.	3,344,875	0.03%	164,120	3,508,995	0.03%
Spain.	215,777,339	2.21%	10,587,375	226,364,715	2.21%
Suriname.	6,266,636	0.06%	307,480	6,574,116	0.06%
Sweden.	40,115,438	0.41%	1,968,312	42,083,751	0.41%
Switzerland.	63,073,845	0.65%	3,094,794	66,168,639	0.65%
Trinidad and Tobago.	20,942,065	0.21%	1,027,548	21,969,613	0.21%
United Kingdom . . .	175,273,124	1.80%	8,599,987	183,873,111	1.80%
United States.	4,839,113,718	49.57%	237,436,950	5,076,550,668	49.57%
Uruguay.	55,873,367	0.57%	2,741,494	58,614,861	0.57%
Venezuela.	315,329,122	3.23%	15,472,004	330,801,126	3.23%
TOTAL[3]	9,762,319,931	100.00%	479,000,000	10,241,319,931	100.00%

[1] This table for contributions to the FSO provides that amounts have been fully allocated in accordance with the distribution contemplated in the Agreement Establishing the Bank, Article IV, Section 3(g).

[2] Korea has indicated its consideration of a contribution to the FSO of US$1,000,000.

[3] Present value calculated as described in document CS-3869 "Present Value Analysis of Haiti Debt Forgiveness". Totals reflect rounding of figures.

Table V-6 FSO Contributions[1]
(Contribution in five installments)

Members	TOTAL[2]	2011 First Installment	2012 Second Installment	2013 Third Installment	2014 Fourth Installment	2015 Fifth Installment
Argentina	26,779,413	5,355,883	5,355,883	5,355,883	5,355,883	5,355,883
Austria	1,059,785	211,957	211,957	211,957	211,957	211,957
Bahamas	559,194	111,839	111,839	111,839	111,839	111,839
Barbados	96,469	19,294	19,294	19,294	19,294	19,294
Belgium	2,251,106	450,221	450,221	450,221	450,221	450,221
Belize	400,673	80,135	80,135	80,135	80,135	80,135
Bolivia	2,578,570	515,714	515,714	515,714	515,714	515,714
Brazil	28,847,625	5,769,525	5,769,525	5,769,525	5,769,525	5,769,525
Canada	16,435,726	3,287,145	3,287,145	3,287,145	3,287,145	3,287,145
Chile	8,354,636	1,670,927	1,670,927	1,670,927	1,670,927	1,670,927
China	6,623,558	1,324,712	1,324,712	1,324,712	1,324,712	1,324,712
Colombia	8,142,860	1,628,572	1,628,572	1,628,572	1,628,572	1,628,572
Costa Rica	1,238,041	247,608	247,608	247,608	247,608	247,608
Croatia	312,976	62,595	62,595	62,595	62,595	62,595
Denmark	1,060,329	212,066	212,066	212,066	212,066	212,066
Dominican Republic	1,796,378	359,276	359,276	359,276	359,276	359,276
Ecuador	1,605,099	321,020	321,020	321,020	321,020	321,020
El Salvador	1,133,334	226,667	226,667	226,667	226,667	226,667
Finland	1,006,126	201,225	201,225	201,225	201,225	201,225
France	11,716,555	2,343,311	2,343,311	2,343,311	2,343,311	2,343,311
Germany	12,188,547	2,437,709	2,437,709	2,437,709	2,437,709	2,437,709
Guatemala	1,739,927	347,985	347,985	347,985	347,985	347,985
Guyana	441,470	88,294	88,294	88,294	88,294	88,294
Haiti	1,153,532	230,706	230,706	230,706	230,706	230,706
Honduras	1,405,571	281,114	281,114	281,114	281,114	281,114
Israel	954,343	190,869	190,869	190,869	190,869	190,869
Italy	11,431,820	2,286,364	2,286,364	2,286,364	2,286,364	2,286,364
Jamaica	1,525,192	305,038	305,038	305,038	305,038	305,038
Japan	31,362,057	6,272,411	6,272,411	6,272,411	6,272,411	6,272,411
Korea[3]	-	-	-	-	-	-
Mexico	17,434,076	3,486,815	3,486,815	3,486,815	3,486,815	3,486,815
Netherlands	1,957,244	391,449	391,449	391,449	391,449	391,449
Nicaragua	1,280,198	256,040	256,040	256,040	256,040	256,040
Norway	1,059,407	211,881	211,881	211,881	211,881	211,881
Panama	1,343,591	268,718	268,718	268,718	268,718	268,718
Paraguay	1,479,117	295,823	295,823	295,823	295,823	295,823
Peru	4,225,829	845,166	845,166	845,166	845,166	845,166
Portugal	415,314	83,063	83,063	83,063	83,063	83,063
Slovenia	177,240	35,448	35,448	35,448	35,448	35,448
Spain	11,433,709	2,286,742	2,286,742	2,286,742	2,286,742	2,286,742
Suriname	332,059	66,412	66,412	66,412	66,412	66,412
Sweden	2,125,655	425,131	425,131	425,131	425,131	425,131
Switzerland	3,342,186	668,437	668,437	668,437	668,437	668,437
Trinidad and Tobago	1,109,688	221,938	221,938	221,938	221,938	221,938
United Kingdom	9,287,453	1,857,491	1,857,491	1,857,491	1,857,491	1,857,491
United States	256,417,196	51,283,439	51,283,439	51,283,439	51,283,439	51,283,439
Uruguay	2,960,644	592,129	592,129	592,129	592,129	592,129
Venezuela	16,708,805	3,341,761	3,341,761	3,341,761	3,341,761	3,341,761
TOTAL	517,290,324	103,458,065	103,458,065	103,458,065	103,458,065	103,458,065
Present Value[4]	**479,000,000**	103,458,065	99,478,908	95,652,797	91,973,843	88,436,387

[1] This table for contributions to the FSO provides that amounts have been fully allocated in accordance with the distribution contemplated in the Agreement Establishing the Bank, Article IV, Section 3(g).

[2] Totals reflect rounding of figures.

[3] Korea has indicated its consideration of a contribution to the FSO of US$1,000,000.

[4] Present value calculated as described in document CS-3869 "Present Value Analysis of Haiti Debt Forgiveness".

5.12 Notwithstanding the above, any member may make a contribution, and the Bank shall accept such a contribution, in advance of the effective date of the first installment of such increase (an Advance Contribution).

5.13 Such an Advance Contribution shall be payable in U.S. dollars and in an amount representing either: (i) the entire amount to be paid by such member as a contribution to the FSO (Table V-5 above); or (ii) the first installment of such amount (Table V-6 above). To make an Advance Contribution, the member shall deposit with the Bank an Instrument of Advance Contribution formally confirming the member's intention to make an Advance Contribution and specifying the amount of its Advance Contribution. Upon receipt of an Advance Contribution, the Bank shall increase the contributions of the respective member in the FSO by the full amount of the Advance Contribution, effective as of the date of payment. Upon the adoption by the Board of Governors of the Proposed Resolution approving the increase in the resources of the FSO, attached to this Report as Annex B, such Advance Contribution shall also be deemed a contribution to the FSO as of the effective date of the first installment of such increase, and the Advance Contribution shall be deemed to satisfy any corresponding payment due in relation to such increase.

3. Actions by the Bank upon payment of contributions and Advance Contributions

5.14 The Bank shall transfer an amount or amounts from the income of the FSO to the IDB Grant Facility pursuant to Article IV, Section 10 of the Agreement Establishing the Inter-American Development Bank and Section 2(b) of Resolution AG-8/07 up to the total amount of: (i) Advance Contributions to the FSO as provided in paragraph 5.13 above, each transfer being effective as of the date of each Advance Contribution; and (ii) contributions corresponding to each installment of such increase, up to the amount of such contributions and effective as of the date of each installment. The total amount of such transfer or transfers shall be US$323 million, less the total amount of loan disbursements made to Haiti from the FSO after January 1, 2010.

5.15 Upon payment of contributions to the FSO, including the payment of Advance Contributions, in the amount of US$186 million, less the total amount of loan disbursements made to Haiti from the FSO after January 1, 2010, the Bank shall: (i) forgive Haiti's outstanding debt to the FSO, as further described in paragraph 5.20 below; and (ii) cancel Haiti's currency conversion obligation, as further described in paragraph 5.21 below.

5.16 Upon payment to the IDB Grant Facility, as provided in paragraph 5.14 above, of the amount of US$186 million, less the total amount of loan disbursements made to Haiti from the FSO after January 1, 2010, the Board of Executive Directors shall take measures to provide for the conversion of Haiti's undisbursed loans to grants, as further described in paragraph 5.22 below.

4. Other measures relating to the FSO

a. Change to the FSO share of administrative expenses

5.17 As part of the comprehensive Income Management Model to be adopted by the Bank in accordance with the Cancún Declaration and as described in paragraph 4.17 above, the share of the administrative expenses for the FSO would be 3% as of and including 2011.

b. Rescheduling of local currency conversions by D2 countries

5.18 In order to provide the D2 countries other than Haiti (i.e., Bolivia, Guyana, Honduras and Nicaragua) additional time to comply with their currency conversion obligations, the rescheduling period during which such obligations would be extended from 2014 to 2020.

D. The Bank's financial support for Haiti's reconstruction and development

1. Debt Relief to Haiti

5.19 The Bank shall provide relief to Haiti, as further described in paragraphs 5.20 to 5.22 below.

a. Forgiveness of Haiti's outstanding debt

5.20 The Bank would provide 100% relief of Haiti's debt in the form of repayments due on loans from the FSO, which on December 31, 2009 amounted to US$447 million equivalent.

b. Cancellation of Haiti's currency conversion obligation

5.21 The Bank would cancel Haiti's obligation, as established in Resolution AG-1/99 (as amended by Resolution AG-3/07 and Resolution AG-11/09), for conversion of currency in the FSO, which on December 31, 2009 amounted to US$28.5 million equivalent.

c. Conversion of Haiti's undisbursed FSO loans to grants

5.22 As indicated in paragraph 5.16 above, the Bank would take measures to provide that all undisbursed loan balances payable to Haiti from the FSO would be payable from the IDB Grant Facility so that such resources, when disbursed from the IDB Grant Facility, would be provided to Haiti on a non-reimbursable basis.

2. Financing of the Grant Facility

a. Transfers of FSO income

5.23 As described in paragraph 5.14 above, amounts transferred from the income of the FSO would be made available to the IDB Grant Facility.

b. Transfers of Ordinary Capital income

5.24 As part of the comprehensive Income Management Model to be adopted by the Board of Governors in accordance with the Cancún Declaration, the Bank's continued support for Haiti's reconstruction and development will include US$200 million annually in transfers of Ordinary Capital income to the IDB Grant Facility through 2020. Such transfers would be subject to annual approvals by the Board of Governors and the requirements of the Agreement Establishing the Inter-American Development Bank.

5.25 Upon the approval of the Board of Governors of this Report, the Bank would transfer US$72 million of Ordinary Capital income to the IDB Grant Facility pursuant to Article VII, Section 4(a) of the Agreement Establishing the Inter-American Development Bank and Section 2(b) of Resolution AG-8/07.

VI. REGULATIONS FOR THE IMPLEMENTATION OF THE NINTH GENERAL INCREASE OF RESOURCES

6.1 The increase of paid-in and callable Ordinary Capital would become effective in five equal annual installments on October 31st in each of the years 2011 through 2015. It is proposed that US$1.7 billion of the contemplated subscribed US$70 billion Ordinary Capital increase (equivalent to 2.43 percent of the total proposed capital increase) be in the form of paid-in Ordinary Capital and the remaining US$68.3 billion (equivalent to 97.57 percent) be in the form of callable Ordinary Capital, as discussed in paragraph 5.1 above.

6.2 It is also proposed that there be an increase in the Fund for Special Operations in the equivalent of US$479 million, and that resources shall be made available for various measures concerning debt relief to Haiti, including the cancellation of Haiti's outstanding loans to the FSO, the cancellation of Haiti's obligation to convert currency in the FSO and the conversion of undisbursed loans from the FSO to grants, and making available up to US$323 million for transfer to the IDB Grant Facility, all as discussed in paragraph 5.14 above.

6.3 The Board of Governors is also requested to approve certain measures specified in the Recommendations, in paragraphs 7.3 to 7.7 below, which shall enter into force upon the effective date of the Proposed Resolution approving this Report.

1. APPLICABLE PROVISIONS OF THE AGREEMENT AND THE GENERAL RULES

6.4 The provisions of the Agreement Establishing the Inter-American Development Bank (the "Agreement") and of the General Rules Governing Admission of Non-Regional Countries to Membership in the Bank (the "General Rules") which concern increases in the Ordinary Capital resources and in the Fund for Special Operations, may be summarized as follows:

A. Approval of the Report

6.5 Article VIII, Section 4(c) of the Agreement provides that all matters before the Board of Governors, except as otherwise specifically provided in the Agreement, shall be decided by a majority of the total voting power of the member countries.

B. Ordinary Capital

6.6 Article II, Section 2(e) of the Agreement provides that the authorized Ordinary Capital stock may be increased when the Board of Governors deems it advisable and in a manner agreed upon by a three-fourths majority of the total voting power of the member countries, including a three-fourths majority of the total number of Governors, which includes a two-thirds majority of the Governors of regional members.

6.7 Article II, Section 3(b) of the Agreement provides that in case of an increase in the capital pursuant to Article II, Section 2(e), each member shall have a right to subscribe, under such conditions as the Bank shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe to any part of such increased capital.

6.8 Article VIII, Section 4(b) of the Agreement, and Section 7(b) of the General Rules, provide that no increase in the subscription of any member to the Ordinary Capital stock shall become effective, and any right to subscribe thereto is waived, which would have the effect of reducing the voting power: (i) of the regional developing members below 50.005 percent; (ii) of the United States below 30 percent; or (iii) of Canada below 4 percent. Section 7(b) of the General Rules provides that, notwithstanding the foregoing provisions, any resolution of the Board of Governors for a capital increase shall specify that: (1) in order to prevent the voting power of the regional developing members as a group from falling below 50.005 percent, any member of the group may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares; (2) the provision relating to percentages of voting power may be waived by the regional developing members as a group with respect to their 50.005 percent, and by the United States and Canada with respect to their 30 percent and 4 percent, respectively; and (3) any member of the group of nonregional members may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares.

C. Fund for Special Operations

6.9 Article IV, Section 3(g) of the Agreement specifies that the resources of the Fund for Special Operations shall be increased through additional contributions by the members when the Board of Governors considers it advisable by a three-fourths majority of the total voting power of the member countries. As with increases to the Bank's Ordinary Capital, each member has the right to contribute to a proportion of the increase in the FSO equivalent to the proportion between the quota in effect for such member and the total amount of the resources of the FSO contributed by members. No member, however, shall be obligated to contribute any part of such increase.

