

IDB's Ninth General Capital Increase: Implementation and Results

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Evaluation
and Oversight

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BACKGROUND NOTE

OPERATIONAL TRENDS

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This background note was prepared by Maria del Mar Carpanelli, Agustina Schijman, and Regina Legarreta, as an input to the Evaluation of IDB's Ninth General Capital Increase: Implementation and Results.

I. INTRODUCTION

- 1.1 **This note analyzes the evolution of IDB's lending and non-lending portfolio before and after the Ninth Capital Increase Agreement in 2010.** In 2010 the IDB's Board of Governors approved the Ninth General Capital Increase of the IDB (IDB-9). The IDB-9 Agreement would be put into practice through annual capital installments in each of the years between 2011 through 2015. As a result, most of strategic objectives agreed under the IDB-9 Report were set for 2012-2015, while most of the targets were expected to be met by the end of 2015 (although there is little clarity about target date).¹
- 1.2 **For analytical purposes, this document compares developments between 2006-2009 (hereby "pre-IDB-9") and 2012-2015 (hereby "post-IDB-9").** Whenever appropriate or available, OVE also reports the most recent figures available. Because SCF and OMJ—two private sector windows that issued non-sovereign guarantee (NSG) operations within the IDB before the private sector's merge-out—were part of the Bank at the time of the IDB-9 Agreement, this technical note considers NSG operations whenever relevant.²

II. PORTFOLIO TRENDS AT A GLANCE

- 2.1 **Ordinary Capital (OC) approvals remained roughly in line with IDB-9 expectations.** From the Report on the IDB-9, the amount for lending approvals financed with ordinary capital (including both SG and NSG lending) was expected to average US\$12 billion per year for the 2011-2020 period.³ Since 2011, annual approvals have reached 95% of that target on average, with OC lending ranging from a maximum of US\$13.3 billion in 2013 to a minimum US\$10.4 billion in 2015—above the pre-IDB-9 figures (Figure 2.1).
- 2.2 **Total SG Bank lending has represented about 0.7% of the region's GDP over the IDB-9 period, and has exhibited a weaker counter-cyclical behavior than before the IDB-9.** Despite variations at the individual country level, the IDB has continued to be the main development partner in LAC after the IDB-9 Agreement, with its SG lending accounting for 0.7% of the region's GDP, and 3.3% of total investment expenditure, in 2012-2015—slightly below the pre-IDB-9 averages.⁴ Historically, the Bank has tended to increase SG lending to the region in times of economic slowdown and/or rise in the public sector financial needs, thus

¹ The statement of the target date varies within and between the DEOs and the IDB-9 Report. It would appear to be the end of 2015, but this is sometimes expressed as just 2015 or 2012-2015 or end of 2012-2015.

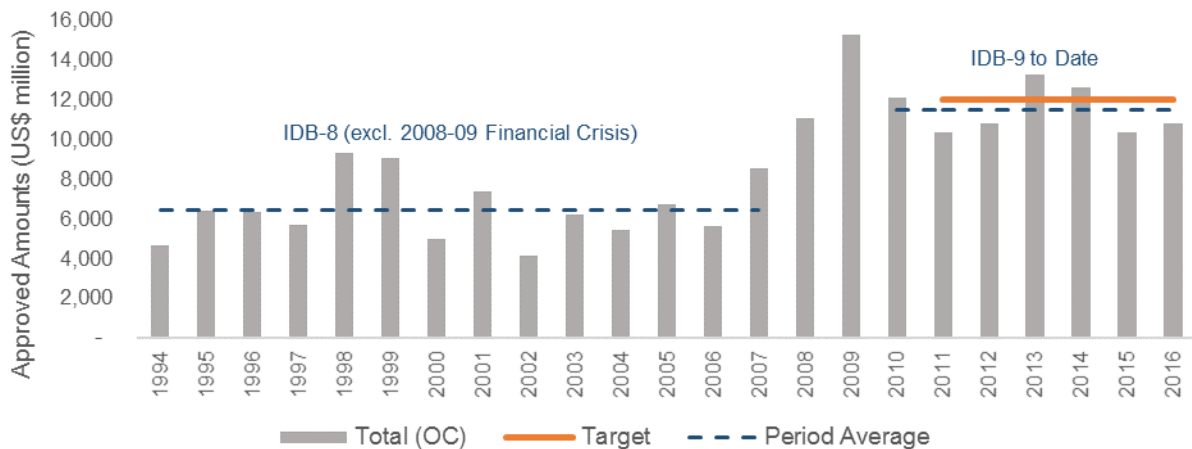
² In 2016, SCF and OMJ were merged out from the IDB and incorporated into the IIC. Since the IIC was not part of IDB-9, this technical note only considers NSG operations when referring to SCF and OMJ before the merge-out, and excludes all private sector operations approved on 2016 or after by the IIC.

³ From the "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank" (2010): "The OC finances a desired amount for lending approvals (initially assumed to average US\$12 billion for the 2011-2020 period, but to be determined each year by the Board of Executive Directors)."

⁴ Even though total SG lending approved increased by roughly 50% in 2012-2015 as compared to 2006-2009, the region's growth and the increase in the average investment rate drove the SG lending to average regional GDP ratio from 0.9% in 2006-2009 to 0.7% in 2012-2015. The SG lending to the average regional investment rate also fell from 4.4% in 2006-2009 to 3.3% in 2012-2015.

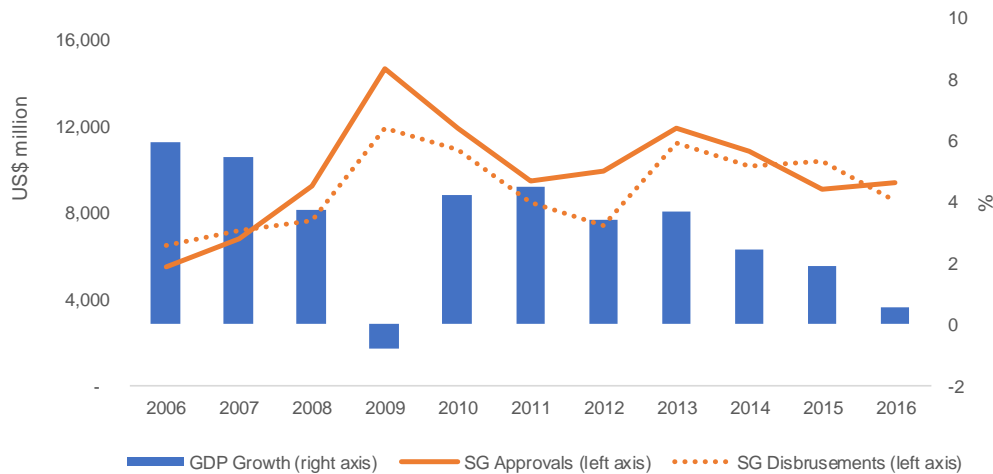
responding in a countercyclical manner. An example of this behavior is Bank's response to the 2008-2009 financial crisis: SG approvals and disbursements rose by about 59% and 56%, respectively, in 2009 as compared to 2008. After the IDB-9, this counter-cyclical behavior weakened, as lending remained roughly stable in a context of weaker economic growth and higher fiscal deficits in the region (Figure 2.2).

Figure 2.1. Annual OC Approvals (US\$ million), 2006-2016



Note: Includes SG and NSG lending financed with OC exclusively. Excludes non-sovereign-guaranteed loan participations and IIC approvals (relevant after the merge-out of the private sector windows in 2015-2016).
Source: OVE based on Annual Reports.

Figure 2.2. Economic Growth and SG Approvals and Disbursements, 2006-2016

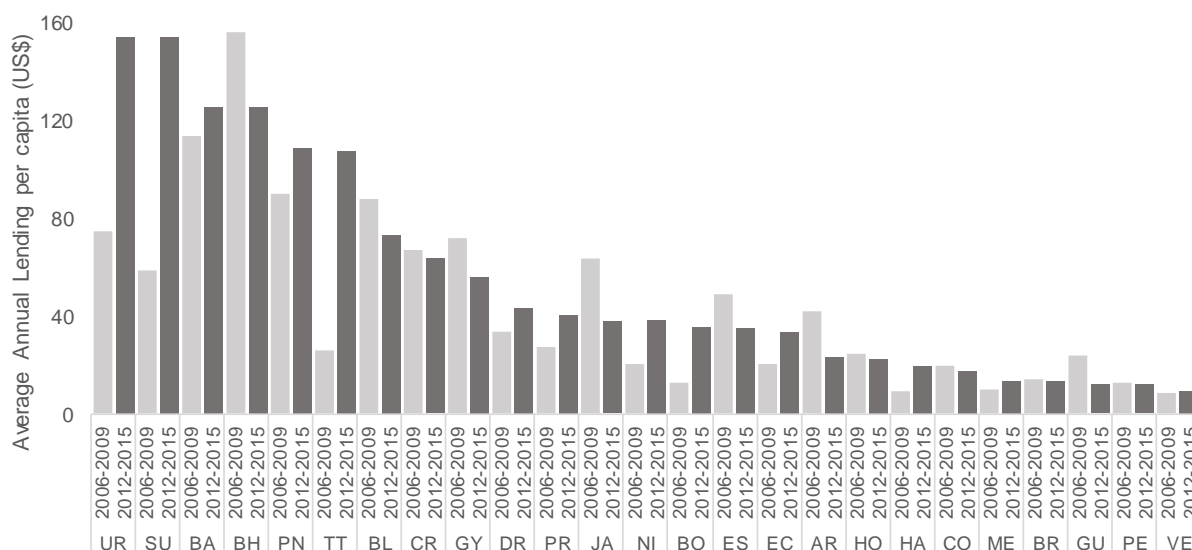


Note: Includes SG lending financed with all sources of capital. Excludes IIC approvals.
Source: OVE based on Data Warehouse and IMF.

