DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REVIEW OF THE NEW LENDING FRAMEWORK

MARCH 14, 2011

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ABBREVIATIONS

BOD	Board of Executive Directors
BOG	Board of Governors
EL	Emergency Lending
FSO	Fund for Special Operations
GCI	General Capital Increase
IDB-9	Ninth General Increase in the Resources of the Inter-American Development Bank
GF	IDB Grant Facility
IFF	Intermediate Financing Facility
IMM	Income Management Model
LAC	Latin America and the Caribbean
LTFP	Long-Term Financial Projections
MDRI	Multilateral Debt Relief Initiative
NLF	New Lending Framework
OC	Ordinary Capital
PBL	Policy Based Loan
PPF	Project Preparation Facility
RF	Results Framework
SGO	Sovereign Guaranteed Operations
TC	Technical Cooperation
UBC	Unused Borrowing Capacity

I. INTRODUCTION

1.1 In accordance with Resolution AG-7/09, the Board of Governors (BOG) called for a review of the implementation of the New Lending Framework (NLF) to be prepared for consideration of the Board of Executive Directors (BOD) by the end of calendar year 2010, and the presentation of recommendations resulting from such review for consideration by the BOG prior to the Annual Meeting of the BOG to be held in 2011.

1.2 The purpose of the Bank's NLF, adopted in 2002, was to improve the development effectiveness of the Bank's activities by enhancing its capacity to address the changing and diverse needs of the borrowing member countries. It provided a mechanism to manage the Bank's lending capacity, by establishing multi-year lending limits, and a framework to review the Bank's institutional priorities. The NLF became an essential element of the Bank's strategic framework. It framed the financial and operational aspects of the Bank's work and, as a result, had major impact on the Bank's relevance to Latin America and the Caribbean (LAC).

1.3 The approval of Document AB-2764, *Report on the Ninth General Increase in the Resources of the Inter-American Development Bank* (IDB-9), by the BOG on July 21, 2010, provides a review of the Bank's strategic framework and establishes the developmental priorities going forward, as well as the agenda of Bank reforms. It lays out a comprehensive institutional strategy for the next decade, with periodic reviews for the BOG to assess the relevance of the Bank's priorities, an accountability framework, and a set of reforms aimed at improving the Bank's operational effectiveness and efficiency.

1.4 In accordance with the NLF currently in place (pursuant to Resolution AG-7/09), the Bank continues to be bound by the lending and disbursement limits established for the time period 2009-2012. The limits established for the 2009-2012 period are the same lending and disbursement limits for Policy-Based Loans (PBL) as for the previous 2005-2008 period. Pursuant to Resolution AG-7/09, the lending limit on investment loans was eliminated and an overall lending limit for loans to be financed with the Bank's Ordinary Capital (OC) resources for the period was established.

1.5 Document AB-2764, makes it necessary to reevaluate the need for lending limits as a tool to manage the Bank's strategic direction and resources (see Section III below) since, as part of the IDB-9 report, the BOG approved the Ordinary Capital Income Management Model (IMM)[1] that will serve as the primary tool to manage the sustainability of the Bank's financial resources in the future and authorizes the Board of Executive Directors (BOD) to determine the Bank's lending volumes.[2]

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[1] Annex 2 of document AB-2764 (IDB-9 report).

[2] Paragraph 4.4 of Annex 2 of the IDB-9 Report (AB-2764) states that "w*ith 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*".

1.6 The purpose of this document is to provide the BOD with a review of the implementation of the NLF regarding the lending and disbursement limits for 2009-2012 period as approved by the BOG pursuant to Resolution AG-7/09, as well as with recommendations resulting from such review, which will be presented for the consideration of the BOG.

1.7 This document has four sections, the first of which is this introduction. Section II reviews the current situation of the lending limits for the 2009-2012 period, including the review of the remaining lending and disbursement space available for 2011 and 2012 *vis-à-vis* the Bank's lending program; the limits on PBL approvals and disbursements and their effects on current demand; the changes to the Fund for Special Operations (FSO) that require a review of the limit for approvals of PBLs with resources from the FSO; and the situation of the Emergency Lending (EL) category and the Unused Borrowing Capacity (UBC) buffer. Section III discusses the implications of the IDB-9. Section IV includes the recommendations resulting from the above mentioned review.

II. CURRENT SITUATION OF THE LENDING LIMITS FOR THE 2009-2012 PERIOD AND OTHER PROVISIONS OF THE NLF

2.1 The BOG, by Resolution AG-7/09 adopted on April 13, 2009, revised the lending limits approved by the BOG for 2005-2008 (Resolution AG-5/05, adopted on April 10, 2005).