D. IDB Grant Facility

6.10 The proposed transfer of US$72 million from the Ordinary Capital resources to the IDB Grant Facility contemplated in paragraph 5.25 above and paragraph 7.3 below may be approved pursuant to Article VII, Section 4(a) of the Agreement, which provides that the Board of Governors may determine periodically what part of the net profits and of the surplus of the Ordinary Capital resources shall be distributed.

6.11 The proposed transfer of up to US$323 million from the FSO to the IDB Grant Facility contemplated in paragraph 5.14 above and paragraph 7.5 below may be approved pursuant to Article IV, Section 10 of the Agreement, which provides that the Board of

Governors may determine periodically what portion of the net profits of the FSO shall be distributed.

VII. ACTIONS FOR IMPLEMENTATION OF THE NINTH GENERAL INCREASE OF RESOURCES

7.1 To implement the Ninth General Increase in the Resources of the Inter-American Development Bank, it is recommended that the Board of Governors:

(i) approve this Report, as of the effective date of the approval of this Report, including as further specified in paragraphs 7.2 to 7.7 below; and

(ii) upon approval of this Report, proceed to vote on and adopt the Proposed Resolutions attached to this Report as Annexes A and B, as further specified in paragraphs 7.8 and 7.9 below.

1. ACTIONS TO GO INTO EFFECT UPON THE APPROVAL OF THIS REPORT

7.2 Resolution DE-42/10 of the Board of Executive Directors provides for the submission of this Report to the Board of Governors for consideration by the procedure of taking a vote without calling a meeting in accordance with Section 5 of the By-Laws of the Bank. As provided in Resolution DE-42/10, the Board of Governors is requested to approve this Report by adopting the Proposed Resolution submitted herewith and entitled "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank". The approval of such Proposed Resolution would include approval by the Board of Governors of, among other measures detailed in the Report, the following measures referred to in paragraphs 7.3 to 7.7 below.

7.3 In accordance with the Cancún Declaration, it is recommended that the Board of Governors adopt a comprehensive Income Management Model, as provided in paragraph 4.17 above, which includes, among other measures:

(i) that the Board of Governors directs the Board of Executive Directors to take measures to provide that the share of the administrative expenses for the Fund for Special Operations shall be 3% as of and including the year 2011 and, accordingly, that Section 3 of Resolution AG-3/07 (as amended by Resolutions AG-10/08 and AG-12/09) is hereby superseded; and

(ii) that the Board of Governors approves the transfer of US$72 million of Ordinary Capital income to the IDB Grant Facility pursuant to Article VII, Section 4(a) of the Agreement and Section 2(b) of Resolution AG-8/07.

7.4 Further in accordance with the Cancún Declaration, it is recommended that the Board of Governors approve the expansion of the Bank's private sector operations, as provided in paragraph 3.33 above. On a transitional basis, until December 31, 2012, the Bank will cap NSG operations by an amount such that risk capital requirements for NSG operations will not exceed 20 percent of total Bank equity calculated in the context of the Bank's capital adequacy policy. As of January 1, 2013, limitations on NSG operations different from such 20 percent shall be established by the Board of Executive Directors, subject to the Bank's NSG Strategy and capital adequacy policy. The aforementioned limitations shall supersede the limitations established by Document AB-2148, approved by Resolution AG-9/01 of December 12, 2001.

7.5 In order to facilitate debt relief for Haiti as contemplated in paragraphs 5.19 to 5.22 above, and contributions to the IDB Grant Facility as contemplated in paragraph 5.14 above, it is recommended that:

(a) Notwithstanding the terms of the Proposed Resolution entitled "Increase in the Resources of the Fund for Special Operations and Contributions Thereto", attached to this Report as Annex B, a member may make a contribution to the FSO, and the Bank shall accept such a contribution, in advance of the effective date of the first installment of such increase (an Advance Contribution). Such an Advance Contribution shall be payable in U.S. dollars, in one or more payments, and in an amount representing either:

(i) the entire increase in Contributions to the FSO of the member as detailed in Table I of the Proposed Resolution attached to this Report as Annex B; or

(ii) the first installment of such increase.

(b) To make an Advance Contribution, the member shall deposit with the Bank an Instrument of Advance Contribution formally confirming the member's intention to make an Advance Contribution and specifying the amount of its Advance Contribution.

(c) Upon receipt of an Advance Contribution, the Bank shall increase the Contributions of the respective member in the FSO by the full amount of the Advance Contribution, effective as of the date of payment. Upon approval by the Board of Governors of the increase in the FSO, such Advance Contribution shall also be deemed a contribution to the FSO as of the effective date of the first installment of such increase, and the Advance Contribution shall be deemed to satisfy any corresponding payment due in relation to such increase.

(d) Subject to the limitation expressed below, the Bank shall transfer an amount or amounts from the income of the FSO to the IDB Grant Facility pursuant to Article IV, Section 10 of the Agreement and Section 2(b) of Resolution AG-8/07 up to the total amount of:

(i) Advance Contributions to the FSO as provided in sub-paragraph (a) hereof, each transfer being effective as of the date of each Advance Contribution; and

(ii) Contributions corresponding to each installment of such increase, up to the amount of such contributions and effective as of the date of each installment.

The total amount of such transfer or transfers pursuant to this sub-paragraph (d) shall be US$323,000,000.00, less the total amount of loan disbursements made to Haiti from the FSO after January 1, 2010.

(e) Upon payment of Contributions to the FSO, including the payment of Advance Contributions, in the amount of US$186,000,000.00, less the total amount of loans disbursements made to Haiti from the FSO after January 1, 2010, the Bank shall:

(i) provide 100% relief of Haiti's debt in the form of repayments due on loans from the FSO; and

(ii) cancel Haiti's obligation, as established in Resolution AG-1/99 (as amended by Resolution AG-3/07 and Resolution AG-11/09) for conversion of currency in the FSO.

(f) Upon payment to the IDB Grant Facility, as provided in sub-paragraph (d) hereof, of the amount of US$186,000,000.00, less the total amount of loans disbursements made to Haiti from the FSO after January 1, 2010, the Board of Executive Directors shall take measures to provide that all undisbursed loan balances payable to Haiti from the FSO shall be payable from the IDB Grant Facility so that such resources, when disbursed from the IDB Grant Facility, shall be provided to Haiti on a nonreimburseable basis.

7.6 (a) In order to facilitate further contributions to the IDB Grant Facility as contemplated in paragraphs 5.23 through 5.25 above, it is recommended that the Board of Governors amend the Regulations of the IDB Grant Facility whereby Resolution AG-8/07, Section 4(c) shall be revised to read, "Haiti will be eligible to receive such amounts as may be so allocated by the Board of Governors pursuant to Sections 2(a) and (b) hereof, such amounts so designated by the donors pursuant to Section 2(c) hereof, and the corresponding return on investments on such amounts when held in the IDB Grant Facility and pursuant to Section 2(d) hereof, if applicable."

(b) Resolution AG-8/07, Section 4(b) shall be amended to read:

"(i) Decisions to provide grants for eligible member countries pursuant to the Regulations shall be taken by the Board of Executive Directors on the following basis. Each member country shall have one vote for each one thousandth of a percent that its contribution in convertible currencies to the FSO on any given date bears to the total of such contributions. In voting in the Board of Executive Directors for the purposes of such decisions, each Executive Director shall be entitled to cast the number of votes thus allocated to the country which appointed or elected such Executive Director and each such Executive Director shall be entitled to cast the total number of votes thus allocated to the member countries whose votes counted toward the election of such Executive Director, which votes shall be cast as a unit. All decisions of the Bank concerning the use of the Account shall be decided by a majority of the total voting power so allocated to the member countries.

(ii) Notwithstanding, when grants from the Account include resources transferred to the Account from the ordinary capital of the Bank, decisions to provide such resources shall be taken by the Board of Executive Directors in accordance with the Agreement Establishing the Inter-American Development Bank, Article VIII, Section 4(d)(iii).

(iii) Grants approved from the Account by the Board of Executive Directors will be charged first to resources transferred from the FSO and upon exhaustion, to resources transferred from the Ordinary Capital."

7.7 As contemplated in paragraph 5.18 above, it is recommended that the Board of Governors amend paragraph 6.b of Document CA-474-2 (adopted pursuant to Resolution AG-3/07) to read:

> "Part of the debt relief accorded to D2 countries other than Haiti (i.e., Bolivia, Guyana, Honduras and Nicaragua) will be exchanged against the existing obligations of these countries to convert their local currency FSO contributions into convertible currencies. These obligations will be forgiven in lieu of the contractual obligations from the debt service of current FSO loans occurring in 2011-2020, in the proportion required to fully cover those obligations and, in case these flows are less than the country's conversion commitments, the exchange will extend beyond 2020. This exchange will be an integral part of the debt relief agreement."

2. PROPOSED RESOLUTIONS FOR AN INCREASE IN RESOURCES

7.8 The Board of Governors is requested to vote on the following Proposed Resolutions attached to this Report:

(i) A Proposed Resolution attached to this Report as Annex A, entitled "Increase of US$70 billion in the Authorized Ordinary Capital Stock and Subscriptions Thereto"; and

(ii) A Proposed Resolution, attached to this Report as Annex B, entitled "Increase in the Resources of the Fund for Special Operations and Contributions Thereto".

7.9 The Proposed Resolutions referred to in paragraph 7.8 above may be voted upon by any rapid means of communication. To be valid, the votes on (i) the Proposed Resolution attached to this Report as Annex A must be received at the headquarters of the Bank no later than October 31, 2011, or by such later date as the Board of Executive Directors shall determine; and (ii) the Proposed Resolution attached to this Report as Annex B must be received at the headquarters of the Bank no later than October 31, 2011, or by such later date as the Board of Executive Directors shall determine.

3. Specific Actions Required After Adoption Of The Proposed Resolutions

7.10 If the Proposed Resolutions approving an increase in the resources of each of the Ordinary Capital and the Fund for Special Operations, attached to this Report as Annexes A and B, respectively, are adopted by the Board of Governors, then the following actions by each subscribing and contributing member are required on or before the dates indicated, or such later date as the Board of Executive Directors shall determine:

A. Increase in the Ordinary Capital

7.11 By October 31, 2011:

(i) Deposit with the Bank of an appropriate Instrument of Subscription, agreeing to subscribe to the respective number of shares of paid-in and callable Ordinary Capital stock, in accordance with the terms of the corresponding Resolution adopted by the Board of Governors.

7.12 By October 31, 2011:

(ii) Subscription of the first installment of the increase in the callable Ordinary Capital stock.

(iii) Subscription of the first installment of the increase in the paid-in Ordinary Capital stock and arrangement for payment thereof within 30 days.

B. Increase in the Fund for Special Operations

7.13 By October 31, 2011:

(i) Deposit with the Bank of an appropriate Instrument of Contribution, agreeing to the making of the respective contribution to the increase, in accordance with the terms of the corresponding Resolution adopted by the Board of Governors.

7.14 By October 31, 2011:

(ii) Arrangements for payments of the first installment of the increase within 30 days.

7.15 The subscriptions to and payments by the members of these increases and contributions are detailed in the respective Resolutions.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION AG-__/__

Increase of US$70 billion in the Authorized Ordinary Capital Stock
and Subscriptions Thereto

WHEREAS, on March 22, 2010, the Board of Governors approved the Cancún Declaration (Document AB-2728), thereby agreeing to pursue a Ninth General Increase in the Resources of the Inter-American Development Bank and to undertake associated measures;

WHEREAS, the Board of Executive Directors and Management have prepared a technical document and legal instruments necessary for such an increase, entitled “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank,” Document AB-2764 (the “Report”);

WHEREAS, the Board of Governors has, pursuant to Resolution AG-__/__ approved the Report and has urged the members of the Bank to vote on the Proposed Resolutions attached to the Report and to take such actions as may be necessary to give effect to the initiatives provided for in the Report, including an increase in the resources of the Ordinary Capital, as soon as possible; and

WHEREAS, Article II, Section 2(e) of the Agreement Establishing the Inter-American Development Bank provides for increases in the authorized Ordinary Capital stock of the Bank;

The Board of Governors

RESOLVES:

Section 1. Increase in the authorized Ordinary Capital

Subject to the provisions of paragraph (b) hereof, the authorized Ordinary Capital stock of the Bank shall be increased by US$70,000,000,000, divided into 5,802,660 shares, each having a par value as provided in the Agreement Establishing the Inter-American Development Bank.

Such increase shall become effective only if, on or before October 31, 2011, or such later date as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank an appropriate Instrument of Subscription, by which they agree, subject to such legal requirements as may be appropriate in the respective countries, to subscribe to at least 4,351,995 shares of the increase of authorized Ordinary Capital stock in accordance with Section 2 of this resolution.

Section 2. Subscriptions

(a) In accordance with Article II, Section 3(b) of the Agreement Establishing the Inter-American Development Bank, each member may subscribe to the respective number of shares as follows:

SHARE SUBSCRIPTION BY MEMBER COUNTRIES
OF AUTHORIZED ORDINARY CAPITAL OF THE BANK FOR IDB-9

Country	IDB-9 Paid-in Shares	IDB-9 Paid-in in US$[1/]	IDB-9 Callable Shares	IDB-9 Callable in US$[1/]	IDB-9 Total Shares	IDB-9 Total in US$[1/]
I. REGIONAL MEMBERS						
A. Developing						
Argentina	15,150	182,761,001	608,699	7,342,999,226	623,849	7,525,760,227
Bahamas	295	3,558,713	11,855	143,011,991	12,150	146,570,703
Barbados	183	2,207,608	7,372	88,931,624	7,555	91,139,232
Belize	157	1,893,959	6,297	75,963,434	6,454	77,857,393
Bolivia	1,218	14,693,261	48,946	590,456,761	50,164	605,150,022
Brazil	15,150	182,761,001	608,699	7,342,999,226	623,849	7,525,760,227
Chile	4,161	50,195,942	167,202	2,017,030,021	171,363	2,067,225,963
Colombia	4,161	50,195,942	167,202	2,017,030,021	171,363	2,067,225,963
Costa Rica	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Dominican Republic	813	9,807,571	32,695	394,413,922	33,508	404,221,492
Ecuador	813	9,807,571	32,695	394,413,922	33,508	404,221,492
El Salvador	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Guatemala	813	9,807,571	32,695	394,413,922	33,508	404,221,492
Guyana	228	2,750,463	9,147	110,344,216	9,375	113,094,679
Haiti	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Honduras	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Jamaica	813	9,807,571	32,695	394,413,922	33,508	404,221,492
Mexico	9,739	117,485,768	391,313	4,720,577,915	401,052	4,838,063,683
Nicaragua	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Panama	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Paraguay	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Peru	2,029	24,476,704	81,526	983,483,388	83,555	1,007,960,093
Suriname	126	1,519,992	5,056	60,992,714	5,182	62,512,707
Trinidad & Tobago	611	7,370,757	24,512	295,698,854	25,123	303,069,612
Uruguay	1,627	19,627,204	65,340	788,224,672	66,967	807,851,876
Venezuela	8,119	97,943,007	326,159	3,934,597,042	334,278	4,032,540,049
Total	70,483	850,266,904	2,831,689	34,159,888,773	2,902,172	35,010,155,677
B. Canada	5,637	68,001,568	226,515	2,732,548,386 [2/]	232,152	2,800,549,954
C. United States	42,284	510,090,175	1,698,851	20,493,974,162	1,741,135	21,004,064,337
Total	118,404	1,428,358,648	4,757,055	57,386,411,320	4,875,459	58,814,769,968
II. NON-REGIONAL MEMBERS						
Austria	226	2,726,336	9,092	109,680,727	9,318	112,407,063
Belgium	464	5,597,433	18,643	224,898,570	19,107	230,496,002
China	5	60,317	216	2,605,701	221	2,666,019
Croatia	70	844,440	2,807	33,862,055	2,877	34,706,495
Denmark	241	2,907,287	9,663	116,568,947	9,904	119,476,234
Finland	226	2,726,336	9,092	109,680,727	9,318	112,407,063
France	2,672	32,233,491	107,349	1,294,997,403	110,021	1,327,230,894
Germany	2,672	32,233,491	107,349	1,294,997,403	110,021	1,327,230,894
Israel	223	2,690,145	8,966	108,160,735	9,189	110,850,880
Italy	2,672	32,233,491	107,349	1,294,997,403	110,021	1,327,230,894
Japan	7,047	85,011,008	283,142	3,415,664,371	290,189	3,500,675,379
Korea	5	60,317	216	2,605,701	221	2,666,019
Netherlands	476	5,742,194	19,163	231,171,555	19,639	236,913,749
Norway	241	2,907,287	9,663	116,568,947	9,904	119,476,234
Portugal	77	928,884	3,116	37,589,655	3,193	38,518,540
Slovenia	43	521,485	1,737	20,951,425	1,780	21,472,910
Spain	2,672	32,233,491	107,349	1,294,997,403	110,021	1,327,230,894
Sweden	461	5,561,242	18,528	223,511,275	18,989	229,072,517
Switzerland	665	8,022,183	26,693	322,009,201	27,358	330,031,383
United Kingdom	1,357	16,370,078	54,553	658,096,427	55,910	674,466,504
Total	22,515	271,610,937	904,686	10,913,615,629	927,201	11,185,226,566
GRAND TOTAL[3/]	140,919	1,699,969,585	5,661,741	68,300,026,949	5,802,660	69,999,996,534

1/ Expressed in current United States dollars at the rate of US$12,063.43238 per share pursuant to the provisions of the Agreement Establishing the Bank that each share of the Bank's capital stock shall have a par value of $10,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1959. The General Counsel of the Bank has rendered an opinion that since the effectiveness on April 1, 1978 of the Second Amendment to the Articles of Agreement of the International Monetary Fund, which eliminated par values of currencies in terms of gold, the Special Drawing Right (SDR) has become the successor to the 1959 U.S. dollar as the standard unit of value of the Bank's capital stock. The Bank's governing boards have not yet made a decision on this matter.

2/ Excludes Canada's 334,887 non-voting temporary callable shares with a par value of US$4,039.9 million.

3/ Total US$ amounts calculated using share price of US$12,063.43238 multiplied by the number of shares, which when rounded achieves the proposed US$70 billion capital increase.

(b) Each subscribing member shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.

(c) The subscription of each member to the additional paid-in Ordinary Capital stock shall be on the following terms and conditions:

i. The subscription price per share shall be the par value of each share as provided in the Agreement Establishing the Inter-American Development Bank.

ii. The subscriptions of members to paid-in Ordinary Capital stock shall be in five equal installments, effective, respectively, on October 31st in each of the years 2011 through 2015, or such later dates as the Board of Executive Directors shall determine, and payments for each installment are due within 30 days of the respective effective dates established hereunder.

iii. The subscription of each member to the paid-in Ordinary Capital stock shall be paid entirely in United States dollars. The entire paid-in subscriptions shall be subject to the provisions of Article V, Section 1(b)(i) of the Agreement Establishing the Inter-American Development Bank.

iv. The Bank may accept non-negotiable, non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4 of the Agreement Establishing the Inter-American Development Bank in lieu of the payment of all or any part of a member's subscription to the paid-in Ordinary Capital stock. Each such promissory note or security shall be redeemed by the Bank in an amount corresponding to the amount payable by the member on the respective due date.

(d) The subscription of each member to the additional callable Ordinary Capital stock shall be on the following terms and conditions:

i. The subscription price per share shall be the par value of each share as provided in the Agreement Establishing the Inter-American Development Bank.

ii. The subscriptions of members to the callable Ordinary Capital stock shall be in five equal installments, effective, respectively, on October 31st in each of the years 2011 through 2015, or such later dates as the Board of Executive Directors shall determine.

Section 3. Voting power

The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to the Ordinary Capital increase provided for in this Resolution, with the same force and effect as if fully set forth herein.

(Adopted ______ __, ____)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION AG-__/__

Increase in the Resources of the Fund for Special Operations
and Contributions Thereto

WHEREAS, on March 22, 2010, the Board of Governors approved the Cancún Declaration (Document AB-2728), thereby agreeing to pursue a Ninth General Increase in the Resources of the Inter-American Development Bank and to undertake associated measures;

WHEREAS, the Board of Executive Directors and Management have prepared a technical document and legal instruments necessary for such an increase, entitled "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank," Document AB-2764 (the "Report");

WHEREAS, the Board of Governors has, pursuant to Resolution AG-__/__ approved the Report and has urged the members of the Bank to vote on the Proposed Resolutions attached to the Report and to take such actions as may be necessary to give effect to the initiatives provided for in the Report, including an increase in the resources of the Fund for Special Operations, as soon as possible; and

WHEREAS Article IV, Section 3(g) of the Agreement Establishing the Inter-American Development Bank, provides for increases in the resources of the Fund for Special Operations through additional contributions by the members;

The Board of Governors

RESOLVES THAT:

Section 1. <u>Increase in the resources of the Fund for Special Operations</u>

Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased through additional contributions by the members (referred to individually or collectively as a "Contribution" or "Contributions") in amounts not less than those indicated for the respective members, as provided for in the Tables below, as applicable, attached to this resolution and incorporated herein.

Section 2. Instrument of Contribution

(a) To make a Contribution under this resolution, the member shall deposit with the Bank an Instrument of Contribution formally confirming the member's intention to contribute and specifying the amount of its Contribution as set forth in Tables I and II, as applicable, attached to this resolution.

(b) Subject to the provisions of Section 2(c) below, the Instrument of Contribution shall constitute an unqualified commitment by the member to the Bank to make payment of the Contribution in the manner and on the terms set forth in or contemplated by this resolution. For the purposes of this resolution, a Contribution covered by such an Instrument shall be called an Unqualified Contribution.

(c) As an exceptional case, where an Unqualified Contribution commitment cannot be given by a member due to its legislative practice, the Bank may accept from that member an Instrument of Contribution which contains the qualification that a payment or payments hereunder are subject to subsequent budgetary appropriations. Such an Instrument of Contribution, however, shall include an undertaking to seek the necessary appropriations in a manner that would provide for the timely payment of each installment, during the period of the increase and to notify the Bank as soon as each such appropriation is obtained. For the purposes of this resolution, a Contribution covered by such an Instrument shall be called a Qualified Contribution, and it shall be deemed to be Unqualified to the extent that appropriations have been obtained.

Section 3. Entry into effect

(a) None of the Contributions shall become payable unless on or before October 31, 2011, or such later date as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank Instruments (which, for the purposes of this Section 3, shall include Instruments of Advance Contribution, as provided for in paragraph 7.5 of the Report) representing Unqualified and Qualified Contributions totaling not less than the equivalent of US$359,250,000 of the increase in the Fund for Special Operations.

(b) Instruments of Contribution deposited on or before the effective date of the increase shall take effect on that date, and Instruments of Contribution deposited after such date shall take effect on their respective dates of deposit.

Section 4. Contributions

(a) Each member shall make its Contributions in United States dollars.

(b) The Contributions shall be made, at the election of each member making a Contribution, either in one installment or five equal installments. If a member elects to make its Contribution in one installment, the effective date of such installment shall be October 31, 2011, or such later date as the Board of Executive Directors shall determine, and the amount payable shall be that indicated for such member in Table I attached to this resolution. If a member elects to make its

Contribution in five equal installments, the effective date of each installment shall be October 31st in each of the years 2011 through 2015, or such later dates as the Board of Executive Directors shall determine, and the amount payable shall be that indicated for such member in Table II attached to this resolution. Payments for each installment of the Unqualified Contributions are due within 30 days of the respective effective dates established hereunder. Payments in respect of a Qualified Contribution shall be made within 30 days as and to the extent that each installment has become Unqualified and should be made on the respective annual payment dates specified in the foregoing provisions of this paragraph.

(c) The Bank may accept non-negotiable non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4 of the Agreement Establishing the Inter-American Development Bank, in lieu of the immediate payment of all or any part of a member's Contribution to each installment. Each such promissory note or security shall be redeemed by the Bank in an amount corresponding to the amount payable by the member on the respective due date.

(d) Notwithstanding the foregoing provisions of this Section 4, no member shall be obligated to make any payment in respect of its Contribution except to the extent that its Contribution has become available for loan commitments as specified in Section 5 below.

Section 5. Conditions for loan commitment

Each Qualified Contribution (unless it has become unqualified as scheduled) shall become available for loan commitments as and to the extent that it has become unqualified.

Section 6. Listing commitments

If there are Qualified Contributions which have not been made unqualified, the Bank shall promptly notify all member countries, and member countries which have made Unqualified Contributions, or whose Qualified Contributions have become unqualified may, after consultation with the Board of Executive Directors, notify the Bank in writing that the Bank should refrain from making loan commitments against their Contributions to the respective installment. The maximum amount of such reduced loan commitments shall be in proportion to the extent that the respective installment of the relevant Qualified Contribution has not become unqualified.

Section 7. Meeting of member countries

If, in the course of the increase in the resources of the Fund for Special Operations contemplated herein, delays or readjustments in the making of Contributions or their availability for loan commitments prevent, or appear likely to prevent, the substantial attainment of the goals of the increase, the Bank will convene a meeting of representatives of the member countries to review the situation and consider ways of obtaining the necessary Contributions.

Section 8. Further increase in the resources of the Fund for Special Operations

In accordance with the Cancún Declaration, before 2020 Governors will review the need for a new replenishment of the Fund for Special Operations.

(Adopted on __ _____ 20__)

Table I FSO Contributions[1]
(One installment contribution)

FSO Contribution Amount: US$479,000,000

Members	Subscriptions as of Year-end 2009	Participation as of Year-end 2009	IDB-9 Contribution	After IDB-9 Cumulative Contributions	Participation after IDB-9
Argentina.	505,381,958	5.18%	24,797,175	530,179,133	5.18%
Austria.	20,000,299	0.20%	981,339	20,981,638	0.20%
Bahamas.	10,553,125	0.11%	517,802	11,070,927	0.11%
Barbados.	1,820,573	0.02%	89,329	1,909,902	0.02%
Belgium.	42,482,948	0.44%	2,084,477	44,567,425	0.44%
Belize.	7,561,507	0.08%	371,014	7,932,521	0.08%
Bolivia.	48,662,860	0.50%	2,387,702	51,050,562	0.50%
Brazil.	544,413,315	5.58%	26,712,296	571,125,611	5.58%
Canada.	310,175,568	3.18%	15,219,138	325,394,706	3.18%
Chile.	157,668,964	1.62%	7,736,218	165,405,182	1.62%
China.	125,000,000	1.28%	6,133,276	131,133,276	1.28%
Colombia	153,672,318	1.57%	7,540,118	161,212,436	1.57%
Costa Rica	23,364,342	0.24%	1,146,400	24,510,741	0.24%
Croatia	5,906,494	0.06%	289,809	6,196,303	0.06%
Denmark.	20,010,557	0.20%	981,842	20,992,399	0.20%
Dominican Republic .	33,901,312	0.35%	1,663,409	35,564,721	0.35%
Ecuador.	30,291,478	0.31%	1,486,288	31,777,766	0.31%
El Salvador.	21,388,316	0.22%	1,049,444	22,437,759	0.22%
Finland.	18,987,639	0.19%	931,651	19,919,290	0.19%
France.	221,115,217	2.26%	10,849,285	231,964,501	2.26%
Germany.	230,022,649	2.36%	11,286,339	241,308,988	2.36%
Guatemala.	32,835,960	0.34%	1,611,136	34,447,096	0.34%
Guyana	8,331,431	0.09%	408,792	8,740,223	0.09%
Haiti.	21,769,487	0.22%	1,068,146	22,837,633	0.22%
Honduras	26,525,986	0.27%	1,301,530	27,827,516	0.27%
Israel.	18,010,386	0.18%	883,701	18,894,088	0.18%
Italy.	215,741,679	2.21%	10,585,626	226,327,305	2.21%
Jamaica.	28,783,478	0.29%	1,412,296	30,195,774	0.29%
Japan.	591,865,776	6.06%	29,040,608	620,906,384	6.06%
Korea[2].	-	0.00%	-	-	0.00%
Mexico.	329,016,458	3.37%	16,143,589	345,160,047	3.37%
Netherlands.	36,937,164	0.38%	1,812,367	38,749,531	0.38%
Nicaragua.	24,159,933	0.25%	1,185,436	25,345,369	0.25%
Norway.	19,993,171	0.20%	980,989	20,974,160	0.20%
Panama.	25,356,299	0.26%	1,244,137	26,600,437	0.26%
Paraguay.	27,913,944	0.29%	1,369,631	29,283,575	0.29%
Peru.	79,749,987	0.82%	3,913,029	83,663,017	0.82%
Portugal.	7,837,822	0.08%	384,572	8,222,394	0.08%
Slovenia.	3,344,875	0.03%	164,120	3,508,995	0.03%
Spain.	215,777,339	2.21%	10,587,375	226,364,715	2.21%
Suriname.	6,266,636	0.06%	307,480	6,574,116	0.06%
Sweden.	40,115,438	0.41%	1,968,312	42,083,751	0.41%
Switzerland.	63,073,845	0.65%	3,094,794	66,168,639	0.65%
Trinidad and Tobago.	20,942,065	0.21%	1,027,548	21,969,613	0.21%
United Kingdom . . .	175,273,124	1.80%	8,599,987	183,873,111	1.80%
United States.	4,839,113,718	49.57%	237,436,950	5,076,550,668	49.57%
Uruguay.	55,873,367	0.57%	2,741,494	58,614,861	0.57%
Venezuela.	315,329,122	3.23%	15,472,004	330,801,126	3.23%
TOTAL[3]	9,762,319,931	100.00%	479,000,000	10,241,319,931	100.00%

[1] This table for contributions to the FSO provides that amounts have been fully allocated in accordance with the distribution contemplated in the Agreement Establishing the Bank, Article IV, Section 3(g).

[2] Korea has indicated its consideration of a contribution to the FSO of US$1,000,000.