III. APPROVALS BY COUNTRY

- 3.1 **Average per capita lending continued to be relatively higher for countries with small populations (less than five million people).** IDB SG lending averaged US\$53 per person per year after the IDB-9, above the pre-IDB average (US\$44). But these averages high significant differences across countries. While in countries with more than five million inhabitants, IDB lending per capita reached US\$24 in the 2012-2015 period (as compared to US\$21 in 2006-2009), in countries with less than five million inhabitants, IDB per capita lending reached US\$101 in the 2012-2015 period (as compared to US\$81 between 2006-2009). Remarkable cases are Trinidad and Tobago, Suriname, and Uruguay, where average per capita SG lending roughly quadrupled, tripled, and doubled, respectively (Figure 3.1, and Appendix Table I.1 and Figure I.1). As further discussed below, this finding is consistent with IDB-9 mandate on increased Bank support to small (and vulnerable) countries.

Figure 3.1. Average Per Capita Annual Approvals Before and After IDB-9



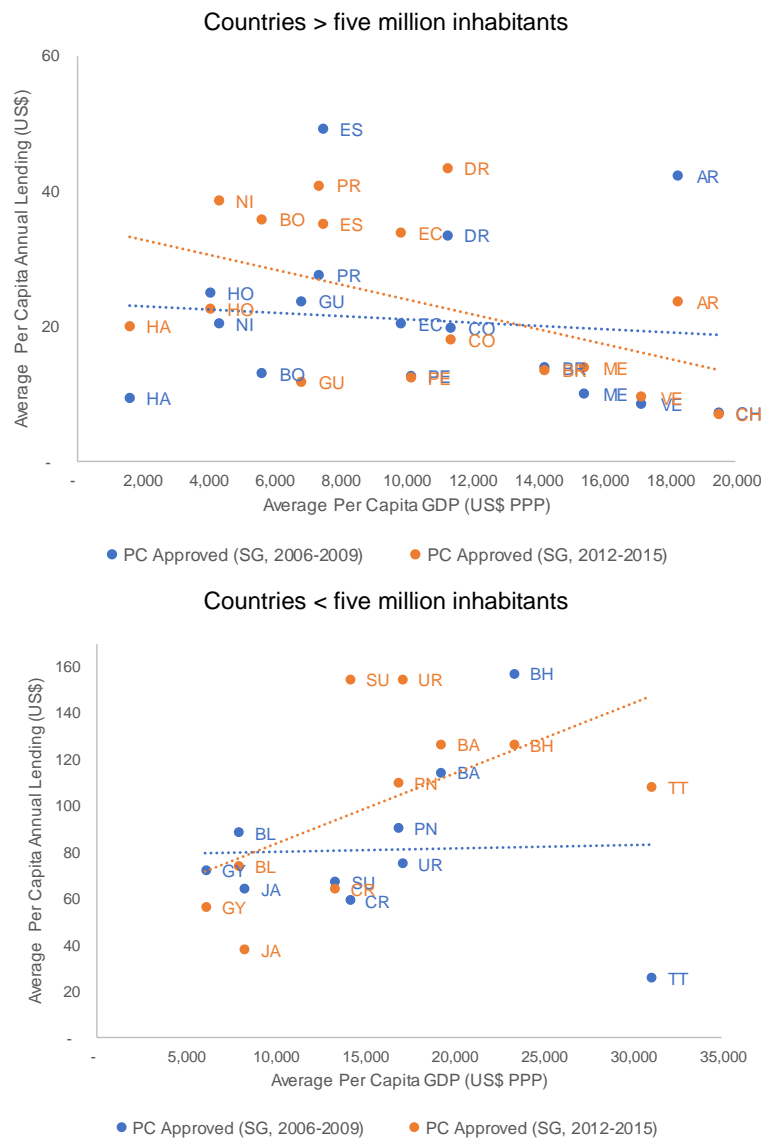
Source: OVE based on Data Warehouse.

- 3.2 **In fact, after IDB-9, lending shifted from large towards smaller, though not necessarily poorer, economies in the region.** Approvals to the largest economies in the region (in terms of GDP)—namely Argentina, Brazil, Colombia, Mexico and Peru—decreased as a share of total approvals. Bank SG lending in these countries went from 63% of total SG lending before the IDB-9 to 56% after. Conversely, smaller economies accounted for 44% of total SG lending in 2012-2015 compared by 37% in 2006-2009. Some of these small economies are low-middle income countries, such as Bolivia, Honduras, and Nicaragua, while others are high income, such as Trinidad and Tobago and Uruguay.
- 3.3 **A corollary of this is that total lending deconcentrated, as the volume of lending for C and D countries expanded after IDB-9 at expense of lending to Group A countries.** SG lending to C countries reached 16% in 2012-2015 (as compared to 12% in 2006-2009), and to D countries reached 26% in 2012-2015 (as compared to 21% in 2006-2009). At the same time, the share of SG lending to group A countries contracted by 10 percentage points, from 54% in 2006-2009, to

44% in 2012-2015. Lending to group B countries remained roughly constant (Figure I.2, Appendix).

- 3.4 **Before the IDB-9, there was no clear relationship between income and IDB lending; however, in recent years, this relationship has become negative for countries with large populations and positive for countries with small populations.** Among countries with larger populations, in the IDB-9 period the Bank has tended to approve relatively more lending to countries with lower income, such as Bolivia, Nicaragua, and Paraguay. The opposite trend was observed in countries with less than five million inhabitants: during the IDB-9 period, per capita SG lending has remained positively associated with per capita income, as it increased the most in Suriname, Trinidad and Tobago, and Uruguay—all high or upper-middle income economies (Figure 3.2).

Figure 3.2. Relationship Between Per Capita Income and Per Capita SG Approvals, 2006-2009 vs. 2012-2015



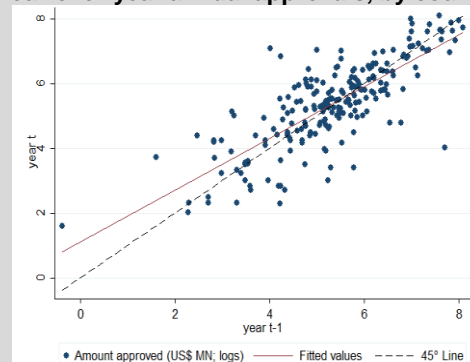
- 3.5 **These changes notwithstanding, annual approvals by country continued to exhibit strong inertia since 2006 (Box 3.1), with the exception of the period that comprised the international financial crisis.** Historically, there has been a strong correlation between the amounts approved in country envelopes over time: year-over-year correlation in approved amounts remained at 79% in 2006-2016. In 16 of the 26 borrower countries there was stronger inertia in amounts approved in 2012-2015 than in 2006-2009, as measured by the standard deviation in total annual loan approval amounts (Figure I.5, Appendix), but this is mostly explained by the fact that the 2008-2009 financial crisis called for greater financing during those years, hence weakening inertia in the period pre-IDB-9.

Box 3.1. Inertia in IDB Approvals

Year-over-year correlation in approved amounts stood at around 80% in 2006-2016, suggesting there is some inertia in annual approvals by country.

Attempting to unentangle the purely inertial component requires to isolate its effect from that of all other possible factors—many of which also exhibit certain inertia or persistence overtime. While this is out of the scope of the analysis, OVE attempted to provide a first approximation to the magnitude of the inertia in IDB approvals by regressing country-year approvals on their lags while accounting for country-specific characteristics that do not change over time. We also control for countries' financing needs, GDP, and political cycle. We use panel data for the 26 IDB borrowing countries for 11 years (2006-2016). The table below presents our results.