2.2 Under the NLF for the 2005-2008 period, there was a $20.6 billion lending limit for investment loans with OC resources, with no overall OC lending limit. For the 2009-2012 period, the lending limit on investment loans was eliminated, and an overall OC lending limit was introduced. The OC lending and disbursement limits for PBLs and the annual FSO lending limit were maintained from those for the 2005-2008 period.

2.3 In summary, the current lending and disbursement limits for 2009-2012 as set forth in Resolution AG-7/09 are as follows:[3]

(a) The overall OC lending limit is $33.4 billion;[4]

(b) The OC lending limit for PBLs is $9.8 billion;

(c) The OC disbursement limit for PBLs is $7.6 billion; and

(d) The FSO lending limit for PBLs is $100 million *p.a.*[5]

3 On top of the limits mentioned, the $6 billion revolving aggregate amount for Emergency Loans was reaffirmed for the 2009-2012 period. However, this limit was later reduced to $3 billion by Resolution AG-13/09, adopted on August 3, 2009.

4 All amounts in this document are in US dollars.

5 Annual FSO PBL approvals during 2009 and 2010 was equal to $22.75 million and $71 million, respectively.

1. OC Lending and Disbursement Limits

2.4 The level of approvals and disbursements during the first two years (2009 and 2010) of the current four-year limits compared to the 2009-2012 limits, are shown below:

Table 1: NLF OC Approval and Disbursements Limits for the 2009-2012 period, Use of Resources during 2009 and 2010, and Remaining Amounts

(US$ billions)

OC Approvals a/	2009	2010	Total 2009-2010	Limit 2009-2012	Remaining 2011-2012	
Investment b/	11.1	8.6	19.7			
PBLs	2.6	3.5	6.1	9.8	3.7	37%
Total Non-emergency	13.7	12.1	25.8	33.4	7.6	23%
Emergency	1.6	-	1.6	3.0	1.4	47%
Total OC	15.3	12.1	27.4			
OC Disbursements						
PBLs c/	2.6	3.2	5.8	7.6	1.8	24%

a/ Yearly approval amounts are gross figures, i.e. the amounts are not reduced as a result of cancellations corresponding to these approvals ($1.3 billion, of which $1.0 billion corresponds to Emergency Lending approvals).

b/ Includes NSG loans & guarantees, local currency loans, and PPFs.

c/ PBL undisbursed loan balance (year end 2010): $0.8 billion.

2.5 The growth in the Bank's approvals between in 2009 and 2010 was the effect of the world financial crisis that began in 2008, and the subsequent G-20 decision to request that Multilateral Development Banks leverage their financial capacity in order to increase lending to ensure that development gains were not lost due to the crisis. The Board of Governors of the Bank agreed to a series of measures to further leverage the Bank's capital to allow for the increased lending levels that Management had presented in the Bank's Programming documents to the Board of Executive Directors. The support of this strategy by the Board of Governors recognized that the demand foreseen by Management would not be addressed in a timely manner by the discussions during 2009 regarding the possibility of an increase in resources for the Bank. With the approval in 2010 of the Report on the Ninth General Increase in the Resources of the IDB, and consequently of the instruments to manage the Bank's income, the need to modify the existing operational framework to establish lending levels became evident.

2.6 In addition, as shown in Table 1 above, although the Bank is only half way through the current four-year period (2009-2012), the levels of loan approvals and disbursements for the period have well surpassed 50 percent of the established limits. In particular, the space remaining to reach the overall OC lending limit and the OC disbursement limit for PBLs for this period, are under 25 percent of the respective limits for the 2009-2012 period.

2.7 Based on the Bank's current pipeline for approvals and the program of disbursements for 2011, if no changes to the current lending limits are implemented, it is projected that the limits would be exceeded before the end of the 2009-2012 period. Although the timing of OC approvals and disbursements during 2011 is preliminary, it is currently projected that the overall OC lending limit could be reached early in the second semester of 2011 and the OC PBL disbursement limit could be reached towards the end of the year.

2. PBL Limit for the FSO

2.8 In the case of the FSO, the situation is more complicated. For the 2005-2008 period, FSO PBLs were limited to $100 million *p.a.* However, this limit was established when the FSO was a pure lending window and the annual lending volumes amounted to $400 million on average. Thus, when the BOG approved this limit, it represented a limit on PBLs of $100 million out of $400 million *p.a.*, which was 25 percent of the annual FSO lending. Under this scenario, the FSO annual lending level was a fixed nominal amount.