[3] Present value calculated as described in document CS-3869 "Present Value Analysis of Haiti Debt Forgiveness". Totals reflect rounding of figures.

Table II FSO Contributions[1]
(Contribution in five installments)

Members	TOTAL[2]	2011 First Installment	2012 Second Installment	2013 Third Installment	2014 Fourth Installment	2015 Fifth Installment
Argentina	26,779,413	5,355,883	5,355,883	5,355,883	5,355,883	5,355,883
Austria	1,059,785	211,957	211,957	211,957	211,957	211,957
Bahamas	559,194	111,839	111,839	111,839	111,839	111,839
Barbados	96,469	19,294	19,294	19,294	19,294	19,294
Belgium	2,251,106	450,221	450,221	450,221	450,221	450,221
Belize	400,673	80,135	80,135	80,135	80,135	80,135
Bolivia	2,578,570	515,714	515,714	515,714	515,714	515,714
Brazil	28,847,625	5,769,525	5,769,525	5,769,525	5,769,525	5,769,525
Canada	16,435,726	3,287,145	3,287,145	3,287,145	3,287,145	3,287,145
Chile	8,354,636	1,670,927	1,670,927	1,670,927	1,670,927	1,670,927
China	6,623,558	1,324,712	1,324,712	1,324,712	1,324,712	1,324,712
Colombia	8,142,860	1,628,572	1,628,572	1,628,572	1,628,572	1,628,572
Costa Rica	1,238,041	247,608	247,608	247,608	247,608	247,608
Croatia	312,976	62,595	62,595	62,595	62,595	62,595
Denmark	1,060,329	212,066	212,066	212,066	212,066	212,066
Dominican Republic	1,796,378	359,276	359,276	359,276	359,276	359,276
Ecuador	1,605,099	321,020	321,020	321,020	321,020	321,020
El Salvador	1,133,334	226,667	226,667	226,667	226,667	226,667
Finland	1,006,126	201,225	201,225	201,225	201,225	201,225
France	11,716,555	2,343,311	2,343,311	2,343,311	2,343,311	2,343,311
Germany	12,188,547	2,437,709	2,437,709	2,437,709	2,437,709	2,437,709
Guatemala	1,739,927	347,985	347,985	347,985	347,985	347,985
Guyana	441,470	88,294	88,294	88,294	88,294	88,294
Haiti	1,153,532	230,706	230,706	230,706	230,706	230,706
Honduras	1,405,571	281,114	281,114	281,114	281,114	281,114
Israel	954,343	190,869	190,869	190,869	190,869	190,869
Italy	11,431,820	2,286,364	2,286,364	2,286,364	2,286,364	2,286,364
Jamaica	1,525,192	305,038	305,038	305,038	305,038	305,038
Japan	31,362,057	6,272,411	6,272,411	6,272,411	6,272,411	6,272,411
Korea[3]	-	-	-	-	-	-
Mexico	17,434,076	3,486,815	3,486,815	3,486,815	3,486,815	3,486,815
Netherlands	1,957,244	391,449	391,449	391,449	391,449	391,449
Nicaragua	1,280,198	256,040	256,040	256,040	256,040	256,040
Norway	1,059,407	211,881	211,881	211,881	211,881	211,881
Panama	1,343,591	268,718	268,718	268,718	268,718	268,718
Paraguay	1,479,117	295,823	295,823	295,823	295,823	295,823
Peru	4,225,829	845,166	845,166	845,166	845,166	845,166
Portugal	415,314	83,063	83,063	83,063	83,063	83,063
Slovenia	177,240	35,448	35,448	35,448	35,448	35,448
Spain	11,433,709	2,286,742	2,286,742	2,286,742	2,286,742	2,286,742
Suriname	332,059	66,412	66,412	66,412	66,412	66,412
Sweden	2,125,655	425,131	425,131	425,131	425,131	425,131
Switzerland	3,342,186	668,437	668,437	668,437	668,437	668,437
Trinidad and Tobago	1,109,688	221,938	221,938	221,938	221,938	221,938
United Kingdom	9,287,453	1,857,491	1,857,491	1,857,491	1,857,491	1,857,491
United States	256,417,196	51,283,439	51,283,439	51,283,439	51,283,439	51,283,439
Uruguay	2,960,644	592,129	592,129	592,129	592,129	592,129
Venezuela	16,708,805	3,341,761	3,341,761	3,341,761	3,341,761	3,341,761
TOTAL	517,290,324	103,458,065	103,458,065	103,458,065	103,458,065	103,458,065
Present Value[4]	**479,000,000**	103,458,065	99,478,908	95,652,797	91,973,843	88,436,387

[1] This table for contributions to the FSO provides that amounts have been fully allocated in accordance with the distribution contemplated in the Agreement Establishing the Bank, Article IV, Section 3(g).

[2] Totals reflect rounding of figures.

[3] Korea has indicated its consideration of a contribution to the FSO of US$1,000,000.

[4] Present value calculated as described in document CS-3869 "Present Value Analysis of Haiti Debt Forgiveness".

ANNEX 1:
IDB RESULTS FRAMEWORK 2012-2015

May 20, 2010

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ABBREVIATIONS

ADB	Asian Development Bank
BSC	Balanced Scorecard
CIDA	Canadian International Development Agency
CPF	Corporate Performance Framework
DEF	Development Effectiveness Framework
DEM	Development Effectiveness Matrix
DEO	Development Effectiveness Overview
EFS	External Feedback System
GCI	General Capital Increase
GDP	Gross Domestic Product
GNP	Gross National Product
IDA	International Development Association
IDB	Inter American Development Bank
KCP	Knowledge and Capacity Building Products
LAC	Latin America and the Caribbean
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
NOF	New Operational Framework
NPC	Non Personnel Cost
OPC	Operations Policy Committee
OVE	Office of Evaluation and Oversight
PBB	Performance-Based Budgeting
PC	Personnel Cost
PMR	Progress Monitoring Report
PTI	Poverty Targeted Investment
QBR	Quarterly Business Reviews
RF	IDB Results Framework
SC	Strategic Core
SG	Sovereign Guaranteed
TC	Technical Assistance
XPMR	Expanded Performance Monitoring Report
World Bank	WB

I. BACKGROUND

1.1 The purpose of this document is to present a proposal of the Bank's Results Framework (RF) in the context of the General Capital Increase (GCI) discussions. The RF is based on the Bank's five institutional priorities, and will allow shareholders to monitor the Bank's contribution towards selected regional development goals as well as desired progress on output indicators and operational effectiveness and efficiency. The RF is an integral part of the Bank's efforts to use empirical evidence to manage for development results and is central to ensuring accountability for delivering results. The implementation of the RF will use monitoring and reporting instruments already in place, but it will also require promoting more emphasis on results throughout the Bank.

1.2 The RF is an important change in relation to the agreement of the Eighth General Capital Increase (IDB-8). Although, during the 15 years of IDB-8 implementation the Bank has collected many success stories of its interventions on almost all countries of the Region, showing systematic results has not been possible. The Office of Evaluation and Oversight's (OVE) findings regarding IDB-8[1] indicate that: "…*the essential characteristics of the IDB-8 agreement focused on areas of effort with vague and non-prioritized lists of desirable actions to be taken….*" In this light, OVE recommended *"a fully specified Results Framework consisting of indicators, baselines, targets and methods of verification for every proposed development objective."*

1.3 The Bank's monitoring efforts in IDB-8 focused on achieving the main mandates of two specific lending targets. One for poverty reduction and social equity (40% in volume and 50% in number of operations) and the other one for lending to the poorest countries in the region (35% in volume to Group II countries). No other specific indicators for reporting on results were set, neither on Bank's interventions nor on sectors. The RF considers what was done in IDB-8 in measuring efforts (lending targets), as well as going beyond by including specific indicators, baselines and targets.

1.4 The RF presented in this document is modeled after lessons learned and best practices from others in the development community. One such case is the Asian Development Bank (ADB). The ADB developed its results framework as part of the process to define a strategic framework which was at the same time, an input into its capital increase approved in 2009. ADB's results framework included regional outcomes, outputs and operational and organizational efficiency indicators. Also the World Bank (WB) has been working on defining core indicators (outcome and outputs) per sector for the International Development Association (IDA), as well as working on a system for aggregating them at corporate, regional and country level as part of their results platform. Other best practices adopted include the UK Department for International Development (DFID), Canadian International Development Agency, and the US Millennium Challenge Corporation, among others.

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[1] Evaluation Findings Regarding IDB-8 Guidance and Implications for Future Capital Increase Agreements, RE-354

1.5 The RF reflects the five principles of the Paris Declaration. The Bank's efforts to strengthen its capability to manage for development results through the Development Effectiveness Framework (DEF) is key for the implementation of the RF. Approved in 2008, the DEF adopted international standards for evaluating development interventions recommended by the MDBs Evaluation Cooperation Group to promote evaluation harmonization among MDBs. The instruments of the DEF allows the Bank to measure and monitor development effectiveness of all the Bank's interventions.

1.6 Also, the RF considers the improvements needed to collect information so that results can be quantified and lessons learned captured. The RF contains specific targets and program estimates for the 2012-2015 period. Progress will be reported annually through the Development Effectiveness Overview (DEO) and an evaluation will be carried out at the end of the four year period to provide inputs for reviewing institutional priorities. The Bank will continue to report on the commitments of IDB-8 up to 2011.

1.7 This proposal is divided into six chapters: (i) Components of the Results Framework; (ii) Lending program priority targets; (iii) Regional goals and Bank's output contribution for 2012-2015; (iv) Operational effectiveness and efficiency; (v) monitoring and reporting the results framework; and (vi) Result's Framework and IDB's budget process.

II. COMPONENTS OF RESULTS FRAMEWORK

2.1 Given the Bank's volume and quantity of loans, number of sectors, and number of partner countries, it is extremely difficult to select indicators that adequately reflect the Bank's work. A sufficient number of Knowledge and Capacity Building Products (KCPs) will accompany all areas of Bank's interventions to ensure Bank's work is based on best available information. Following international best practices, the RF has four components:

a. **Lending program priorities** will provide guidance on relative priorities for lending and enable monitoring of the specific priority areas.

b. **Regional development goals** will provide data on development challenges in Latin America and the Caribbean region by tracking the progress on key development indicators in the five institutional priorities defined in the GCI.

c. **Output contribution to regional goals** will monitor the direct contribution of Bank interventions towards achieving regional development goals.

d. **Operational effectiveness and efficiency** will monitor the Bank's development results and contain indicators of internal accountability instruments and performance measurement.

2.2 KCPs will contribute to understand the linkages between outputs and outcomes described above and lessons will be collected and provide important insight to adjust the framework. Monitoring the set of indicators proposed will contribute to increased transparency and accountability. The selection of lending program priorities, outputs and regional development goals has been an iterative process based on priorities signaled by the Governors in the GCI discussions as well as lessons from the review of IDB-8. With a capital increase that will sustain levels of US$12 billion of annual lending, and countries demand in priority areas, targets were estimated for selected outputs that will contribute to regional goals. These numbers will be adjusted once the GCI is agreed. Lending program priorities will be reviewed and discussed quarterly in the Operations Policy Committee to monitor progress.

III. LENDING PROGRAM PRIORITY TARGETS

3.1 Lending targets are an expression of Bank highest priorities and mandates. As best practices recommend, the number of targets should be limited and focused. The proposed lending targets for the 2012-2015 period will concentrate on four areas: (i) supporting development in small and vulnerable countries; (ii) help countries reduce poverty and enhance equity; (iii) assisting borrowers in dealing with climate change, sustainable energy (including renewable), and environmental sustainability; and (iv) increasing regional cooperation and integration.

3.2 The targets include both Sovereign (SG) and Non Sovereign Guaranteed (NSG) operations and are expressed as a percentage of total lending and not the number of projects. Although, the number of projects is used by the Bank for internal workload and budget management, in order to measure efforts, the Bank considers using lending volume more representative. The baselines are an average of lending volumes for 2006-2009. The estimated lending volumes will be revised once the GCI is agreed. The baselines and estimated lending volumes are presented in Table 1 below.

Table 1: Lending Program Estimates to be reached by end of 2015 for SG and NSG Operations

Lending program indicators	Percent of total lending	
	Baseline	Estimated
	2006 - 2009	2015
1.1 Lending to small and vulnerable countries	27%	35%
1.2 Lending for poverty reduction and equity enhancement	40%	50%
1.3 Lending to support climate change initiatives, sustainable energy (including renewable) and environmental sustainability	5%	25%
1.4 Lending to support regional cooperation and integration	10%	15%

Note: Since projects can qualify for more than one lending category the estimated percentages proposed do not add to 100%

3.3 Loans have eligibility rules to qualify for lending categories, which are not mutually exclusive. Loans might qualify totally or partially for one or more categories and therefore the lending estimate percentages do not add up to 100%. Loan documents will include the category or categories for which they have been classified.

3.4 Although the Bank did not previously report on the four lending categories proposed, it is possible to group past approved projects in each of them and therefore allow for the calculation of baselines for projects approved in 2006-2009. In this period, 67% of the average lending qualified for one or more of the different combinations of the lending categories. The remaining 33% of the Bank's resources were allocated for other operations that did not qualify for any of the lending categories.

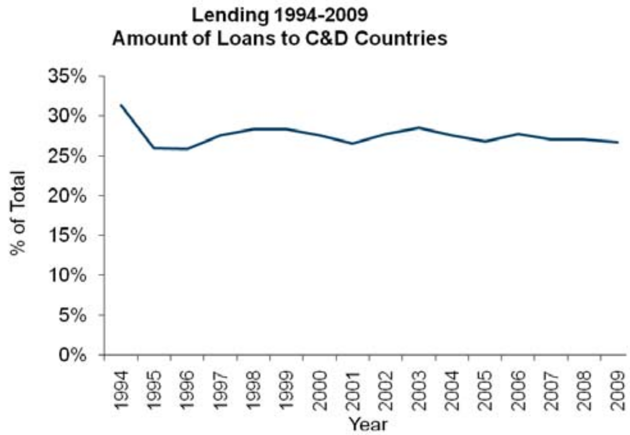
3.5 With the proposed estimated lending program, 83% of the resources available with GCI will meet the criteria for any combination of the four categories in comparison to the current 67%. Therefore the percentage of operations that do not qualify as part of any of the categories will decrease from 33% in the 2006-2009 to 17% at the end of 2012-2015 period.

3.6 Baselines for lending indicators were calculated as an average of the 2006-2009 period using the new criteria proposed below. The four year estimates of baselines were used because the targets are also set for a four year period. The estimated lending volume goals for each of the lending categories are set to be met at the end 2012-2015 period. At all times, the pursuit of the lending volume targets are subject to risk assessment and prudency of debt constraints, particularly for small and vulnerable countries. The following section provides additional detail on each of the four lending targets.