Year-over-year annual approvals, by country



Source: OVE based on Data Warehouse

Estimation of inertial component in IDB approvals.⁵

| VARIABLES | (1) OLS | (2) FE | (3) IV | (4) OLS | (5) FE | (6) IV |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Lagged log-approvals | 0.799*** (0.000) | 0.341*** (0.000) | 0.644*** (0.000) | 0.830*** (0.000) | 0.367*** (0.001) | 0.746*** (0.001) |
| Lagged net lending(+)/borrowing(-) | | | | 0.028 (0.120) | -0.035 (0.253) | 0.025 (0.746) |
| Log-GDP | | | | -0.062 (0.331) | -0.129 (0.186) | -0.357** (0.020) |
| Lag election year | | | | 0.411** (0.023) | 0.208 (0.121) | 0.491*** (0.007) |
| Constant | 1.106*** (0.001) | 3.547*** (0.000) | 0.014 (0.631) | 0.926*** (0.005) | 3.518*** (0.000) | -0.002 (0.976) |
| Observations | 218 | 218 | 184 | 189 | 189 | 141 |
| R-squared | 0.629 | 0.136 | -0.608 | 0.685 | 0.229 | -0.583 |
| Controls for t-invariant country car. | No | Yes | Yes | No | Yes | Yes |
| Number of country | | 26 | | | 26 | |

Cluster-robust p-values in parentheses.

*** p<0.01, ** p<0.05, * p<0.1

Column (1) shows the simple year-to-year correlation—measured by the OLS estimate of the coefficient of the lagged variable. Because approvals in $t-1$ is positively correlated with the error term (biasing its coefficient upward), if there were no more determinants of IDB approvals other than their lags and a random error, one could take this value as an upper bound of the true inertial component. Column (2) shows the result of estimating this simple correlation using a fixed-effects model (FE), which controls for time-invariant, country-specific characteristics. Even though it accounts for country fixed effects, the coefficient of interest in this case is downward biased, providing a lower bound for the inertial component (under the assumption that there are no further determinants).⁶ We obtained the estimates in column (3) using a first-difference and instrumental variables approach.⁷ The former, to account for time-invariant, country-specific characteristics as we did in (2); and the latter, to accommodate the serial dependence in the error terms that gives rise to bias in both our OLS and FE estimations.

Columns (4)-(6) add the following controls to these estimations: the country's lagged *net lending(+)/borrowing(-)* position;⁸ log-GDP; and a lagged election year dummy. Again, the IV estimate of the inertial component (column (6)) is consistent, while the OLS and FE are included for reference. Our preferred estimation of the inertia in IDB approvals for the 2006-2016 period (column (6)) remains high and statistically significant. The results suggest that a one percent increase in IDB approvals in a given year is associated with a 0.75 percent increase in approvals the following year. Both the lagged election and GDP variables are statistically significant and take the expected sign.

⁵ We estimate the model $a_{it} = \gamma a_{it-1} + \beta X_{it} + \alpha_i + u_{it}$, where a_{it} are IDB log-approvals for country i in year t ; X_{it} are control variables; α_i are country fixed effects; and u_{it} is an idiosyncratic error term.

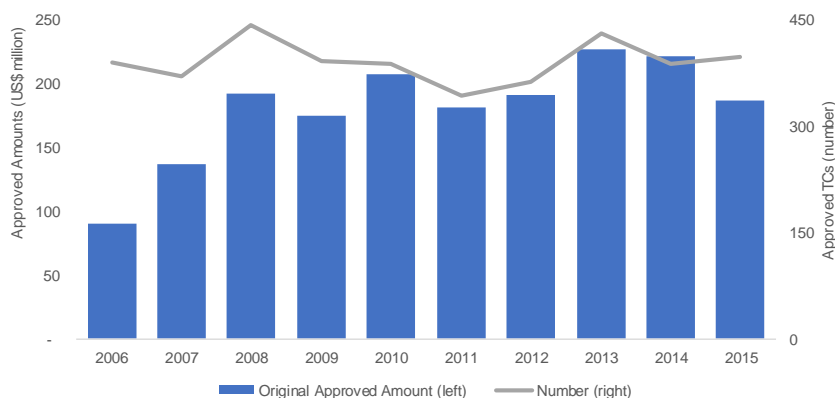
⁶ Nickell, Stephen. "Biases in dynamic models with fixed effects." *Econometrica: Journal of the Econometric Society* (1981): 1417-1426.

⁷ The estimation model in this case is $\Delta a_{it} = \gamma \Delta a_{it-1} + \beta \Delta X_{it} + \Delta u_{it}$. Because Δa_{it-1} is, by construction, correlated with the error terms, we instrument it with the second lag of a_{it} .

⁸ A country's net lending/borrowing represents the financial resources that its government absorbs from, or releases to, other sectors of the economy. It is calculated as the net operating balance minus the net acquisition of nonfinancial assets. It is also equal to the net acquisition of financial assets minus net incurrence of liabilities and it is reported as percentage of GDP (IMF Government Finance Statistics). We use lag of net lending/borrowing as proxy of countries' financial needs.

- 3.6 **Non-reimbursable assistance (TCs) increased after IDB-9** (Figure 3.3).⁹ Average annual TC approved amounts grew by 39% in 2012-2015, as compared to 2006-2009.¹⁰ Regional TCs also experienced a large increase after the IDB-9 (11% increase in the average annual number of regional TCs).

Figure 3.3. Non-Reimbursable Technical Cooperation Approvals, 2006-2015

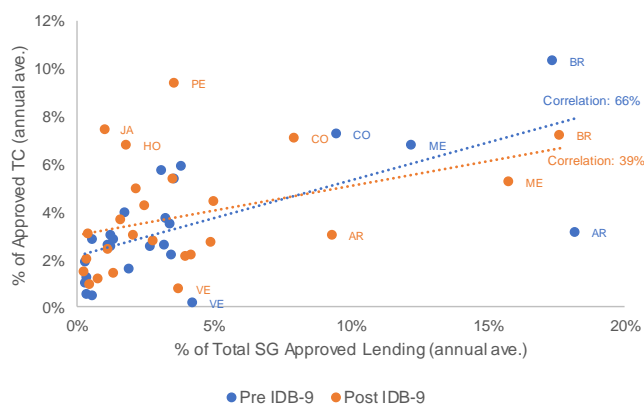


Note: Includes non-reimbursable technical cooperation only. Excludes MIF.

Source: OVE based on Data Warehouse.

- 3.7 **Countries with small lending portfolio, such as Barbados, Bahamas, Belize, Trinidad and Tobago, benefitted from greater technical assistance support after IDB-9; yet, in general, lending and TCs are positively correlated.** Countries with larger lending envelopes also tend to be large recipients of non-reimbursable technical assistance, although after the IDB-9 this relationship became less pronounced (Figure 3.4). Countries in the Andean Region and the Caribbean, especially Peru, Bolivia and Jamaica, were the main beneficiaries of this increased technical assistance in 2012-2015 (Figure I.3, Appendix).

Figure 3.4. Relationship Between Lending and TC, Annual Averages



Note: Excludes Haiti.

Source: OVE, based on Data Warehouse.

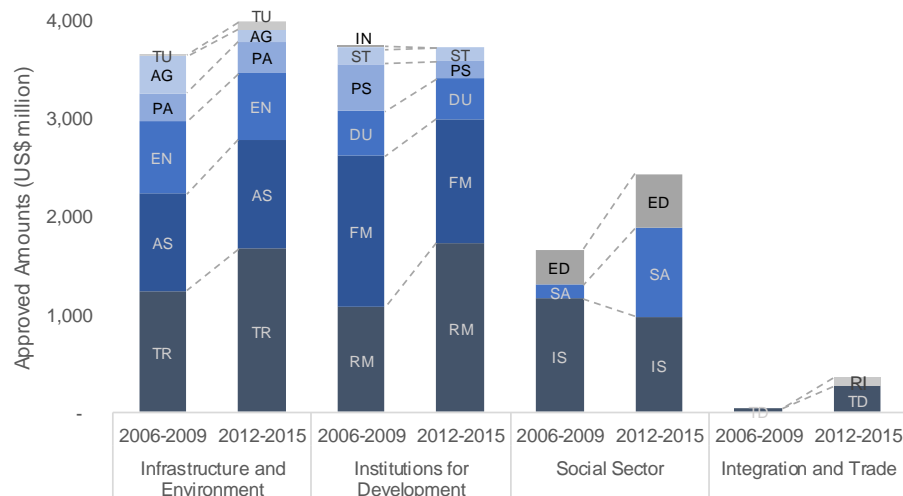
⁹ This includes TCs funded by OC and trust funds.

¹⁰ The upward trend in approvals stalled in 2016, when approvals reached the minimum of the last decade.