2.9 Since 2007, however, with the approval of the Bank's participation in the Multilateral Debt Relief Initiative (MDRI), which significantly reduced the sustainable lending capacity of the FSO, the BOG approved the reform to the Bank's concessional windows (FSO and the Intermediate Financing Facility (IFF)). Through this reform, the terms of FSO loans were changed to make them highly concessional. This new FSO loan, with high concessionality, is then blended with an OC loan in order to provide resources to FSO eligible countries with a degree of concessionality that is consistent with their overall debt sustainability. This reform effectively brought about a reduction in the overall annual FSO approval capacity from approximately $400 million before the reform to $158 million thereafter.

2.10 Despite the 2007 reform described above, the limits for the 2009-2012 period, as approved by Resolution AG-7/09, maintained the nominal limit for FSO PBL annual approvals at $100 million. This nominal limit is inconsistent with the underlying sustainability analysis that was used to support the reform of the FSO.

2.11 The estimates of the demand for Bank resources from eligible countries that have been used in the FSO financial analysis for the IDB-9 assume an average allocation of $248 million in annual loan approvals for the 2011-2012 timeframe. If the Bank applies a PBL limit of $100 million *p.a.* for the FSO, it would mean that slightly more than 40 percent of annual FSO lending (the FSO portion of the blended loans) would be for PBLs during this time period. For the 2011-2015 time horizon the percent of PBLs at $100 million p.a. would still represent an average of over 37%. Current financial projections indicate that the FSO would not be able to sustain a US$100 million of annual PBL approvals from 2011 through 2020.

2.12 Based on the explanation above, Management recommends that the lending limit on PBL financed with FSO resources be a percentage level as opposed to the nominal figure of $100 million *p.a.* If PBLs were to be limited to 30 percent of the biennial FSO allocation established in document GN-2442-32, the FSO would be sustainable over the projected period established by the BOG in IDB-9.

3. Unused Borrowing Capacity (UBC) buffer and Emergency Lending

2.13 The Bank's lending capacity is limited in nominal terms by the policy limiting overall borrowings in the OC, approved by the BOD.[6] This policy states that net borrowings (*i.e.* total debt outstanding net of liquid holdings) should be less than the callable capital of the non-borrowing members of the Bank, with a buffer determined by Management to protect the Bank from unexpected situations that may arise between projections and actual outcomes.

2.14 The buffer, which is referred to as the UBC buffer, currently is set at $4 billion. For several years, this buffer has been utilized not only for the above mentioned reason, but also as a place holder for Emergency Lending, currently for the amount of $3 billion[7], in order to optimize the use of the Bank's available resources to development activities. This means that, if the Bank were in the situation whereby its borrowing capacity was fully consumed (leaving just the buffer), and it had to make disbursements out of the Emergency Lending category, then the actual (effective) protection the Bank would be afforded from the buffer would be less than the $4 billion.

2.15 The necessary size for the buffer is changing over time. In fact, as the Bank becomes more dollarized (*i.e.* an increasing proportion of the Bank's loans are in dollars, funded with increased dollar borrowings), it may be possible to reduce the size of the buffer. Management will conduct and present, for information, to the BOD, before the end of the third quarter of 2011, a financial stress study, based on prudent financial analysis, regarding the appropriate size of the buffer. Management's opinion is that the buffer's continuing "double duty" is not prudent for the Bank. However, Management recommends that the double duty of the current buffer is maintained until the stress analysis is completed later in 2011.

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[6] Since its inception, the Bank had operated with two constraints on lending, namely the Policy-based Lending Authority (PLA), and the Policy-based Borrowing Authority (PBA). By design, the PLA constrained the Bank's overall lending capacity, while the PBA constrained the Bank's overall borrowing capacity. However, since Bank loans can only be financed either with equity or borrowed funds, having a policy constraint on borrowings, de-facto, also limited Bank lending. Thus, recognizing that the PLA and the PBA were redundant constraints, the Board of Directors, in 2009, adopted Management's recommendation to eliminate the PLA by approving Document GN-2515 Options for Expanding the Bank's Ordinary Capital lending capacity to respond to the financial/economic crisis in the region. Since the approval of GN-2515, the Bank's lending capacity has been indirectly limited by the constraint on borrowings.