A. Support development to small and vulnerable countries

3.7 **Background.** The IDB-8 Agreement established an indicative goal to lend 35% to Country Groups C and D which were: Ecuador, Dominican Republic, Guatemala, Uruguay, Costa Rica, Trinidad and Tobago, Panama, El Salvador, Bolivia, Paraguay, Jamaica, Honduras, Bahamas, Haiti, Nicaragua, Barbados, Suriname, Belize and Guyana.

3.8 On a cumulative basis, lending to C and D countries amounted to US$29.5 billion which represents 27% of total IDB-8 SG and NSG lending. See Figure II-1 below.

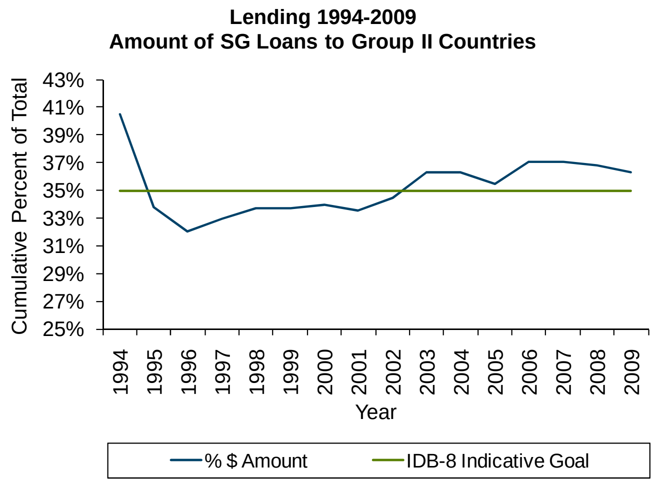


3.9 In 1998, as part of the Agreement on concessional resources of the Bank and related matters, Governors redefined the target to focus on the "poorest countries", within the spirit of the original IDB-8 Agreement, based on per capita Gross National Product (GNP). These "Group II" countries were defined as those with per capita GNPs below $ 3,200 in 1997 US dollars. On this basis, the groups established were:

Group I: Argentina, Bahamas, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela.

Group II: Belize, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname.

3.10 Over the IDB-8 period SG lending to Group II countries varied widely on an annual basis from a low of 27.8% in 2005 to a high of 65.1% in 2003. On a cumulative basis from 1994 through 2009, SG lending to Group II countries totaled US$36.5 billion, 36% of total IDB-8 SG lending. See Figure II-2 below.



3.11 **Proposed lending target for small <u>and</u> vulnerable countries.** "Vulnerable countries" in the economic sense are those with smaller and less developed economies and populations. Countries are placed in two groups: a) large economies; and b) smaller economies, depending on the size of their economies as measured by their Gross Domestic Product.

3.12 Large economies, that conform Groups A and B in the Bank's borrowing member groupings, have a GDP higher than US$127 billion. Group A countries are considered to have reached an advanced stage of growth and their external sectors have developed sufficiently to provide economic impact, although investment growth is necessary. Group B countries have large national products and total population, ensuring that their domestic markets have greater potential.

3.13 Smaller economies, that conform Groups C and D, have a GDP lower than US$55 billion. This cut off was chosen because there is a jump in the descending order of countries' GDPs from Peru's US$ 127.5 billion which more than doubles that of Ecuador's US$54.7 billion. Group C countries are those that have structural constraints that lead to insufficient markets, therefore making them particularly vulnerable to external shocks. Group D countries are those that register the lowest economic and social indices in the Region. There are seven countries classified as having large economies and nineteen having smaller economies. The countries in each group (in descending order for the size of their GDP) are:

Large economy (Groups A and B): Brazil, Mexico, Argentina, Venezuela, Colombia, Chile and Peru.

Smaller economy (Groups C and D): Ecuador, Dominican Republic, Guatemala, Uruguay, Costa Rica, Trinidad and Tobago, Panama, El Salvador, Bolivia, Paraguay, Jamaica, Honduras, Bahamas, Haiti, Nicaragua, Barbados, Suriname, Belize and Guyana.

Size of economy	Country	Gross Domestic Product $US Billions
Larger Economies	Brazil	1,572.8
	Mexico	1,088.1
	Argentina	324.8
	Venezuela	319.4
	Colombia	240.8
	Chile	169.5
	Peru	127.5
	Ecuador	54.7
Smaller Economies	Dominican Republic	44.4
	Guatemala	39.0
	Uruguay	32.2
	Costa Rica	29.7
	Trinidad & Tobago	25.9
	Panama	23.1
	El Salvador	22.1
	Bolivia,	16.6
	Paraguay	16.0
	Jamaica	14.0
	Honduras	14.0
	Bahamas	7.6
	Haiti	6.9
	Nicaragua	6.4
	Barbados	3.7
	Suriname	2.9
	Belize	1.4
	Guyana	1.2

3.14 There are, therefore, 19 small and vulnerable countries (those included in Groups C and D) and the proposal is to increase lending to small and vulnerable countries from the 27% baseline to 35% at the end of 2015. This range considers the external debt composition of small and vulnerable countries which is affected by their relative absorption capacity for multilateral debt.

B. Lending to poverty reduction and equity enhancement operations

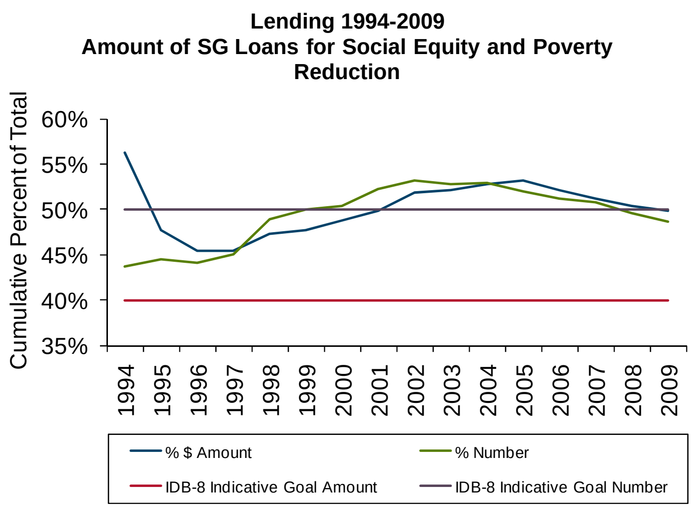
3.15 **Background.** The IDB-8 Agreement sought to promote poverty reduction and social equity with a broad range of lending and other activities and contained an objective that the Bank should have 40% of the volume and 50% of the number of operations devoted to this mandate. The IDB-8 document defined this mandate as including:

> "...initiatives in education, health, sanitation, nutrition and housing solutions as well as activities reaching beyond the traditionally defined social rectors, in the fields of urban and rural development, job creation,-particularly through the microenterprise and small business sectors, environment and the modernization of the State, to the extent that these address issues of social equity and poverty reduction."

3.16 The definition of poverty reduction and social equity projects was subsequently refined to be lending for projects in education, health, sanitation, nutrition, and housing as well as

Poverty Targeted Investment (PTI) projects. Loans could qualify as PTI, if they had one of three non-mutually exclusive criteria: (i) sector automatic; (ii) geographic; and (iii) headcount.

3.17 For the 1994-2009 period, the cumulative amount of SG lending for poverty reduction and social equity projects was US$50 billion with 583 projects. This represents 50% of the total SG lending volume (excluding emergency lending[2]) and 49% of the number of operations and helped countries in reaching their MDG goals. See Figure II-3 below.



3.18 **Proposed lending target for poverty reduction and equity enhancement operations.** Based on an analysis of the IDB-8 indicator, the RF proposes a refinement definition for Poverty Reduction and Equity Enhancement classification. Certain sectors qualify automatically (similar to the PTI), but the sectors that qualified in IDB-8 were expanded to include current institutional priorities. In addition, the geographic and headcount criteria were slightly modified from the PTI classification, see below. Poverty Reduction and Equity Enhancement would be applicable to all loans, except emergency loans, and would include:

a. Operations supporting health, nutrition, early childhood development, education including pre-school, targeted poverty alleviation programs, social programs for at risk children and youth, programs to improve the functioning of labor markets, social insurance (social protection and social security) reforms, **measures that improve the insertion of poor workers into higher productivity jobs (regulatory, fiscal, financial market reforms that aim at increasing firms' incentives to hire workers formally)**, emergency employment programs, social investment funds,

2 In accordance with AG-7/98 (December 11, 1998) and paragraph 11 of the Annex to AG-1/02 (March 1,2002), emergency lending is excluded from the calculation of the targets for poverty reduction and social equity lending.

urban development of marginalized areas, housing, **access to** water and sanitation, small-holder agricultural production; or

b. Operations in other sectors that are expected to have significant direct impact on poverty reduction and equity enhancement, such as infrastructure projects in transport, water, and energy in poor areas. The latter will be assessed by complying with at least one of the following criteria:

i. **Geographic Classification**: project benefits are targeted to regions, cities, neighborhoods, or areas identified as poor within each country. Proxy income and consumption measures such as unsatisfied basic needs, multi-dimensional poverty indicators, welfare indices derived from mean and proxy mean tests, below country-average social indicators or other household characteristics that are strongly correlated with poverty may be used to classify such areas. Projects will include a justification on a case by case basis on how the targeting mechanism was used, giving the specific characteristics of the operation and how it targets resources directed to the poor. Generally if the indicators are below the country averages, the project will be classified as a *Poverty Reduction and Equity Enhancement;* or

ii. **Headcount Classification:** when more than 50% of the potential beneficiaries of the operation are likely to be poor according to a country's official poverty line. If headcount classification is used, then the calculation will be included as part of the project document.

3.19 The proposal is to increase the lending volume for poverty reduction and equity enhancement from 40% up to 50% at the end of 2015.

C. Lending to support climate change initiatives, sustainable energy (incluiding renewable), and environmental sustainability

3.20 **Background.** Addressing issues of climate change is a new area of emerging demand for the Bank. A Climate Change Strategy will be presented to the Board in 2010, which will help guide how to scale up support for actions for climate change mitigation and adaptation. It will foster development and use of public and private sector financial and non financial instruments to strengthen institutional, technical and financial capacity. An action plan will also be developed.

3.21 The Climate Change Strategy will include issues for addressing growing demand of climate change, including the need to increase the knowledge base, strengthen frameworks and build capacity as well as develop guidelines and criteria for mainstreaming climate change mitigation and adaptation in IDB operations. Climate change lending targets will include **(a) mitigation; (b) adaptation; and (c) sustainable practices.**

a. **Mitigation** will include low carbon transport, renewable energy including bio-energy, energy efficiency (industrial, public buildings, residential, and commercial), reforestation, and forest preservation as well as management of solid waste management and waste water treatment that increase methane capture and/or converts waste to energy.

b. **Adaptation** activities will include: technological development for resilient agricultural production, integrated water resources management, prevention of natural disasters, attention to ex-post health related issues (particularly for malaria, dengue and other vectors diseases increased by climate change), as well as sustainable management of coastal zones (includes conservation and protection).

c. **Sustainable practices** include activities in conservation and sustainable use of biodiversity, reduction of industrial contamination including management of persistent organic contaminants. Institutional strengthening for environmental sustainability and climate change adaptation or mitigation activities will also be included.

3.22 The proposal is to increase lending to climate change initiatives, renewable energy and environmental sustainability from 5% up to 25% at the end of 2015.

D. Lending to support regional cooperation and integration

3.23 **Background.** Fostering regional cooperation and integration is important for making contributions to economic development and to reducing most acute intraregional asymmetries.

3.24 To promote regional cooperation and integration loans may be approved for national or regional projects. Regional cooperation and integration also includes integration of financial and labor markets. Lending in this category includes five main areas: **(a) infrastructure; (b) regional initiatives; (c) institutional strengthening; (d) regional public goods; and (e) capacity development.**

a. **Infrastructure** will include building infrastructure corridors, including the transport sector (airports, road networks); energy sector (regional generation, transmission, and distribution); and telecommunication sector.

b. **Regional initiatives** include public and private (or PPP) operations under the umbrellas of the Mesoamerican Project[3] (the former Puebla-Panama Plan) and the Initiative for South American Regional Infrastructure Integration (IIRSA).[4]

[3] The Mesoamerica Project includes Belize, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Mexico and Panama.

c. **Institutional strengthening** will include activities to support regional integration and cooperation, both at the national and regional levels, including regulatory frameworks for trade policy, trade facilitation, trade finance, financial integration and cross-border investment.

d. **Regional public goods** will include activities to foster regional cooperation practices in areas such as education, health (including animal health), climate change, environment, migration, governance, and natural disasters.

e. **Capacity development** of both public and private sector initiatives to foster the promotion and sustainability of the integration agenda, both at the national and regional levels, including capacity building, training programs, regional project design, monitoring, and development effectiveness.

3.25 The proposal is to increase lending to support regional cooperation and integration from 10% up to 15% at the end of 2015.

IV. REGIONAL GOALS AND BANK OUTPUT CONTRIBUTIONS FOR 2012-2015

4.1 The Bank has identified both outputs and their contribution to regional goals which reflect the Region's challenges and the Bank's five institutional strategic priorities. The inclusion of both outputs and regional goals mirrors international best practices and intends to monitor results and track progress on key areas.

4.2 For selecting regional development goals key gaps and development challenges for the Region were identified. Criteria to select indicators included: (i) relevance to the Bank's priorities; (ii) whether it is a Millennium Development Goal (MDGs) or whether it has links to MDGs; (iii) the Bank's comparative advantage and future areas of expansion; and; (iv) whether it is included in the results frameworks or used by other international cooperation partners. Of the 23 regional goals selected, 19 are either MDGs or used by other partners and out of the 27 outputs, twenty are also measured by others. Identifying the indicators also used by others will facilitate dialogue and foster collaboration. See paragraphs 4.15 and 4.16 for a listing of shared regional goals and outputs.

4.3 The Bank considers it important to track Regional Goals measured as outcomes to monitor longer term development progress in the Region to inform what the Bank's contributions and priorities should be. Tracking them will contribute to indentify gaps or areas where the institutional priorities might need revision. Regional Goals will be collected in country strategies, at the aggregated level and in projects. See Table 2 below.

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[4] IIRSA includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela.