IV. APPROVALS BY SECTOR AND CROSS-COLLABORATION

- 4.1 With regard to sector distribution (Figure 4.1), lending for transport, reform and modernization of the state, health, and integration and trade increased substantially during 2012-15 (the last from a very low base). IDB-9's focus on promoting regional integration was reflected in the growth of the trade and regional integration sector—which went from issuing almost no lending in 2006-2009 to an annual average of roughly US\$300 million in 2012-2015. The 2012-2015 period also saw significant growth in areas that continued to approve more and larger policy based loans, such as Reform and Modernization of the State sector and Health—a sector that almost quadrupled as in 2012-2015 as compared to 2006-2009 mainly due to programs to support health reforms. Transportation has also experienced significant growth since the IDB-9 Agreement, mostly driven by the transport subsector that finances major highways (called VPR). As per TCs, after the IDB-9 the Bank approved more and larger operations in Energy and Environment, Natural Disasters, Social Investment, and Health (Figure 4.2).

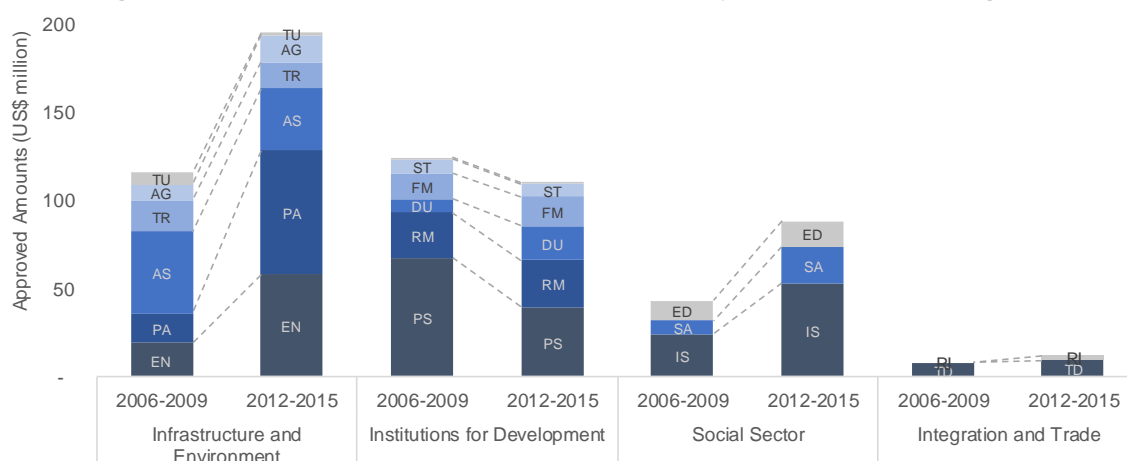
Figure 4.1. SG Lending by Sector, Annual Averages 2006-2009 vs. 2012-2015



Note: All IDB projects are classified into focus areas or sectors which are related, but do not totally coincide, with Bank's divisions. The 16 sectors are the following: EN: Energy; PA: Environment and Natural Disasters; AS: Water and Sanitation; TR: Transportation; AG: Agriculture and Rural Development; TU: Sustainable Tourism; PS: Private Sector and SME Development; RM: Reform/Modernization of the State; DU: Urban Development and Housing; FM: Financial Markets; ST: Science and Technology; IS: Social Investment; SA: Health; ED: Education; TD: Trade; RI: Regional Integration.

Source: OVE based on Data Warehouse.

Figure 4.2. Non-Reimbursable Technical Cooperation by Sector, Annual Averages



Notes:

1. Excludes MIF and sectors not listed.
2. EN: Energy; PA: Environment and Natural Disasters; AS: Water and Sanitation; TR: Transportation; AG: Agriculture and Rural Development; TU: Sustainable Tourism; PS: Private Sector and SME Development; RM: Reform/Modernization of the State; DU: Urban Development and Housing; FM: Financial Markets; ST: Science and Technology; IS: Social Investment; SA: Health; ED: Education; TD: Trade; RI: Regional Integration.

Source: OVE based on Data Warehouse.

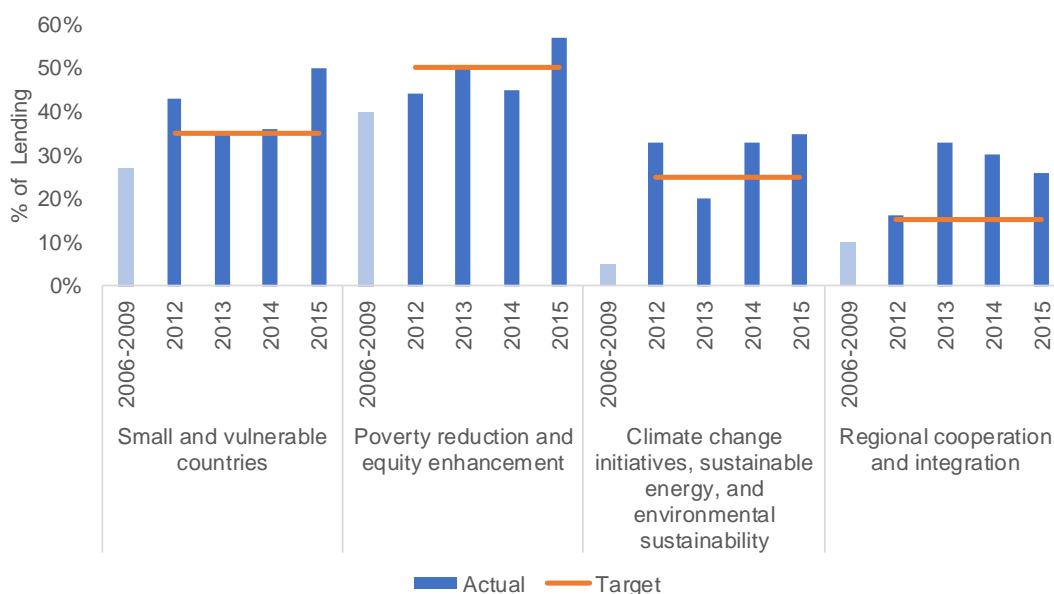
4.2 Relatedly, an increasing number of operations are designed under multiple-booking schemes. The Bank introduced double or multiple booking as a mechanism to promote cross-sector collaboration in operations across the Bank (Box I.1, Appendix). As a result, there was a significant increase in the number of operations registered under this scheme: while in 2011 there were only two double-booked operations, the Bank approved an average of 33 double or triple booked operations a year between 2012 and 2016. Collaboration was especially frequent across divisions within IFD and SCL, and to a lesser extent within INE. Multiple booking across divisions from different departments is notable between IFD and INE, and between IFD and SCL. There was also some collaboration between public and private sector windows—primarily between INE and SCF. Brazil, Colombia, Uruguay, Mexico and Ecuador were the most extensive beneficiaries of cross-sectoral collaboration, and all countries but Suriname had at least one double or triple booked operation since 2014. Three quarters of such operations were investment loans, and one quarter, PBLs.

4.3 However, only a small share of Bank specialists believe that multiple-booking schemes create enough incentives for staff to participate in projects led by other divisions/units. In October 2017, OVE conducted a survey to IDB operational staff on the extent of implementation of the reforms mandated in the IDB-9 Agreement. Almost 79% of respondents have participated in projects co-led with other Bank divisions/units. However, only about 20% believe that double (or multiple) booking creates enough incentives for staff to participate in projects led by other divisions/units. In this regard, and despite some adjustments to the multiple-booking scheme, staff seem to be more sceptic about this cross-collaboration tool than five years ago (in a previous IDB-9 evaluation conducted in 2012, half of the respondents said the possibility of double-booking provided sufficient incentives to participate in other projects).

V. APPROVALS BY IDB-9 LENDING TARGETS

- 5.1 **Following efforts started in the Realignment, the IDB-9 Agreement attempted to drive the Bank towards a results-oriented management and defined a corporate results framework based on priority areas.** One of the requirements set out by the Board of Governors in its Report on the IDB-9 was to implement a Bank-wide corporate results framework (CRF), with the dual objective of using empirical evidence to manage for development results, and to improve accountability for delivering results. The Articles of Agreement stated the Bank's overarching objective, "[t]o contribute to the acceleration of the process of economic and social development of the regional developing member countries," and two sub-objectives: to (i) reduce poverty and inequality, and (ii) achieve sustainable growth. The 2012-2015 CRF broke these objectives into five institutional priorities or priority areas: (i) Social policy for equity and productivity; (ii) Infrastructure for competitiveness and social welfare; (iii) Institutions for growth and social welfare; (iv) Competitive regional and global international integration; and (v) Protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security (Figure I.4, Appendix).
- 5.2 **The 2012-2015 CRF also included four lending targets; IDB management asserts that they were all met or surpassed by the deadline of 2015, though OVE's midterm evaluation identified flaws in the design and implementation of the targets that led to overestimating compliance.** The IDB-9 Agreement required the Bank to meet four lending targets that represented "the Bank's highest priorities and mandates." The targets specified that 35% of FOB lending (SG and NSG) would go to small and vulnerable countries, 50% to poverty reduction and equity enhancement, 25% to climate change initiatives, sustainable energy and environmental sustainability, and 15% to regional cooperation and integration. The Bank was formally required to meet all targets by 2015, but according to SPD's classification, three out of four were met in 2013 and all four were surpassed by the deadline (Figure 5.1). However, OVE's Mid-term Evaluation of IDB-9 Commitments ([RE-425](#)) identified several flaws in the design and implementation of the lending targets that limited their effectiveness to properly ensure accountability for delivering results, as originally intended. First, classification guidelines were too broad, facilitating the Bank's ability to meet the targets (Box 5.1). Second, lending targets did not match the set of five priority sectors identified in IDB-9, as a single operation could contribute to more than one lending target, but could fit only one sector. In addition, lending targets potentially led to distortions in decision-making, as there was an unintended emphasis in the Bank's activity mix, and incentives to skew the Bank's instrument choice towards fast-disbursement instruments, such as PBLs.