[7] Resolution AG-7/09 approving the 2009-2012 NLF limits established the same $6 billion revolving aggregate limit for Emergency Lending as under the 2005-08 NLF. However, by Resolution AG-13/09, adopted on August 3, 2009, the Board of Governors reduced this limit to $3 billion.

2.16 If the result of the stress analysis is that the buffer could be reduced, it would allow for a portion of the Emergency Lending category to be funded with the released amount. However, Management would have to propose to the BOD a mechanism to fund the remaining unfunded portion of the Emergency Lending category. Similarly, if the outcome of the stress analysis is that the buffer should remain at or be greater than $4 billion, Management will have to propose to the BOD a mechanism for funding the Emergency Lending category.

III. THE IDB-9 AND THE NLF

3.1 The IDB-9 report addresses two elements that had been heavily fragmented during the IDB-8 period. First, it sets out the institutional strategy for the Bank, including an accountability framework (the Results Framework or RF), in a single comprehensive document. The IDB-9 report brought together a heavily fragmented strategic framework that included the IDB-8 report, the 1999 Institutional Strategy, and the NLF (as approved in 2002 and amended in 2005 and 2009). Secondly, IDB-9 establishes a framework for managing the Bank's capital and its income, which is based on ensuring sustainability and risk management.

3.2 The Institutional Strategy for IDB-9 lays out the priorities for the Bank over the next decade, and establishes a review framework to the BOD and the BOG. As part of improving the Bank's strategic and resource management, the BOG established the Institutional Strategy contained in the IDB-9 report as the "*Bank's core strategic guidance document. Every four (4) years, the Board of Governors will review and evaluate the execution of the [General Capital Increase (GCI)] through updates to the strategy and its RF in the context of emerging challenges and changes in the LAC region.*"[8]

3.3 This four-year review cycle of the Bank's institutional strategy is supplemented by a lending program, which is approved by the BOD, and reevaluated on a yearly basis based on the region's needs and the Bank's financial capacity. This framework essentially provides for the periodic reviews of the Bank's strategic direction by the BOG, and annual reviews of the lending program that reflects the priorities of the Bank.

3.4 The IMM, approved by the BOG as part of the IDB-9 report, is the mechanism whereby the annual sustainable lending capacity of the Bank is determined by the BOD. The IMM is implemented through the Long Term Financial Projections (LTFP), which, in turn, is submitted to the BOD annually presenting the trade-offs associated with the key input parameters that affect the overall lending capacity of the OC for a given capital adequacy result. These parameters are: the level of loan charges, the amount of annual technical cooperation operations (TCs), the level of administrative expenses, the annual transfers to the IDB Grant Facility, the capital accumulation needs, and, finally, the desired annual lending volumes.

[8] *Report on the Ninth General Increase in the Resources of the Inter-American Development Bank* (AB-2764), paragraph 4.15.

3.5 This mechanism provides the BOD and Management with a dynamic methodology to adjust the Bank's lending capacity based on the needs from the region. It is designed to provide the Bank with the flexibility to adjust lending in the short term while keeping the Bank on a sustainable path in the medium to long term, keeping in mind the trade-offs among all the input parameters.

3.6 This mechanism in effect replaces the need to have lending limits as set forth in the NLF, and therefore eliminating such limits would be consistent with the mandates set forth in the IDB-9 report approved by the BOG. Notwithstanding the above, Management recommends that the Bank continues to operate with a limit on OC PBL approvals, which will be defined for consecutive four-year periods, thus providing flexibility for front/back-loading of PBL approvals[9]. This limit will be established in such a way that ensures that the Bank's primary financing is for specific projects (investment loans) as required by the Bank's Charter.[10].

3.7 In addition, Management recommends that the limit be set as a percentage of total non-emergency loan approvals for consecutive four year periods. Based on the historical limits established since PBL lending began under the IDB-7 in 1990,[11] Management recommends to establish a limit for OC non-emergency PBL approvals of no more than 30 percent of the Bank's total approvals over a fixed consecutive four year periods, the first of which shall begin on January 1, 2011, and end on December 31, 2014.

IV. RECOMMENDATIONS

4.1 Based on the above, Management recommends that the BOD adopts the proposed resolution contained in Appendix 1 of this document authorizing that the proposed resolution contained in Appendix 2 of this document be submitted to the BOG with a recommendation for its approval [by the procedure of taking a vote without calling a meeting of the proposed resolution], which would represent the adoption of the following five recommendations.