Table 2: Regional Development Goals

Goal	Baseline	Year
1 - Social policy for equity and productivity		
2.1.1 Extreme poverty rate	11.9	2007
2.1.2 Gini coefficient of per capita household income inequality	0.55	1999–2004
2.1.3 Share of youth ages 15 to 19 who complete ninth grade	0.47	2000–2007
2.1.4 Maternal mortality ratio	130	2005
2.1.5 Infant Mortality ratio	21	2007
2.1.6 Share of formal employment in total employment	46.3	2007
2 - Infrastructure for competitiveness and social welfare		
2.2.1 Incidence of waterborne diseases (per 100,000 inhabitants)	19	2002
2.2.2 Paved road coverage (Km/Km^2)	0.038	2006
2.2.3 Percent of households with electricity	93	2007
2.2.4 Proportion of urban population living in dwellings with hard floor	30	2008
3 - Institutions for growth and social welfare		
2.3.1 Percent of firms using Banks to finance investments	19.6	2006
2.3.2 Ratio of actual to potential tax revenues	78	2007
2.3.3 Percent of children under five whose birth was registered	90.6	2008
2.3.4 Public expenditure managed at the decentralized level as % total public expenditure	20	2007
2.3.5 Homicides per 100,000 inhabitants	27.5	2008
4 - Competitive regional and global international integration		
2.4.1 Trade openness (trade as percent of GDP)	84.9	2004–2007
2.4.2 Intraregional trade in LAC as percent of total merchandise trade	24.2 exports	2004-2007
	33.1 imports	
2.4.3 Foreign direct investment net inflows as percent of GDP	4.2	2004–2007
5 - Protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security		
2.5.1 CO2 emissions (kilograms) per $1 GDP (PPP)	0.29	2006
2.5.2 Countries with planning capacity in mitigation and adaptation of climate change	3	2009
2.5.3 Annual reported economic damages from natural disasters	$7.7 b	2007
2.5.4 Proportion of terrestrial and marine areas protected to total territorial area (%)	21	2009
2.5.5 Annual growth rate of agricultural GDP (%)	3.5	2007

4.4 A successful project that has been able to achieve its outputs might still not be able to achieve its outcome as there are many intervening factors not in the control of the project. Bank interventions generate outputs, which are deliverables produced during the execution of a project. Therefore, Regional Goals cannot be solely attributed to the Bank's interventions.

4.5 Because outputs are direct products and services that result from the execution of a project's activities, they are a better measure of the Bank's direct contribution. The indicators selected represent a big portion of the Bank's interventions, and reflect the institutional priorities, but are not to be considered exclusive. There are other outputs that are collected at project level and other outcomes for which the Bank contributes, but that are not reported in the RF. When outputs were selected, discussions on how best to deliver them took place and will also take place when reporting on them. See Table 3 below for a list of outputs proposed.

Table 3: Bank Output Contribution to Regional Development Goals 2012–2015

Expected results	Baseline[1] 2005-2008	Estimated outputs
1 - Social policy for equity and productivity		
3.1.1 Students benefited by education projects (girls, boys)	3,200,000	8,500,000
(a) girls (b) boys		
3.1.2 Teachers trained	175,000	530,000
3.1.3 Individuals (all, Indigenous, Afro-descendant) receiving a basic package of health services	2,000,000	23,000,000
(a) Indigenous; (b) Afro-descendants		
3.1.4 Individuals (all, Indigenous, Afro-descendant) receiving targeted anti-poverty program	n/a	16,000,000
(a) Indigenous; (b) Afro-descendants		
3.1.5 Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity	n/a	600,000
(a) men; (b) women		
3.1.6 Number of jobs added to formal sector	129,000	160,000
2 - Infrastructure for competitiveness and social welfare		
3.2.1 Households with new or upgraded water supply	1,500,000	2,770,000
3.2.1.1 Percentage of households with new or upgraded water supply that are:		
(a) Indigenous; (b) Afro-descendants		
3.2.2 Households with new or upgraded sanitary connections	680,000	3,600,000
3.2.2.1 Percentage of households with new or upgraded sanitary connections that are:		
(a) Indigenous; (b) Afro-descendants		
3.2.3 Km of inter-urban roads built or maintained/upgraded	22,000	53,000
3.2.4 Km of electricity transmission and distribution lines installed or upgraded	2,000	1,000
3.2.5 # of Households with new or upgraded dwellings	n/a	25,000
3.2.5.1 Percentage of households that are: (a) Indigenous; (b) Afro-descendants		
3 - Institutions for growth and social welfare		
3.3.1 Micro/Small/Medium productive Enterprises financed	220,000	120,000
3.3.2 Public Financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues)	24	28
3.3.3 Persons incorporated into a civil or identification registry	n/a	3,000,000
3.3.3.1 Percentage who are: (a) women; (b) men; (c) Indigenous; (d) Afro-descendants		
3.3.4 Municipal and other sub-national governments supported	n/a	1000
3.3.5 Cities benefited with citizen security projects	n/a	32
4 - Competitive regional and global international integration		
3.4.1 # of public trade officials and private entrepreneurs trained in trade and investment	n/a	65,000
3.4.1.1 percentage that are women		
3.4.2 Regional and sub-regional integration agreements and cooperation initiatives supported	n/a	10
3.4.3 # of cross border and transnational projects supported (infrastructure, and customs, etc)	26	22
3.4.4 Number of International trade transactions financed	561	1,000
3.4.5 Mobilization volume by NSG financed projects/companies	$25.3 billion	$31.2 billion
5 - Protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security		
3.5.1 Percentage of power generation capacity from low-carbon sources over total generation capacity funded by IDB (2)	91	93
3.5.2 Number of people given access to improved public low-carbon transportation systems	n/a	8,500,000
3.5.2.1 Percentage of people that are (a) Indigenous; (b) Afro-descendants		
3.5.3 National frameworks for climate change mitigation supported	n/a	5
3.5.4 Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing	n/a	10
3.5.5 Number of projects with components contributing to improved management of terrestrial and marine protected areas	15	30
3.5.6 Farmers given access to improved agricultural services and investments	n/a	5,000,000
3.5.6.1 Percentage that are (a) women; (b) men; (c) Indigenous; (d) Afro-descendants		

(1) Baseline numbers are collected from the information systems for the four-year period, where available. The Bank is committed to collecting baselines for indicators that will be disaggregated by gender and ethnicity.
(2) This output will be reported by low carbon as well as total capacity generated and disaggregated by NSG and SG.

4.6 Outputs will monitor the direct contribution of Bank interventions towards the achievement of the regional goals and will promote accountability of the Bank's resources. They will be collected at project level, country and aggregated levels.

4.7 Outputs are achieved with the flow of lending resources to countries. The proposed outputs take into account a sustained flow of existing resources in the active portfolio as well as resources available through the CGI.

4.8 The Bank has made the important step of committing to disaggregate the outputs by sex, race, and ethnicity where it is most pertinent. Unfortunately there is currently no baseline information available for the indicators which are to be disaggregated. Over the next 18 months, the Bank's Gender and Diversity Unit will start collecting baselines for the disaggregated indicators in a sample of countries and projects so the information is available for 2012. There are many information gaps and challenges in the disaggregation of data proposed, and the main lessons and challenges will be collected to disseminate particularly among staff in the design and monitoring of operations.

4.9 Every effort has been made to link outputs with regional goals, but it should be noted that their relationship is imperfect at best, and the achievement of an output does not necessarily mean that it will affect the related outcome because of other intervening factors. Links between outputs and regional goals have been identified in the same priority areas. However, links should not be considered exclusive, as there are some outputs which also contribute to Regional Development Goal**s** in other priority areas. For example, better maintained roads which reduce transport time can contribute to a woman with complications in labor to reach a health unit faster, thus potentially reducing maternal mortality. Links between outputs and Goals are presented below for each of the five priority areas.

4.10 **Priority area 1: Social policy for equity and productivity** will focus on increasing the quality and relevance of education, improving health outcomes, protecting households against risks, redistributing income effectively while fostering increases in labor productivity and tackling cross-cutting gender and diversity issues. The expected results and their contribution to regional goals in this priority area are:

Projects (OUTPUTS)	Regional Goals (OUTCOMES)
1. Social policy for equity and productivity	
Expected Result	Goals
Individuals (all, Indigenous, Afro-descendant) receiving targeted anti-poverty program	Extreme Poverty Rate reduced
	Gini coefficient reduced
Individuals (all, Indigenous, Afro-descendant) receiving a basic package of health services	Maternal mortality ratio reduced
	Infant mortality ratio reduced
Students benefited by education projects (girls, boys)	Share of youth ages 15 to 19 who completed 9th grade increased
Teachers trained	
Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity Number of jobs added to formal sector	Share of formal employment in total employment increased

4.11 **Priority area 2: Infrastructure for competitiveness and social welfare** will contribute to raising the welfare of households by providing increased access to water, sanitation, and electricity and enhance competitiveness in a globalized world by closing the gaps in transportation and increasing access to sustainable sources of energy and low cost of telecommunications. The expected results and their contribution to regional goals in this priority area are:

Projects (OUTPUTS)	Regional Goals (OUTCOMES)
2. Infrastructure for competitiveness and social welfare	
Expected Result	Goal
Households with new or upgraded water supply (Indigenous and Afro-descendants)	Incidence of water borne diseases (per 100,000 inhabitants) reduced
Households with new or upgraded sanitary connections (Indigenous and Afro-descendants)	
Km of inter-urban roads built or maintained/upgraded	Paved road coverage increased
KM of electricity transmission and distribution lines installed or upgraded	% of households with electricity or quality of services increased
# of households with new or upgraded dwellings (Indigenous and Afro-descendants)	Proportion of urban population living in dwellings with hard floor increased

4.12 **Priority area 3: Institutions for growth and social welfare** will promote strong and effective institutions, increase transparency and accountability in the public sector, and promote the capabilities of private sector institutions to have increased access of financial markets. The expected results and their contribution to regional goals in this priority area are:

Projects (OUTPUTS)	Regional Goals (OUTCOMES)
3. Institutions for growth and social welfare	
Expected Result	Goal
Micro/Small/Medium productive Enterprises financed	% of firms using Banks to finance investments increased
Public Financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues)	Ratio of actual to potential tax revenues increased
Persons incorporated into national registries (women, men, Indigenous and Afro-descendants)	Increase in % of children under five whose birth was registered
Municipal and other sub-national governments supported	Increase in public expenditure managed at the decentralized level as % of GDP
Cities benefitted with citizen security projects	Reduction in homicides per 100,000 inhabitants

4.13 **Priority area 4: Competitive regional and global international integration** will foster investment in administration and harmonization of rules of origin, customs procedures, sanitary and technical standards, and upgrading trade-related institutions needed to take full advantage of the benefits of opening markets. The expected results and their contribution to regional goals in this priority area are:

Projects (OUTPUTS)	Regional Goals (OUTCOMES)
4. Competitive regional and global international integration	
Expected Result	Goal
# of public trade officials and private entrepreneurs trained in trade and investment (men and women) Number of international trade transactions financed	Trade openness (trade as % of GDP) increased Foreign Direct Investment net inflows as % of GDP increased
Mobilization volume by NSG financed projects/companies	Foreign Direct Investment net inflows as % of GDP increased
Regional and sub-regional integration agreements and cooperation initiatives supported	Intra-regional trade in LAC as % of total merchandise trade increased

4.14 **Priority area 5: Protect the environment, responding to climate change, renewable energy, and enhancing food security** will provide support to countries to better understand these phenomena, design policies necessary for the transition to a green economy, and enhance the countries' institutional capacity to implement those policies. It will also support the development of adequate institutional and regulatory frameworks to allow investments in sustainable transport, forestry, alternative fuels, renewable energy, and energy efficiency. The expected results and their contribution to regional goals in this priority area are:

Projects (OUTPUTS)	Regional Goals (OUTCOMES)
5. Protect the environment, respond to climate change, promoting renewable energy, and enhance food security	
Expected Result	**Goal**
Percentage of power generation capacity from low carbon sources over total generation capacity funded by IDB	CO2 emissions (kilograms) per $1 GDP (PPP)
# of people given access to improved public low carbon transportation system (Indigenous and Afro-descendant)	
Climate change pilot projects in agriculture, energy, health, water & sanitation, transport, and housing	
National frameworks for climate change mitigation supported	Countries with planning capacity in mitigation and adaptation of climate change increased
	Annual reported economic damages from natural disasters decreased
# of projects with components contributing to improved management of terrestrial and marine protected areas	Proportion of terrestrial and marine areas protected to total territorial area increased
Farmers given access to agricultural services and investments (women, men, Indigenous, and Afro-descendants)	Annual growth rate of agricultural GDP (%) increased

4.15 The Bank identified which outcomes are MDGs or are used by other international organizations in their results framework. This information will be useful to foster collaboration in shared areas of interest. It also shows how others contribute also to the achievement of the goals. See table below for the outcomes used by others.

Bank's outcomes and how they relate to the work of other international organizations	
Outcomes by Priority Area	**MDG Or others measuring same or similar**
1 - Social policy for equity and productivity	
2.1.1 Extreme Poverty Rate	MDG
2.1.2 Gini coefficient of per capita household income inequality	Widely used
2.1.3 Share of youth ages 15 to 19 who completed 9^{th} grade	-
2.1.4 Maternal mortality ratio	MDG
2.1.5 Infant Mortality ratio	MDG
2.1.6 Share of formal employment in total employment	-
2 - Infrastructure for competitiveness and social welfare	
2.2.1 Incidence of water borne diseases (per 100,000 inhabitants)	WHO,PAHO, WHO
2.2.2 Paved road coverage (Km/Km^2)	WB, WHO, widely used
2.2.3 % of households with electricity	ADB Results Framework, plus widely used
2.2.4 Proportion of urban population living in dwellings with hard floor	Very similar MDG, UNHABITAT
3 - Institutions for growth and social welfare	
2.3.1 % of firms using Banks to finance investments	-
2.3.2 Ratio of actual to potential tax revenues	OECD
2.3.3 % of children under five whose birth was registered	UNICEF
2.3.4 Public expenditure managed at the decentralized level as % of GDP	-
2.3.5 Homicides per 100,000 inhabitants	UNDP
4 - Competitive regional and global international integration	
2.4.1 Trade openness (trade as % of GDP)	MDG
2.4.2 Intraregional trade in LAC as percent of total merchandise trade	ADB Results Framework
2.4.3 Foreign Direct Investment net inflows as % of GDP	UNDP
5 - Protecting the environment, responding to climate change, promoting renewable energy and enhancing food security	
2.5.1 CO_2 emissions(kilograms) per $1 GDP (PPP)	MDG
2.5.2 Countries with planning capacity in mitigation and adaptation of climate change	DFID and others
2.5.3 Annual reported economic damages from natural disasters	AECID EU, UNDP, USAID
2.5.4 Proportion of terrestrial and marine areas protected to total territorial area (%)	MDG
2.5.5 Annual growth rate of agricultural GDP (%)	FAO, WB
List of international partners using same or similar outcomes is meant to be representative, not comprehensive. "Others measuring same or similar" means that evidence was found of either Strategies or specific projects measuring same or similar indicator but it does not mean they are collected systematically.	

4.16 The Bank also identified which outputs are used by international organizations in their results frameworks or projects. There are likely to be many others who use the indicators, the list was formed as a sample and to identify potential areas of joint work.