Figure 5.1. Management's Reported Achievement of Lending Targets (2012-2015)



Notes:

1. Since projects can qualify for more than one lending category the estimated percentages proposed do not add to 100%.
2. Amounts are computed including only FOB lending (OC, FSO and GRF). Includes SG and NSG.
3. Excludes emergency loans.

Source: OVE based on SPD's classification.

Box 5.1. OVE's Assessment of IDB-9 Lending Targets

Several OVE evaluations further founded inconsistencies in the lending targets.

For example, a background paper that analyzed IDB's Integrated Strategy for Climate Change Adaptation and Mitigation, Sustainable and Renewable Energy (CC) as part of the Mid-Term Evaluation of IDB-9 Commitments, found that the guidelines for classifying lending program priorities ([GN-2650](#)) with IDB-9 lending targets were too broad and used automatic or conditional criteria. Some subsectors could automatically classify operations under the lending target to support CC (i.e., water and sanitation, environmental protection), while some other sectors and subsectors (energy, transportation, agriculture, etc.) could apply such classification conditionally, depending on the outputs or outcomes described in the project. As a result, OVE recommended an in-depth revision of the criteria.*

Similarly, an evaluation on the Bank's support to agriculture conducted by OVE in 2014 found that between 2002 and 2012, 38% of the projects in the "AG" portfolio explicitly target the poor. However, the Bank was automatically classifying all agricultural projects as poverty-oriented (contributing to the "Poverty Reduction and Equity Enhancement" target), thus overstating the degree of poverty focus.

*Since then, Management has substantially improved its tracking system to accurately monitor progress on a new target (in 2016, the IDB Board of Governors endorsed the goal of increasing the financing of climate change related projects in LAC to 30% of the IDB's and IIC's combined total approvals of loans, guarantees, investment grants, technical cooperation and equity operations by December 31, 2020, subject to demand from borrowing countries and clients and access to external sources of concessional financing (IIC/AG-2/16).

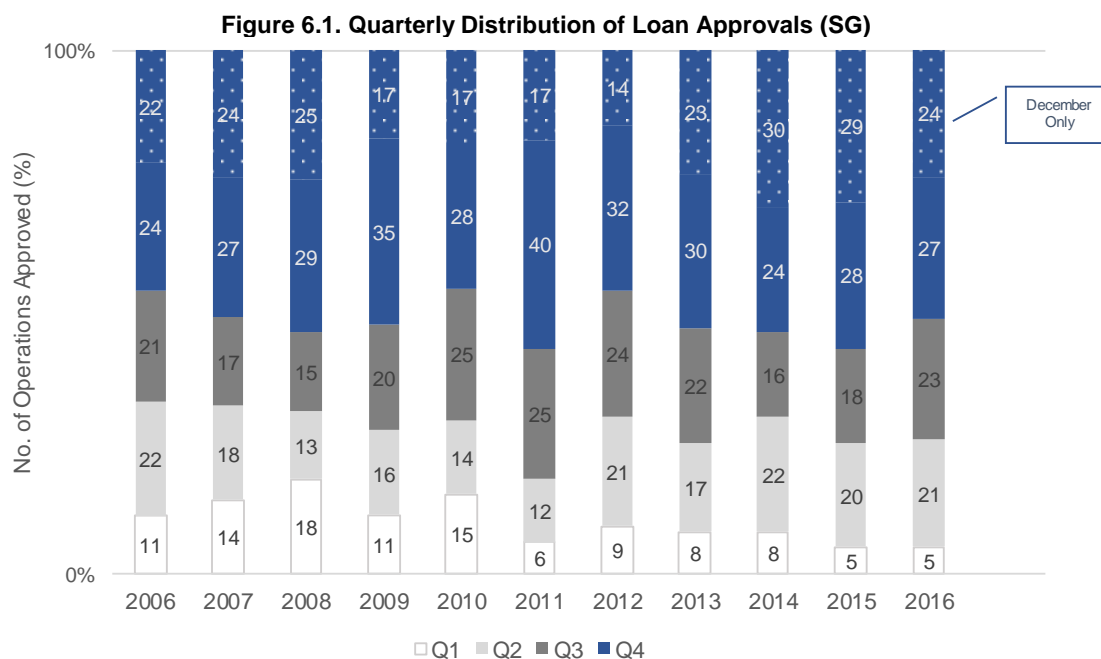
5.3 In view of the limitations of using lending targets to establish Bank priorities, in 2016 the Bank shifted to a strategic alignment approach. The Update to the Institutional Strategy (UIS) outlines the strategic direction for the IDBG through the end of 2019. As a result, the 2016-2019 CRF presents three main differences as compared to the 2012-2015 CRF. First, following OVE's recommendations, the lending targets approach was discontinued (except for small and vulnerable countries, which continues to have a target of 35% of lending¹¹). Second, while the 2012-2015 classification was based on an automatic and conditional classification

¹¹ IDBG also has a 30% lending target to be directed towards Climate Change and Sustainability, but this target was set outside of the CRF and IDB-9 context, in tandem with other multilateral organizations in the context of the Paris Climate Conference (December 2015).

according to projects' sub-sectors, the new classification is based on a principle of material contribution as justified by the inclusion of a specific indicator in the results matrix. Instead of the priority areas, the Bank now has six strategic priorities (and each project can be aligned to more than one priority): three development challenges of social inclusion and equality, productivity and innovation, and economic integration, as well as the three cross-cutting issues of gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law. Third, the alignment indicators now track the entire IDB Group—i.e. SG and NSG lending, as well as grants, equity investments, and non-reimbursable technical cooperation operation.

VI. APPROVALS BY MONTH

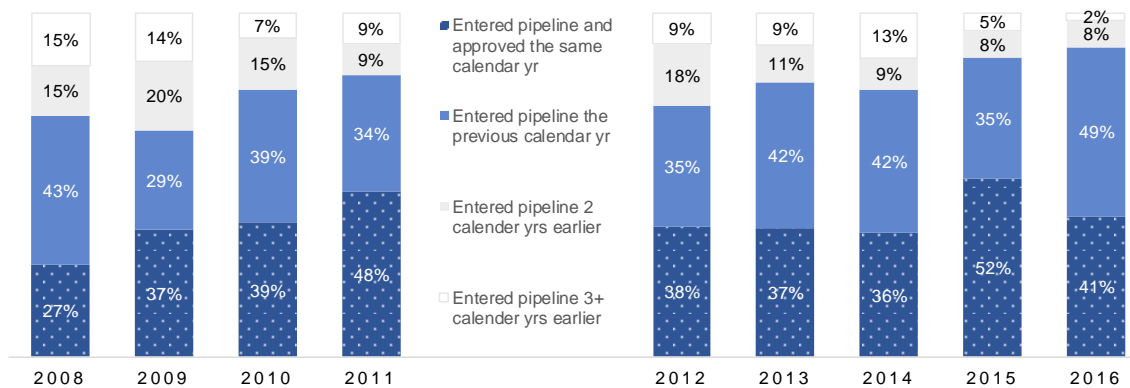
- 6.1 **In line with a historical pattern, approvals of SG operations are clustered in the fourth quarter of the year (especially in December), with a slight upward trend after the IDB-9 Agreement** (Figure 6.1). On average, half the number of SG loans, and more than half the lending volume, were approved in the last quarter of the year in 2006-2016. After 2010, this average remained quite stable for number of loans approved but amounts went up slightly: 53% of the annual SG lending in 2012-2015 was approved in the last quarter of the year, as compared to 51% in 2006-2009. The trend for NSG lending is similar, but bunching remained somewhat lower: on average, 48% of NSG loans were approved in the last quarter of the year in 2012-2015, as compared to 37% in 2006-2009.
- 6.2 **Several factors drive this operational volatility.** IDB's annual budget process, the “use-or-lose” condition of approval allocations, and the fact that most borrowing member countries also have calendar-year budget cycles (so few can commit to programming decisions early of the programming year), result in a large number of operations being pushed for approvals to the end of the calendar-year.