4.2 ***Recommendation 1:*** To eliminate the requirement that the BOG shall determine lending limits for consecutive four-year periods as established in Resolution AG-1/02 (as amended). The BOD shall have the authority to determine lending volumes and amounts subject to the provisions set forth in sections II and III of Annex 2 (Ordinary Capital

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9 Governance rules for the IDB Grant Facility (GF) on grant approvals follow the respective governance rules of the source of funds. Therefore, the FSO limits apply if the source of funds is the FSO resources that remain uncommitted, and the OC rules will apply for grants funded from the OC net income.

10 Article III, Section 7 (a) (vi) of the Agreement Establishing the Inter-American Development Bank.

11 In IDB-7, this limit was 25 percent of total approvals for the 1990-1993 period. Under IDB-8 (AB-1704), the limit was reduced to 15 percent of approvals. This limit was replaced in the 2002-2004 NLF by an aggregate nominal lending limit of $4.5 billion. Under the 2005-2008 NLF, the PBL limit was set at $9.8 billion in approvals (with a $20.6 billion limit on investment approvals), which corresponded to approximately 32 percent of total OC non-emergency lending approvals. Finally, under the 2009-2012 NLF, the PBL limit was maintained at $9.8 billion in approvals (with a $33.4 billion limit on total OC non-emergency lending approvals), corresponding to a limit of approximately 29 percent of total OC non-emergency lending approvals; although the final proportion would depend on the level of investment lending.

Income Management Model) of the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (Document AB-2764). . This recommendation also accounts for the fact that IDB-9 report established a periodic review of the Bank's strategic framework by the BOG. As part of the IDB-9 strategic review process, Management would also inform the BOG on the sustainability of the Bank's resources.

4.3 ***Recommendation 2:*** To establish a limit for OC PBL approvals of no more than 30 percent of the Bank's total approvals of OC non-emergency lending over consecutive four-year periods, the first of which shall begin on January 1, 2011, and end on December 31, 2014. This limit will allow flexibility to front or back load approvals as needed while, at the same time, ensuring that the Bank's primary financing is geared to investment loans.

4.4 ***Recommendation 3:*** To eliminate the PBL disbursement limits set forth in paragraph 10 of Resolution AG-1/02, as amended, relying instead on the LTFP determined limitations.

4.5 ***Recommendation 4:*** To establish FSO PBL approval limit, for consecutive two-year periods, of the equivalent of 30 percent of the total biennial allocation of FSO resources carried out by the BOD in accordance with document GN-2442, the first of which should beginning with the 2011-2012 allocation (document GN-2442-32). This percentage limit will replace the existing nominal limit, which was originally set when the total annual financing from the FSO was also a fixed nominal amount for a four-year period.

4.6 ***Recommendation 5:*** To maintain the Emergency Lending category and the amount of resources allocated to it[12] as set forth in Resolution AG-1/02, as amended, and to authorize the BOD to review and determine the amount of resources to be allocated to the Emergency Lending category as well as how such category will be financed, based on the availability of resources that may be released from the UBC buffer once the UBC stress analysis has been conducted and concluded by Management.

4.7 The approval of the above-mentioned recommendations by the BOG would have the following effects: first, it would eliminate the four-year overall lending limit for the OC to be replaced by an annual OC lending level determined by the BOD in accordance with the Bank's Ordinary Capital Income Management Model; second, it would impose new limits for OC and FSO PBL approvals, and eliminate the OC PBL disbursement limit; and third, the BOD would be authorized to allocate resources to the Emergency Lending category once the UBC stress analysis has been conducted and concluded by Management, upon which the UBC buffer's current double duty shall be deemed without effect.

[12] Currently $3 billion.

<u>Appendix 1</u>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/11

The Board of Executive Directors

RESOLVES:

1. To present to the Board of Governors document GN-_____ entitled "Review of the New Lending Framework".

2. To recommend that the Board of Governors adopt the proposed resolution attached as Appendix 2 of the document referred to in paragraph 1 of this Resolution, by the procedure of taking a vote without calling a meeting provided for in Section 5 of the By-Laws of the Bank.

3. That the Governors may cast their votes by any rapid means of written communication. The proposed resolution shall be considered adopted on the date on which the replies received at Bank headquarters constitute a quorum pursuant to Article VIII, Section 2(e) of the Agreement Establishing the Inter-American Development Bank (the "Agreement") and the favorable votes cast represent a majority of the total voting power of the member countries, pursuant to Article VIII, Section 4(c) of the Agreement. The voting shall remain open until ___ _________, 2011.