Bank's outputs and how they relate to the work of other international organizations		
Outputs by Priority Area	**In other's Results Framework**	**Others measuring same or similar**
1 - Social policy for equity and productivity		
3.1.1 Students benefited by education projects (boys, girls)	ADB, WB (IDA)	Widely used
3.1.2 Teachers trained	ADB, WB (IDA)	Widely used
3.1.3 Individuals (all, Indigenous, Afro-descendants) receiving a basic package of health services	WB (not disaggregated)	
3.1.4 Individuals (all, Indigenous, Afro-descendants) receiving targeted anti-poverty program	-	
3.1.5 Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity	-	
3.1.6 Number of jobs added to formal sector	-	IFC, IIC, DIAS
2 - Infrastructure for competitiveness and social welfare		
3.2.1 Households with new or upgraded water supply (Indigenous and Afro-descendants)	ADB, WB (IDA)	WHO, UNICEF and most other agencies
3.2.2 Households with new or upgraded sanitary connections (Indigenous and Afro-descendants)	ADB	WHO, UNICEF and most other agencies
3.2.3 Km of inter-urban roads built or maintained/upgraded	ADB, MCC, WB (IDA)	Commonly used by Bilaterals as well
3.2.4 Km of electricity transmission and distribution lines installed or upgraded	ADB, WB (IDA)	Commonly used by others as well
3.2.5 Households with new or upgraded dwellings (Indigenous and Afro-descendants)		Used by many with many different variations
3 - Institutions for growth and social welfare		
3.3.1 Micro/Small/Medium productive Enterprises financed	ADB	
3.3.2 Public Financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues)		WB with different variations in projects
3.3.3 Persons incorporated into a civil or identification registry (women, men, Indigenous and Afro-descendants)		UNICEF
3.3.4 Municipal and other sub-national governments supported		WB
3.3.5 Cities benefited with citizen security projects		UNDP
4 - Competitive regional and global international integration		
3.4.1 #of public trade officials and private entrepreneurs trained in trade and investment (men, women)	UNDP	
3.4.2 Regional and sub-regional integration agreements and cooperation initiatives supported	UNDP	
3.4.3 # of cross border and transnational projects supported (infrastructure, and customs, etc)	UNDP	
3.4.4 Number of International trade transactions financed	-	-
3.4.5 Mobilization volume by NSG financed operations/ companies	-	-
5 - Protecting the environment, respond to climate change, promoting renewable energy, and enhancing food security		
3.5.1 Percentage of power generation capacity from low carbon sources over total generation capacity funded by IDB		Used by many in similar forms
3.5.2 # of people given access to improved public low carbon transportation systems (Indigenous and Afro-descendants)	-	
3.5.3 National frameworks for climate change mitigation supported		DFID, WB and others
3.5.4 Climate change pilot projects in agriculture, energy, health, water & sanitation, transport and housing	-	
3.5.5 # of Projects with components contributing to improved management of terrestrial and marine protected areas	-	
3.5.6 Farmers given access to improved agricultural services and investments (women, men, Indigenous and Afro-descendants).	MCC	FAO and commonly used by others as well
List of international partners using same or similar outputs is meant to be representative, not comprehensive. "Others measuring same or similar" means that evidence was found of either Strategies or specific projects measuring same or similar indicators but it does not mean they are collected systematically. In addition, no information was found on disaggregation of those outputs by gender, Indigenous groups or Afro-descendants.		

4.17 In addition, to associating and output with a regional goal, the Bank prepared technical notes for outputs and outcomes which include: (i) name of indicator; (ii) definition; (iii) in the case of a goal whether it is an MDG goal or target; (iv) baseline; (v) estimated programmed targets; (vi) level of disaggregation; (vii) source; (viii) frequency; (ix) rationale; (x) priority area and its links; (xi) the name of either the Regional Goal or output related; and (xii) whether it is used by another organization and the name of the organization. The notes have helped to generate discussions but also, they were prepared as good practice from ADB and WB to ensure consistency of the information measured. For more details see technical archives.

4.18 To **define values** that could be achieved for the 2012-2015 period, the scenario of volume of Bank lending used was US$12 billion annually. Several scenarios for future demand were calculated. Preliminary demand of countries (projected from previous demands) as well as distribution of resources within each priority area was taken into consideration, and thus estimated programming for the 2012-2015 was calculated. Values will be revised once the GCI is agreed.

4.19 Sectors within the Bank held discussions on outputs particularly, what was desirable and feasible to achieve, and how best to achieve them, taking into consideration what was achieved as part of IDB-8. Although part of the discussion centered on what was achieved in the period 2004-2008, it was not possible to **collect baselines** for all the outputs. And even in the cases were baselines are reported they are to be considered estimates. This is mostly due to the lack of systematic collection of standard indicators (or even units of measure), but also because there are some areas of new engagement. In other cases, sectors were able to identify projects that contributed to the outputs but for which data was not reliable.

V. OPERATIONAL EFFECTIVENESS AND EFFICIENCY

5.1 Indicators were also chosen for **Operational Effectiveness and Efficiency,** which are enabling conditions to monitor the Bank's development results. They will measure the Bank's efforts and serve for internal accountability. In addition, perception of the Bank's partners will be collected on the delivery of services.

a) Effectiveness

5.2 Effectiveness indicators are based on the Development Effectiveness Framework. Indicators were selected to measure progress on setting clear standards and metrics for the evaluation of all development interventions. Effectiveness indicators are divided in three groups: (i) country strategies; (ii) loans (SG and NSG); and (iii) Knowledge and Capacity Building Products (KCPs).

5.3 Indicators selected for country strategies will help understand how individual interventions contribute to country level goals, but it is also important to ensure effective programming. Reporting on country level outcomes allows the Bank to determine how it is contributing to a country's development goals.

5.4 Because the Bank's contribution to the region is not limited to its financial capacity, but also in its value added in delivering knowledge and non-financial products, it is also important to measure progress on KCPs. The Bank has been working to improve both the quality and pertinence of its analytical work with the objectives to become a point of reference in the policy debates on key development issues important to the region as well as generate the type of analytical knowledge necessary to reinforce the value added of future activities funded by the Bank.

b) Efficiency

5.5 Three indicators regarding budget describe, as a percentage of total expenses, the expenses allocated to lending (what is the total cost of lending?), the expenses on disbursement (what is the cost of the internal mechanisms that manage the delivery of lending resources?), and the expenses on support functions (what is the cost of overhead, i.e. activities not budgeted to specific products?). These measures address allocation efficiency at the most aggregate level.

5.6 The Bank is committed to lower transaction costs for project preparation and implementation, reduced documentation requirements, and decentralization of decision making to country offices. Efficiency indicators proposed are based on cycle times in order to address the commitment to responsiveness to the clients.

c) Human Resources

5.7 IDB is committed to gender equality at all levels of the organization. The Bank is committed to increase the number of female executives and female professionals grade 4 or above so that it can reach its agreed goals by 2015. The Bank will do so through proactive search and selection processes so that qualified women are represented on every short list and panel. In addition, the Bank will seek to increase the number of professional staff based in country offices. The increase of professional staff in country offices will contribute to the increase of technical capacity and will allow the Bank to better respond to country needs. Below is the list of operational effectiveness and efficiency.

Table 4: Operational Effectiveness and Efficiency

	Baseline 2006 - 2009 (*)	Estimated 2015
1- Effectiveness – country strategies		
4.1.1 Percent of country strategies with satisfactory scores in evaluability dimensions	27%	85%
Percent of country strategies that have satisfactory results that can be validated at completion for:		
4.1.2 - Sector outcomes	-	65%
4.1.3 - Financial outcomes	-	75%
4.1.4 - Progress on building and using country systems	-	55%
2- Effectiveness – loans		
For sovereign guaranteed (SG) operations (approvals)		
4.2.1 Percent of new operations with satisfactory scores on evaluability dimensions	26%	85%
4.2.2 Percent of projects with high environmental and social risks rated satisfactory in implementation of mitigation measures	-	85%
Project portfolio performance satisfactory from monitoring reports (execution) - SG		
4.2.3 Percent of projects that have satisfactory performance	-	70%
4.2.4 Percent of projects with satisfactory rating on development results at completion	-	60%
For nonsovereign guaranteed (NSG) operations (approvals)		
4.2.5 Percent of new operations with satisfactory scores on evaluability dimensions	-	85%
4.2.6 Percent of projects with high environmental and social risks rated satisfactory in implementation of mitigation measures	-	85%
Project portfolio performance satisfactory from monitoring reports (execution) - NSG		
4.2.7 Percent of projects that have satisfactory performance	-	70%
4.2.8 Percent of projects with satisfactory ratings on development outcomes at completion	60%	65%
3- Effectiveness – Knowledge and Capacity Building Products (KCPs)		
4.3.1 Percent of completed KCPs with results that can be validated	-	100%
4.3.2 Percent of completed KCPs with satisfactory results	-	65%
4- Effectiveness - Partner satisfaction		
4.4.1 Percent of external partners satisfied with Bank delivery of services for country strategies	-	70%
4.4.2 Percent of external partners satisfied with Bank delivery of services for loan operations	-	70%
4.4.3 Percent of external partners satisfied with Bank delivery of services for KCPs	-	70%
5- Efficiency	**2006 - 2009**	**Estimated 2015**
4.5.1 Cofinancing (percent of Regular Lending Program)	29%	30%
4.5.2 Trust Funds (percent of Regular Lending Program)	2%	3%
4.5.3 Total administrative expenses per US$1 million approved (**)	$41,900	$34,000
4.5.4 Total administrative expenses per US$1 million disbursed (**)	$50,150	$45,000
4.5.5 Percent of administrative expenses in operational programs	61%	68%
4.5.6 Cycle time: country strategy (Inauguration to delivery of Strategy to Government)	20 months	6 months
4.5.7 Cycle time: SG loan preparation time (Profile to approval)	9.5 months	8 months
4.5.8 Cycle time: SG loan disbursement period (eligibility to first disbursement)	19 days	19 days
4.5.9 Cycle time: NSG loan preparation time (Profile to approval)	12 months	6 months
4.5.10 Cycle time: NSG loan disbursement period (eligibility to first disbursement)	-	10 days
Human Resources	**2006 - 2009**	**Estimated 2015**
4.5.11 Percentage of professional and executive staff who are women, grade 4 or above	28%	40%
4.5.12 Percentage of Upper Management who are women (Executive staff and Representatives/EVP and Vice-Presidents)	18% / 0%	38%/ 40-60%
4.5.13 Percentage of Professional staff based in COF	26%	40%
(*) Average of 2006 - 2009 period where information is available for all years.		
(**) Target figures for administrative expenses are set in constant 2009 dollars		

5.8 The RF takes into account the five key elements of the Paris Declaration (ownership, alignment, harmonization, managing for development results and mutual accountability). These principles are reflected in numerous indicators particularly in those in table 4. The table below shows the links between the five commitments of the Paris Declaration on Aid Effectiveness and the Results Framework.

Paris Declaration Indicators		IDB Results Framework	
OWNERSHIP		**#**	**EFFECTIVENESS (CS)**
1	**Partners have operational development strategies:** Number of countries with national development strategies (including PRSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.	4.1.1	Percent of country strategies with satisfactory scores in evaluability dimensions Note: One of these dimensions is relevance, which is a function of ownership by the country.
ALIGNMENT		**EFFECTIVENESS (CS) and EFFICIENCY**	
2	**Reliable country systems:** Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	4.1.4	Percent of country strategies that have satisfactory results that can be validated at completion for: Progress on building and using country systems
3	**Aid flows are aligned on national priorities:** Percent of aid flows to the government sector that is reported on partners' national budgets.	4.1.1	Percent of country strategies with satisfactory scores in evaluability dimensions Note: One of these dimensions is relevance, which is a function of ownership by the country.
4	**Strengthen capacity by co-ordinated support:** Percent of donor capacity-development support provided through coordinated programmes consistent with partners' national development strategies.	4.5.1	Cofinancing (percent of Regular Lending Program)
5a	**Use of country public financial management systems:** Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	4.1.4	Percent of country strategies that have satisfactory results that can be validated at completion for: Progress on building and using country systems
5b	**Use of country procurement systems:** Percent of donors and of aid flows that use partner country procurement systems which either (a) adhere to broadly ccepted good practices or (b) have a reform programme in place to achieve these.	4.1.4	Percent of country strategies that have satisfactory results that can be validated at completion for: Progress on building and using country systems
6	**Strengthen capacity by avoiding parallel implementation structures:** Number of parallel project implementation units (PIUs) per country.	4.2.1	Percent of new operations with satisfactory scores on evaluability dimensions. Note: Evaluability scores measure Bank additionality, tracking programs in which the Bank is supporting country capacity to execute development programs without a PIU.
7	**Aid is more predictable:** Percent of aid disbursements released according to agreed schedules in annual or multiyear frameworks.	4.1.3	Percent of country strategies that have satisfactory results that can be validated at completion for: Financial outcomes
8	**Aid is untied:** Percent of bilateral aid that is untied.		N/A
	HARMONIZATION	**EFFECTIVENESS (Loans)**	
9	**Use of common arrangements or procedures:** Percent of aid provided as program-based approaches.	4.2.1	Percent of new operations with satisfactory scores on evaluability dimensions Note: Evaluability scores include the use of SWAp for programs.

Paris Declaration Indicators		IDB Results Framework	
10	**Encourage shared analysis:** Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint. (b) 66% of country analytic work is joint.	4.1.4	Percent of country strategies that have satisfactory results that can be validated at completion for: Progress on building and using country systems Note: Evaluability for country strategies tracks the action plans to build country systems, which are based on joint analysis with other donors.
MANAGING FOR RESULTS		**EFFECTIVENESS (CS, Loans and KCPs)**	
11	**Results-oriented frameworks:** Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programs.	4.1.2	Percent of country strategies that have satisfactory results that can be validated at completion for: Sector outcomes
		4.2.1	Percent of new operations with satisfactory scores on evaluability dimensions Note; Evaluability scores include having a results framework with indicators that are SMART and that are aligned to country development strategies and sector priorities.
		4.2.3	Percent of projects that have satisfactory results
		4.2.4	Percent of projects with satisfactory rating on development results at completion
		4.2.5	Percent of new operations with satisfactory scores on evaluability dimensions
		4.2.6	Percent of projects with high environmental and social risks rated satisfactory in implementation of mitigation measures
		4.2.7	Percent of projects that have satisfactory results
		4.2.8	Percent of projects with satisfactory ratings on development outcomes at completion
		4.3.1	Percent of completed KCPs with results that can be validated
		4.3.2	Percent of completed KCPs with satisfactory results
MUTUAL ACCOUNTABILITY		**EFFECTIVENESS (Partner Satisfaction)**	
12	**Mutual accountability:** Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.	4.4.1	Percent of external partners satisfied with Bank delivery of services for country strategies
		4.4.2	Percent of external partners satisfied with Bank delivery of services for loan operations
		4.4.3	Percent of external partners satisfied with Bank delivery of services for KCPs

VI. MONITORING AND REPORTING THE RESULTS FRAMEWORK

6.1 The RF will use the Bank's monitoring and reporting instruments already developed by the Development Effectiveness Framework (DEF). The instruments will provide continuous feedback in order to identify areas of success and potential problems. The monitoring instruments for following up on development effectiveness include the DEM, the PMR and the XPMR and other management instruments including the BSC and the external feedback system.

6.2 The RF will be evaluated every four years, which will coincide with the evaluation of the institutional strategy. The evaluation of the RF will provide inputs for the modification of priorities in the following planning and programming cycle. The Results Framework will be updated at that time to reflect the Region's development challenges and the Bank's priorities.