Source: OVE based on Data Warehouse.

6.3 **To accommodate volatility, Management prepares a larger number of operations than that approved per year—which *de facto* leads to multi-year programming.** OVE analyzed the life cycle of projects approved since 2008, and found that despite the annual nature of the programming process at the IDB, on average, almost 40% of the SG investment loans approved by the Board each year (and 48% of PBLs) had entered pipeline on the same calendar-year they were approved.¹² That is, most approved loans roll from previous calendar years, both before and after the IBD-9 Agreement (Figure 6.2). Specifically, loans tend to remain in the pipeline for an average of 15 months before approval. However, these finding reverses for loans that are approved at the peak of the bunching period: the large majority of SG projects approved in December had entered pipeline the same calendar-year (usually around February that year, when CPDs are defined).

Figure 6.2: Approval of SG Projects and pipeline entry



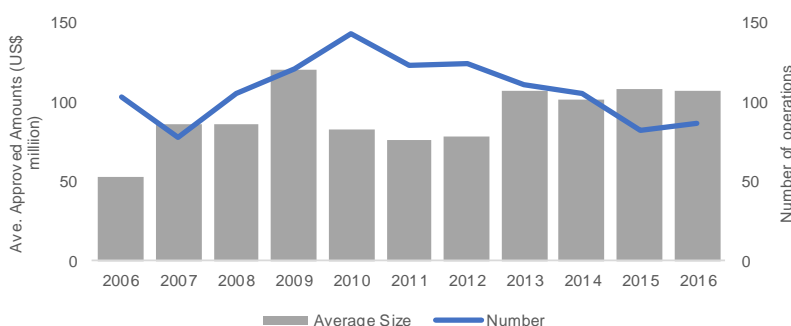
Note: Only includes SG investment lending.
Source: OVE, based on T&L and OVEDA.

¹² Using T&L, OVE identified the entrance of projects into the pipeline as the first month in which a team reported at least 40 hours into the project.

VII. APPROVALS BY INSTRUMENT

- 7.1 **Since IDB-9 the average size of SG projects has continued to increase, mostly driven by policy based loans** (Figure 7.1 and Table 7.1). The average size of SG loans expanded by 16%, from US\$87 million in 2006-2009 to US\$99 million in 2012-2015. This trend was mostly driven by more and larger policy based loans (PBLs): The Bank has approved an average of 20 PBLs of US\$160 million each per year in 2012-2015, compared to 16 PBLs of US\$137 million between 2006 and 2009. The Bank has also approved more investment loans (the average number of annual approvals per year increased from 78 to 85), though the average size has remained relatively constant at US\$84 million before and after the IDB-9.

Figure 7.1. Average Size and Number of SG operations, 2006-2015



Source: OVE based on Data Warehouse.

- 7.2 **In this regard—and as further explained in the Background Paper on Lending Instruments—the most frequently used lending instruments are investment loans and policy-based lending (PBL).** Investment loans accounted for 71 percent of SG lending by volume since 2006, and their share has fallen slightly in recent years. By number of operations, they continue to dominate. By volume, PBLs accounted for virtually all the remaining 29 percent, with a growing share in recent years. In this regard, policy-based lending is currently limited to 30 percent of total SG lending over a four-year period, with a caveat. Before the private sector window merge-out, the limit was calculated as a share of total IDB lending (that is, SG+NSG). During a transition period, a share of IIC lending will remain on the IDB's balance sheet. However, the overall effect at the end of the transition will be a tighter limit on policy-based lending.

Table 7.1: SG Lending by selected instruments

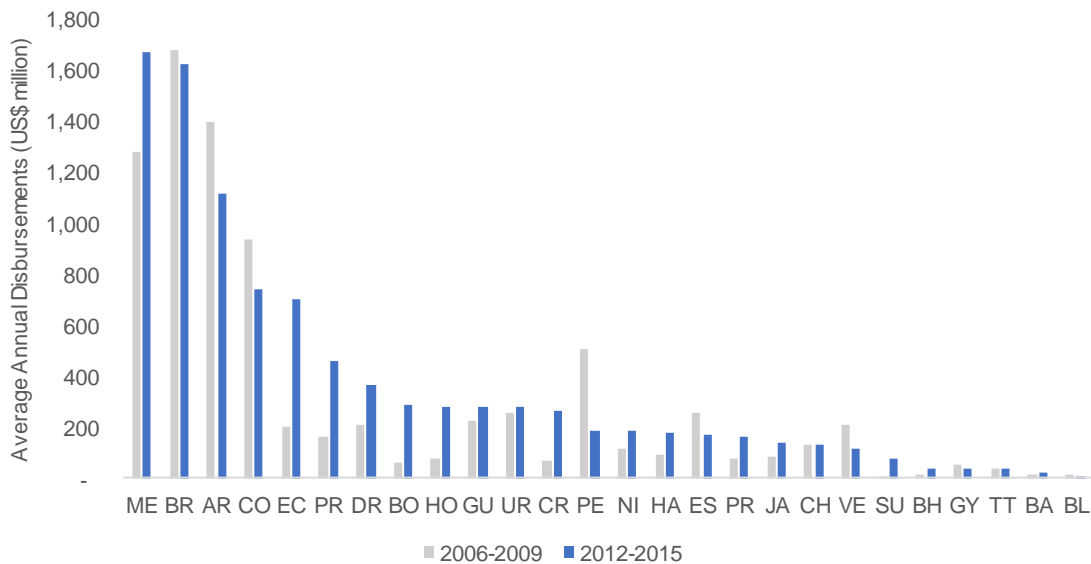
| | PBL | | Investment Loans | |
|----------------|--------------------------|--------|--------------------------|--------|
| | Ave. Size (US\$ million) | Number | Ave. Size (US\$ million) | Number |
| Ave. 2006-2009 | 137 | 16 | 78 | 84 |
| Ave. 2012-2015 | 160 | 20 | 85 | 84 |

Source: OVE based on Data Warehouse.

VIII. EXECUTION

- 8.1 Average annual SG disbursements increased in most countries, especially small economies, after IDB-9.** After 2010, most countries not only saw an increase in approved amounts, as explained earlier, but also experimented an increase in disbursements as compared to 2006-2009 (Figure 8.1). Exceptions include countries that got lower absolute approved amounts (such as Argentina and Venezuela), and other large economies (Brazil, Colombia and Peru). This can be partly explained by the expansion in the use of PBLs in some smaller economies in 2012-2015. In this regard, *more* PBLs were approved in some countries (as in the cases of Suriname, Panama, Bolivia, Chile, Uruguay, Paraguay, and the Dominican Republic), while *larger* PBLs were approved in others (such as in Honduras, Guyana, and Nicaragua, among others).

Figure 8.1: Average Annual SG Total Disbursements by country



Source: OVE based on Annual Reports.

- 8.2 Even though average disbursements of investment loans went up after IDB-9, their disbursement efficiency has remained fairly constant.** SG investment loans disbursed 25% more, on average, in 2012-2015, as compared to 2006-2009 (Figure 8.2).¹³ However, disbursements of SG loans approved after IDB-9 were not significantly faster than those approved in 2006-2008: after IDB-9 the median investment loan disbursed 50% of the approved amount 34 months after approval, only one month earlier than before 2009 (Figure 8.3).

¹³ It must be noted that 2009 and 2010 were peculiar years, since disbursed amounts were highly influenced by the international crisis.