(Adopted on ___ _______ 2011)

LEG/SGO-35601214-11

Appendix 2

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION AG-__/11

New Lending Framework
(Amendments to Resolutions AG-1/02 and AG-7/09)

WHEREAS:

Pursuant to Resolution AG-1/02 of March 1, 2002, the Board of Governors approved the Agreement on Measures for Enhancing the Response Capacity of the Inter-American Development Bank (hereinafter the “Agreement”);

On April 10, 2005, pursuant to the recommendations of Management’s report contained in Document CA-450-1: “New Lending Framework: Assessment Report and Recommendations”, the Board of Governors adopted Resolution AG-5/05 amending certain limitations and requirements of the Agreement;

Pursuant to Resolution AG-7/09 of April 13, 2009, as amended by Resolution AG-13/09 of August 3, 2009, the Board of Governors established an overall lending limit for loans to be financed with the Bank’s Ordinary Capital resources for the four-year period beginning on January 1, 2009 and ending on December 31, 2012, as well as lending and disbursement limits for Policy-Based Loans financed with the Bank’s Ordinary Capital resources and the resources of the Fund for Special Operations of the Bank for the same four-year period;

The Board of Governors has, in approving the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (Document AB-2764), established: (1) a comprehensive institutional strategy of the Bank for the next decade; (2) a set of reforms aimed at improving the Bank’s operational effectiveness and efficiency; and (3) the Ordinary Capital Income Management Model (IMM), which will serve as the primary tool to manage the sustainability of the Bank’s financial resources in the future;

Pursuant to Resolution AG-7/09, the Board of Governors required a review of the implementation of the New Lending Framework to be prepared for consideration by the Board of Executive Directors and any recommendations resulting from such review to be presented for consideration by the Board of Governors prior to the Annual Meeting of the Board of Governors to be held in 2011; and

The Board of Executive Directors has reviewed and considered Document GN-____ entitled "Review of the New Lending Framework", and, pursuant to Resolution DE-__/11, agreed to submit for consideration of the Board of Governors, this proposed resolution concerning the New Lending Framework;

The Board of Governors

RESOLVES:

1. To eliminate the requirement set forth in paragraph 4 of the Agreement, that the Board of Governors shall determine: (a) lending limits for consecutive four-year periods for: (i) Investment Loans, Policy-Based Loans and Emergency Loans to be financed with the Bank's Ordinary Capital resources, and (ii) Policy-Based Loans to be financed with resources of the Fund for Special Operations, and (b) an aggregate disbursement limit, for consecutive four-year periods, for Policy-Based Loans financed with the Bank's Ordinary Capital resources. The Board of Executive Directors shall have the authority to determine lending volumes and amounts subject to the provisions of this Resolution and sections II and III of Annex 2 (Ordinary Capital Income Management Model) of the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (Document AB-2764).

2. To eliminate the overall lending limit for loans to be financed with the Bank's Ordinary Capital resources set forth in paragraph 1(b) of Resolution AG-7/09, as well as the lending and disbursement limits for Policy-Based Loans to be financed with the Bank's Ordinary Capital resources and the resources of the Fund for Special Operations of the Bank set forth in paragraph 10 of the Agreement.

3. To establish a limit for consecutive four-year periods, for approvals of Policy-Based Loans to be financed with the Bank's Ordinary Capital resources, of no more than thirty percent (30%) of the Bank's total loan approvals with said resources during the respective four-year period, the first of which shall begin on January 1, 2011 and end on December 31, 2014.

4. To establish a limit for approvals of Policy-Based Loans to be financed with resources of the Fund for Special Operations of up to the equivalent of thirty percent (30%) of the total allocation of the resources of the Fund for Special Operations for any allocation period, the first of which shall begin on January 1, 2011 and end on December 31, 2012.

5. To authorize the Board of Executive Directors to review and determine the amount of the allocation of resources to the Emergency Lending category as well as how such category will be financed, based on the availability of resources that may be released from the Unused Borrowing Capacity (UBC) buffer once the UBC stress analysis has been conducted and concluded by Management; provided, however, that such determinations shall be made in a manner that ensures that the Bank's lending will continue to be principally Investment Lending.

6. That any decision adopted by the Board of Executive Directors in accordance with the provisions of this Resolution shall at all times be consistent with the limitations set forth

in the Agreement Establishing the Inter-American Development Bank and applicable Bank policies, including limitations on lending, categories of operations, limitations on borrowings and other applicable requirements.

(Adopted on ____ 2011)

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