A. Monitoring and management instruments

6.3 The Bank has **monitoring and management instruments** to ensure results. The Bank has been making improvements in the way projects are monitored and evaluated. The DEF has three instruments for monitoring at entry (DEM), during implementation (PMR) and at exit (XPMR).

6.4 **Development Effectiveness Matrix (DEM)** is used as a common instrument for rating the evaluability of projects at entry (before approval). The DEM has three categories: strategic relevance, development outcome, and additionality of the Bank's contribution. Country strategies, public and private sector operations have their specially designed DEMs.

6.5 **Progress Monitoring Report (PMR)** will incorporate the results framework, the risk mitigation matrices, the Environmental Review Report, the Loan Results Review and the DEM in order to enable project teams to monitor the outputs and outcomes of the project, and their delivery in terms of both cost and time. Another new aspect to improve the Bank's monitoring process is the new methodology to classify projects on "Alert" and "Problem" included in the PMR. It is based on a performance indicator and percentage of disbursement which will provide information focused on the management of results delivery during project execution. The PMR is updated twice a year in September and in March. The **PMR** will collect most of the information for reporting on progress of the RF outputs. Furthermore, it will facilitate reporting on the links between project outputs and outcomes, outcomes and priorities in country strategies.

6.6 The **Expanded Performance Monitoring Report** (**XPMR)** will soon replace the Project Completion Report (PCR). The XPMR compares actual results achieved with the expected results presented at entry in the DEM, which includes the recalculation of the DEM score. It will report on: (i) time and cost of outputs achieved from the last PMR; (ii) on results achieved and evaluation methods used; and (iii) Bank's performance during the life of the project.

6.7 **Other management instruments** include the External Feedback System (EFS) and the Balanced Scorecard (BSC). The **EFS** will collect information through a survey from civil society and public and private sectors on the perception of the Bank's services and comparative advantages. Although the Bank has always relied on external feedback, this systematic approach will provide information for strategic decisions by management as well as its day-to-day business practices and behaviors.

6.8 The Balanced Scorecard (BSC) is a management performance system used to align business activities to the corporate mission and monitor corporate results in an effort to meet the Bank's strategic institutional objectives. It is geared to drive performance in four dimensions: financial performance, operational efficiency, people, and partners and stakeholders.

6.9 Information in the BSC will be rolled down to lower levels (VPs, Departments, Divisions and Country Offices) and will be used in the Employee Performance Management Framework to link employee performance to organizational goals and promote a better alignment of performance with rewards.

B. Reporting instruments

6.10 The sources of information for reports include the monitoring instruments mentioned above as well as corporate databases. The timing and frequency of reporting on the progress on the various indicators will vary for each of the different results levels.

6.11 **The Development Effectiveness Overview (DEO)** to be published annually has as its purpose to provide a consolidated report on the achievement of development results of the Bank's interventions in line with the institutional strategy of IDB-9. The DEO aims to support the work to build a body of research into effective approaches to policies and programs that provide sizable development outcomes. It will include: a review of lessons learned in IDB strategic priority areas, and an assessment of development effectiveness in a specific area, with emphasis on policy responses and the role of the Bank, as well as to provide evidence on the effectiveness of the intervention models applied in Bank interventions. .

6.12 The Bank will continue to report progress on Managing for Development Results through the Common Performance Assessment System (COMPAS) for MDBs. As well, the Bank will provide reports on our work for the Global Monitoring Report (GMR).

VII. RESULTS FRAMEWORK AND BUDGET PROCESS

7.1 The RF allows for the establishment of a **Results Based Budgeting (RBB) framework**, whereby Management can support both budget planning and budget execution so Management and the Board can monitor, on an ongoing basis, the flow of resources within the Bank and the corresponding achievement of results. The allocation of the budget resources will be based on institutional priorities which in turn are aligned to the RF. This alignment will help the Bank develop a RBB framework during 2010.

7.2 Toward this end, a Departamental Working Group headed by Budget Department will be established in early 2010 with participation from SPD, VPC, VPP, VPF and EVP's office. It will discuss potential approaches to RBB, define relevant taxonomy (e.g. definition of inputs, outputs, outcomes, results, etc.), and present, to PBCM members, a few alternatives to implement the RBB in the Bank for eventual adoption of the most suitable one. It will also fine tune and refine Bank activities currently available in departments, for timesheet reporting, and charging non-personnel (NPC) expenses. These activities capture Activity Based Costs and flow from the Operation Systems

7.3 A fundamental part of the RBB framework consists in introducing a set of metrics related to the RF indicators geared to quantifying the number of products (workload) and efficiency aligned to budget management, as well as accountability of its execution based on clearly defined targets, and milestones. The size of the operational budget will be based on the operational program. The consistency between operation program and budget will be reviewed annually.

ANNEX 2:

ORDINARY CAPITAL INCOME MANAGEMENT MODEL

May 20, 2010

ORDINARY CAPITAL INCOME MANAGEMENT MODEL

I. INTRODUCTION

1.1 On March 22, 2010, the Board of Governors of the Bank adopted the Cancun Declaration (Document AB-2728) at the Bank's 2010 Annual Meeting in Mexico.

1.2 The Governors, in paragraph 8 of the Declaration stated that: "We agree that the Bank will implement an income management model that will incorporate the new capital adequacy policy, lending program, loan charges, technical assistance grants, and commitments on transfers in a way that will set the Bank on a firm financial footing, preserve its AAA rating, rationalize the allocation of resources through a comprehensive and simultaneous approach, and allow capital to grow over time through the retention of income."

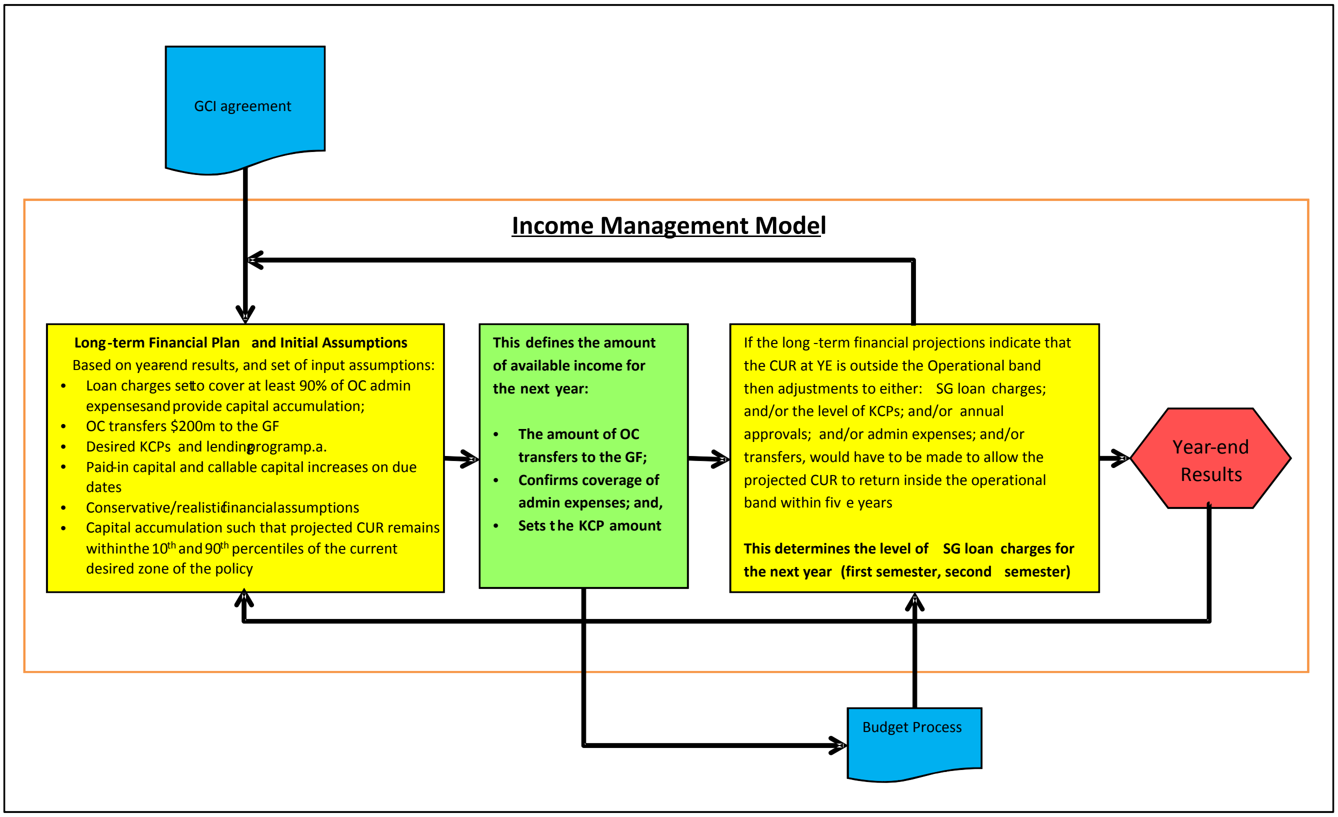
1.3 Furthermore, in the Overview Framework for the Ninth Capital Increase, attached to the Declaration document, the Governors specifically state that they adopt a model that allocates income to cover the following constraints:

- Minimum annual transfers of $200 million to the Grant Facility (GF) for Haiti
- A capital accumulation rule that preserves the financial soundness of the Bank
- Loan charges set to cover administrative expenses consistent with the Bank's multi-year budget
- Parameters of the Capital Adequacy Policy
- FSO administrative expenses fixed at 3%, non-reimbursable TC fully funded by OC
- Pricing adjusted to meet these constraints

II. PROPOSAL FOR AN INCOME MANAGEMENT MODEL

2.1 The OC income process is a closed system whereby changing any one parameter will affect the value of other key parameters. Therefore, annual decisions related to uses of OC income will be driven by the trade-offs associated with the inter-relations of the various parameters. In this manner, the Board of Executive Directors would be able to make decisions on these various parameters while calculating the financial trade-offs of changing any one of them and measuring the effect on the others. Within this framework, Bank decisions would be taken as shown in Figure 1 and as described below.

Figure 1: Flowchart of the Income Management Model



2.2 Primary sources of net revenue[1] for the OC are: i) loan spread and fee income; and ii) return on "free" funds (i.e. the Bank's paid-in capital and reserves)[2]. The primary uses of those revenues are: i) administrative expenses; ii) TCs and KCPs (including OC special programs); iii) transfers to the GF; and, iv) capital accumulation. In addition the capital accumulation of the OC will be affected in the short run by the mark-to-market gains or losses on the liquidity portfolio and the post-retirement assets.

2.3 To begin the annual budget process, Management will submit for consideration and approval by the Board of Executive Directors a long-term financial planning and programming document (the "Long-term Financial Plan" or LFP) taking account of the following:

- The OC finances a desired amount for lending approvals (initially assumed to average $12 billion for the 2011-2020 period, but to be determined each year by the Board of Executive Directors);

- The OC transfers $200 million to the GF each year, from 2011-2020, subject to annual approval by the Board of Governors;

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[1] Net revenue is net of borrowing expenses.
[2] This should not be confused with net interest income on the Bank's liquidity portfolio which is assumed to be zero over the long-term.

- The OC finances a desired amount for new KCPs, (initially assumed to be $100 million in real terms, but to be determined each year by the Board of Executive Directors);

- The administrative expenses utilized in the LFP is consistent with that proposed in the budget issues paper;

- The OC loan charges shall be sufficient to provide for the capital accumulation required to support the desired long-term approval and disbursement programs in the OC, and also sufficient to cover at least 90% of OC administrative expenses (as described further in Section IV below);

- The increase in paid-in capital and callable capital subscriptions are made as scheduled;

- The model also includes assumptions for return on invested capital, growth in the administrative budget, and other income/expense items affecting operating income (or reserves); and,

- There is no overall change in the risk profile of the OC's assets and derivatives portfolios.

III. CAPITAL ACCUMULATION RULE

3.1 Capital accumulation is determined by the Capital Adequacy Policy, as approved by the Board of Directors in Document FN-568-8. Under this policy the Bank has adopted the concept of the Capital Utilization Ratio (CUR), which is calculated as the required equity necessary to absorb the embedded risk in the different assets, divided by the actual equity of the OC. The new capital adequacy policy introduced the concept of the desired zone as the level of capitalization that the Bank should strive to be in.

3.2 Considering the amount of variability that could result from differences between actual and assumed parameters such as annual disbursements, and how the CUR band and actual CUR level could change from year-to-year, capital should be accumulated over a rolling five-year period to place the CUR within the desired band. Initially the IMM would operate within an "operational band" that is determined as the range comprised by the 10th percentile to the 90th percentile of the desired band, but with that range subject to the review by the Board of Executive Directors.

3.3 First, if based on the above initial set of assumptions the long-term financial projection indicates that the CUR would be inside the operational band by the end of the year, and remain within this band for the next five years then the projection will be considered sustainable and the Board of Executive directors would approve the loan charges for the next year (first and second semesters) at the assumed level.

3.4 If however, the long-term financial projection indicates that the CUR at the end of the year would be above the operational band (i.e. the OC is projected to be more leveraged), then the Board of Executive Directors would approve an adjustment to some of the parameters such that within a period of five years the CUR is projected to be back inside the operational band.

Depending on the size of the required adjustment, the decision variables that could be adjusted are one or more of the following: administrative expenses, KCP levels, future level of approvals and disbursements, or loan charges.

3.5 On the other hand, if the long-term financial projection indicates that the CUR at the end of the year would be above the desired band, i.e. is projected to be inside the adjustment zone defined by the capital adequacy policy, then the Board of Executive Directors would approve corrective actions so that within three years, the CUR is again projected to be inside the desired band, and within five years, back inside the operational band.

3.6 Finally, in the event that the CUR is below the operational band and is projected to continue to remain below the band (i.e., the Bank is under-leveraged), then it would allow for the possibility of a reduction in loan charges, or adjustment in the other variables described above.

IV. LOAN CHARGE FLOORS

4.1 Loan charges should, at a minimum, cover 90% of OC administrative expenses on a three-year rolling historical weighted average basis. For purposes of this calculation Management would take the ratio of the sum of the OC administrative expense estimated for the following year being planned, the current year, and the previous year, over loan charge revenue for the same period.

4.2 The level of OC administrative expenses is as reported in the OC financial statements and corresponds to 97% of the Bank's total administrative expenses (the remaining 3% being covered by the FSO).

4.3 For purposes of this calculation, 90% of Non-Sovereign (NSG) loan charges would be counted. This would allow the Bank to take into consideration the contribution from NSG income to cover overall expenses.

4.4 With the adoption of the IMM, annual decisions on loan charges, the capital accumulation rule, administrative expenses, lending volumes, and KCPs, would be made at the level of the Board of Executive Directors, while in accordance with the Agreement Establishing the Bank, the Board of Governors would make the annual decision to approve the transfers from the OC income to the Grant Facility for Haiti.