Figure 8.2: Evolution of Disbursement by instrument, 2006-2015

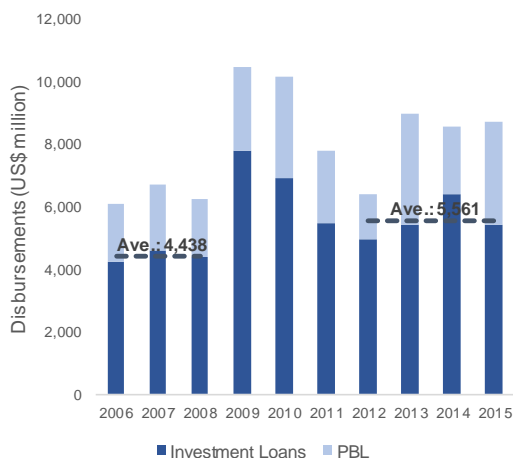
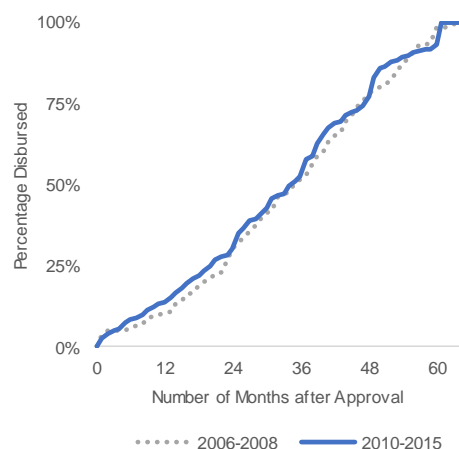


Figure 8.3: Disbursement Efficiency: Median SG investment loans, Pre vs. Post 2009



- 8.3 As a result, annual net flows to the region remained positive during most of the IDB-9 period.** At an average of US\$3.8 billion in 2012-2015, net annual *lending* flows to the region from Bank operations were positive and presented a positive trend. Net *cash* flows to the region—i.e. the sum of disbursements less programmed principal repayments, advance repayments, interest and fee payments, and conversions under the local currency conversion program—remained positive during most of the IDB-9 period too. The exception was 2013, when net cash flows were US\$280 million negative, due to US\$1.5 billion advance payments requested by the borrowers as part of the Reallocation Program.
- 8.4 As per TCs, the share of operations executed by the Bank showed a constant increase after IDB-9, especially those classified as “client support”.** After IDB-9, and more specifically since 2013, there was a marked upward trend in the share of TCs executed by the Bank, to the extent that in 2012-2015 one in two TC were executed by the Bank. This was particularly true in TCs that provided client support (i.e. assisted borrower countries in specific technical areas). The Bank also continued to execute most of the Research and Dissemination TCs approved.

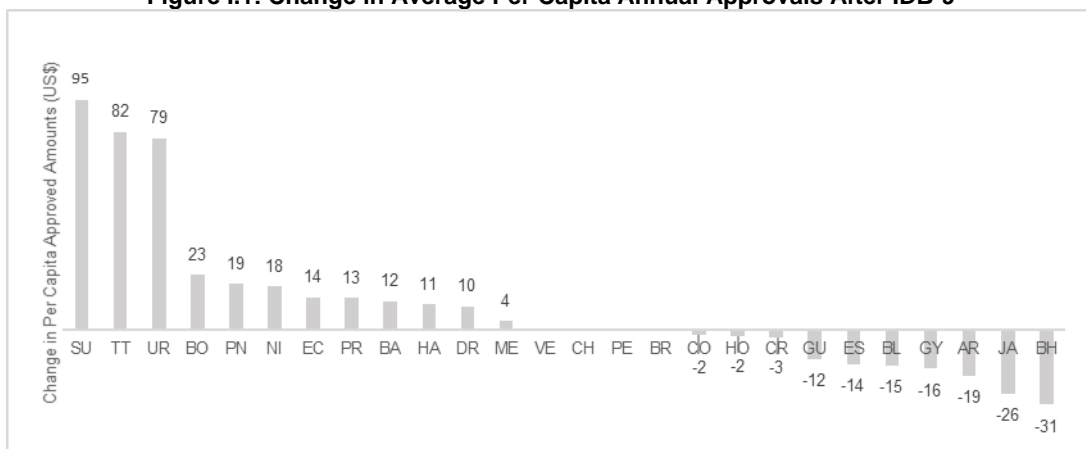
APPENDIX I

Table I.1: Annual Per Capita SG Approved Amounts by Country (US\$)

| | Country | Average Per Capita SG Lending 2006-2009 | Average Per Capita SG Lending 2012-2015 | Difference (%) |
|-------------------------|---------|---|---|----------------|
| > 5 million inhabitants | BO | 13 | 36 | 177% |
| | HA | 9 | 20 | 115% |
| | NI | 20 | 38 | 89% |
| | EC | 20 | 34 | 67% |
| | PR | 27 | 41 | 48% |
| | ME | 10 | 14 | 38% |
| | DR | 33 | 43 | 30% |
| | VE | 8 | 9 | 12% |
| | CH | 7 | 7 | -2% |
| | PE | 13 | 12 | -2% |
| | BR | 14 | 13 | -3% |
| | CO | 20 | 18 | -9% |
| | HO | 25 | 22 | -10% |
| | ES | 49 | 35 | -29% |
| | AR | 42 | 23 | -44% |
| | GU | 24 | 12 | -50% |
| < 5 million inhabitants | TT | 26 | 108 | 320% |
| | SU | 59 | 154 | 162% |
| | UR | 75 | 154 | 106% |
| | PN | 90 | 109 | 21% |
| | BA | 114 | 126 | 11% |
| | CR | 67 | 64 | -5% |
| | BL | 88 | 73 | -17% |
| | BH | 157 | 126 | -20% |
| | GY | 72 | 56 | -22% |
| | JA | 64 | 38 | -41% |

Source: OVE based on Data Warehouse.

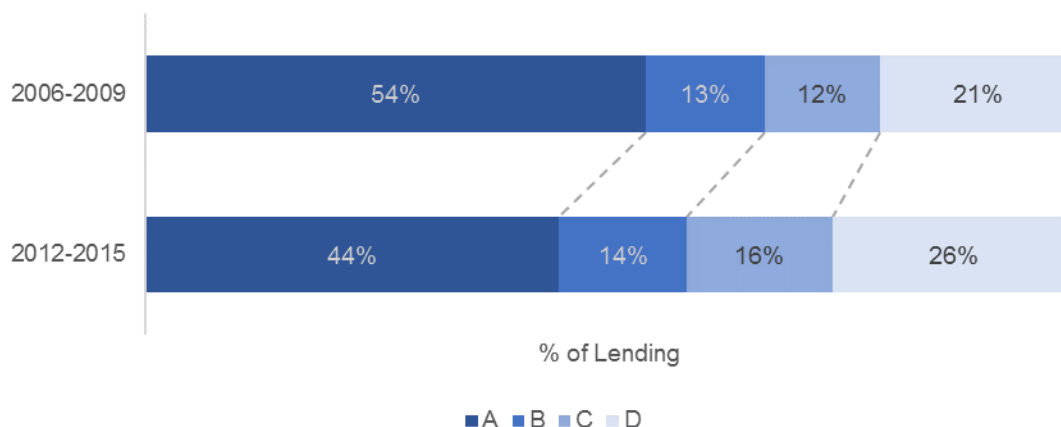
Figure I.1: Change in Average Per Capita Annual Approvals After IDB-9



Note: This chart depicts how many more or less US dollars a citizen of each country received, on average, in 2012-2015, as compared to 2006-2009.

Source: OVE based on Data Warehouse.

Figure I.2: Lending by Country Group (% of Total)

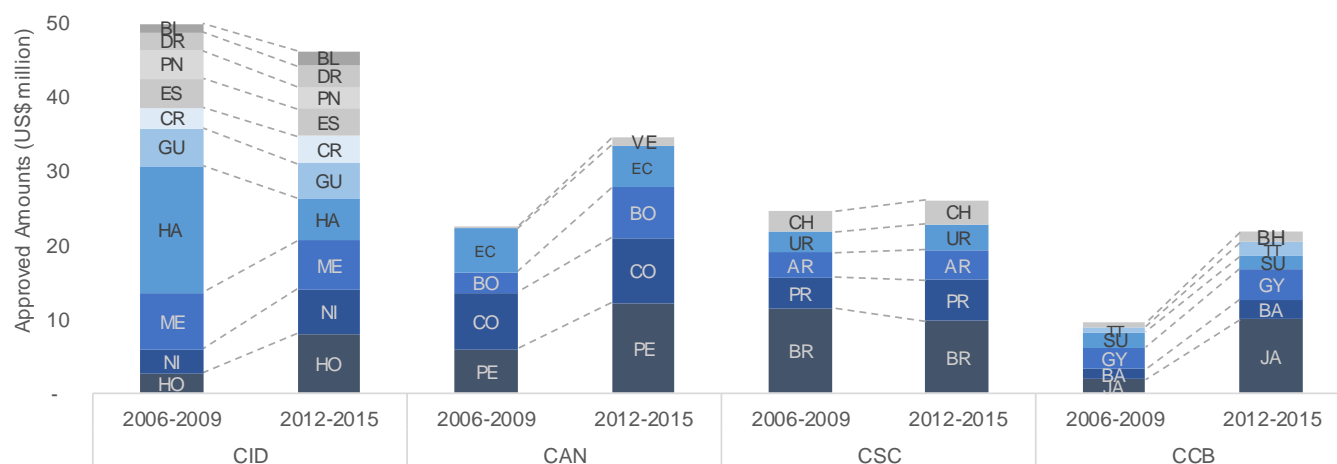


Notes:

1. Excludes regional operations (RG).
2. A: Argentina, Brazil, Mexico, Venezuela; B: Chile, Colombia, Peru; C: Barbados, Bahamas, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, Uruguay; D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Paraguay.

Source: OVE based on Data Warehouse and the World Bank.

Figure I.3. TCs by country

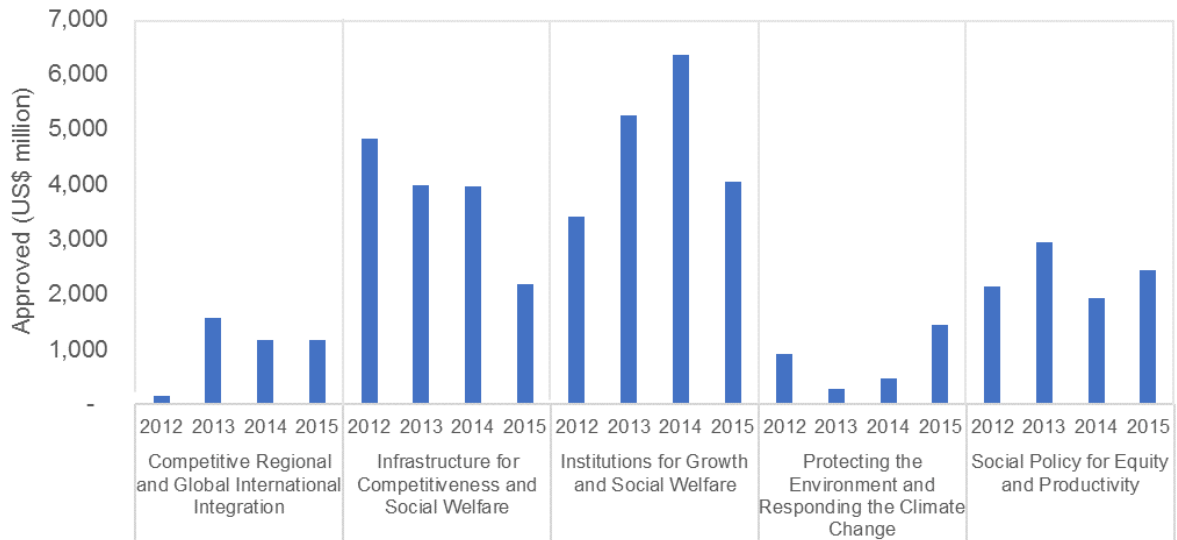


Note:

1. Excludes MIF and regional TCs.
2. AR: Argentina; BR: Brazil; CH: Chile; PR: Paraguay; UR: Uruguay; BO: Bolivia; CO: Colombia; EC: Ecuador; PE: Peru; VE: Venezuela; BA: Barbados; BH: Bahamas; GY: Guyana; JA: Jamaica; SU: Suriname; TT: Trinidad and Tobago; BL: Belize; CR: Costa Rica; DR: Dominican Republic; ES: El Salvador; GU: Guatemala; HA: Haiti; HO: Honduras; ME: Mexico; NI: Nicaragua; PN: Panama.

Source: OVE based on Data Warehouse.

Figure I.4: Approvals by priority area (2012-2015)



Note: Includes FOB only. Excludes IIC and EME.

Source: OVE based on SPD's classification.

Box I.1: Double or Multiple Booking

With the objective of increasing collaboration across sectors, the Bank introduced the double or multiple booking scheme, that allows two or more divisions to register the same operation as their own, i.e. receiving "full credit", when their staff are part of the project team. Under this mechanism, the primary responsible division receives the standard budget for project preparation, and up to an additional 15% goes to the co-responsible division to cover preparation costs (incl. travel, supervision, and consultancy services).

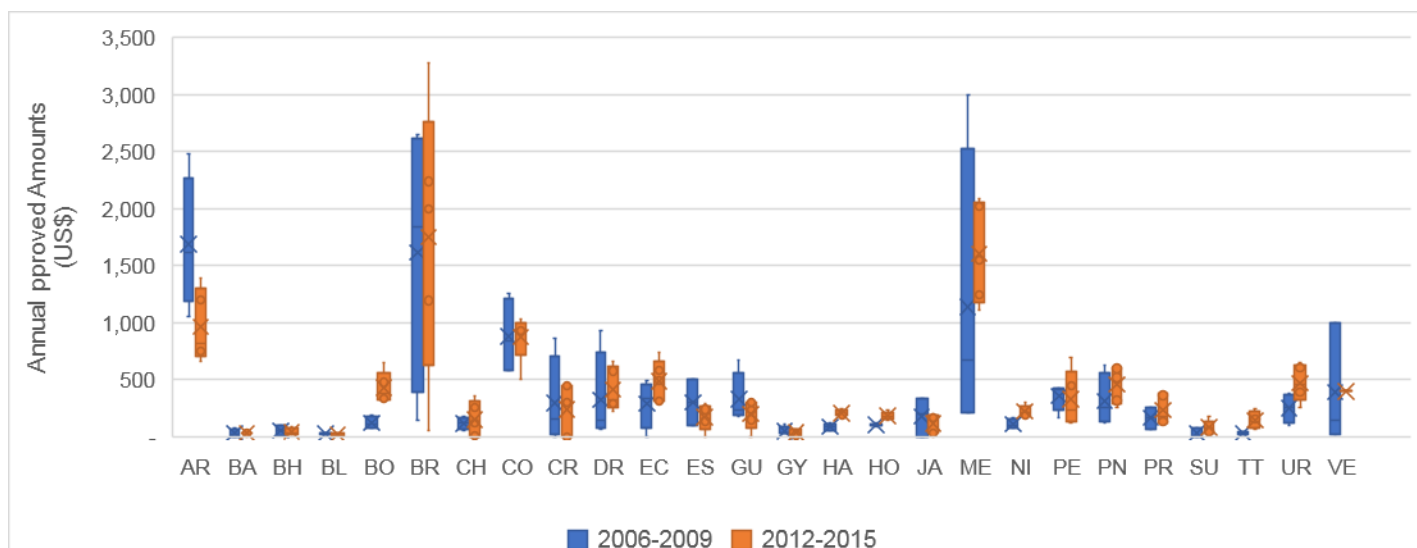
In 2014 ("Results of the Realignment," [RE-451-2](#)) OVE reported that even through the number and volume of double or multiple booked operations was rising, cross-sector collaboration still faced challenges. In particular, a Bankwide survey showed that (i) 15% of operational budget for collaboration seemed to be too-little an incentive to share valuable resources (time) that could be otherwise used in a sector's own operations; and (ii) supervisors tended to discourage cross-sector work since the incentive to approve projects was stronger than the incentive to double or multiple book.

Double or Triple Booking: Number and Amount of Operations by instrument



Source: OVE based on Data Warehouse.

Figure I.5: Variation in Annual Approved Amounts by country

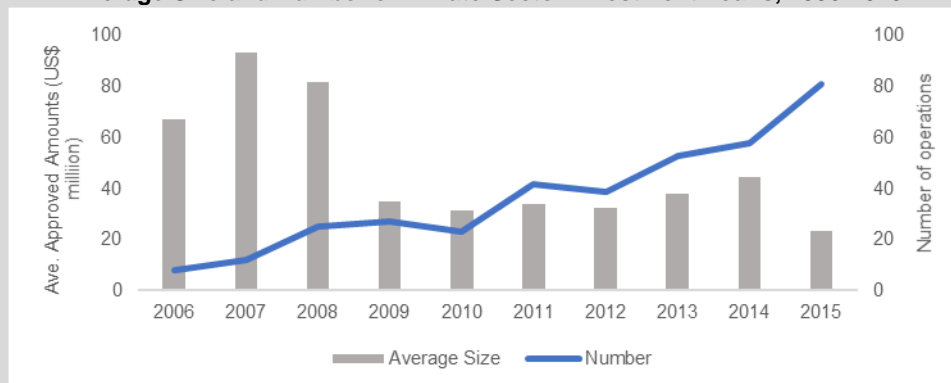


Source: OVE.

Box I.2. Private Sector Operations before IDB's Merge Out

Before the merge-out of the Bank's private sector windows in 2015, the volume of private sector lending financed with OC (SCF and OMJ lending) continued to increase, mostly due to more (though smaller) operations. According to the Articles of Agreement of IDB-9, the Bank's overarching objective is "to contribute to the acceleration of the process of economic and social development of the regional developing member countries." One of the two underlying themes of this objective is to "foster development through the private sector," which, in practice, translated into a 25% increase in the volume of NSG operations in 2012-2015, as compared to 2006-2009. In this regard, while the average size of operations halved from an average of US\$70 million in 2006-2009, to US\$34 million in 2012-2015, the average annual number of private sector investment loans approved more than tripled (from 18 in 2006-2009 to 58 in 2012-2015).

Average Size and Number of Private Sector Investment Loans, 2006-2015



Source: OVE based on Data Warehouse.