

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK**

**ANNUAL REPORT OF THE CHAIRPERSON  
PROGRAMMING COMMITTEE OF THE BOARD OF EXECUTIVE  
DIRECTORS**

**(1 JULY 2011 TO 30 JUNE 2012)**

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**Final Report of the Chairperson  
Programming Committee of the Board of Executive Directors  
1 July 2011 to 30 June 2012**

During the year from 1 July 2011 to 30 June 2012, the Programming Committee met on **38 occasions**, including four informal sessions. Management also held at least four technical briefings on topics related to the Committee's work.

During the year, the Committee reviewed six **country program evaluations** (Brazil, Colombia, Ecuador, Guatemala, Haiti, and Peru) and ten **country strategies** (Bolivia, Brazil, Chile, Colombia, Costa Rica, Haiti, Honduras, Surinam, Trinidad and Tobago, and Uruguay). The Committee also met on four occasions to discuss **quarterly reports on the Bank's program in Haiti**, and on another five occasions to discuss **reports on non-sovereign guaranteed (NSG) operations**.

In addition, the Committee formally considered the following matters:

**1) Macroeconomic Sustainability Assessments (GN-2633 to GN-2633-14)**

The Programming Committee met on several occasions to consider documents relating to the implementation of macroeconomic sustainability assessments (MSAs), including the preparation process as well as the content of MSAs and technical criteria used in conducting them.

During those meetings, the Executive Directors discussed aspects including the implications of a negative MSA, the role and content of the programming preview document (PPD), and the role of the Board of Executive Directors. The Committee also discussed the procedures for preparing MSAs and the associated PPDs, the annual schedule of key milestones in the assessment process, and the applicability of the process to Haiti and the Bank's member countries that are eligible for the Fund for Special Operations (FSO). It also discussed how the information would be provided, confidentially, to the Executive Directors and the Office of Evaluation and Oversight (OVE).

As a result, the Board adopted the corresponding procedures, and the instrument entered into force.

At the conclusion of the MSA exercise for the 2012 programming year, the Committee met at the request of the Executive Director for the Caribbean to determine the procedures for distributing Jamaica's MSA and considering the corresponding PPD.

## **2) 2012 Approval and Disbursement Scenarios - Ordinary Capital. Revised Version (GN-2634-1)**

Management presented different 2012 approval and disbursement scenarios vis-à-vis the borrowing countries' demand for Bank resources for that year, and provided a recommendation on the options for addressing that demand in the 2012 programming exercise. A proposal was put forward with estimated demand of US\$16 billion for sovereign guaranteed (SG) operations and US\$2 billion for NSG operations; a "selective demand" option provided for additional resources to accommodate only a significant proportion of SG demand from small and vulnerable countries (SVCs); and a proposed "reshuffle alternative" would redistribute the initial floors to accommodate a substantial portion of demand from SVCs.

The following noteworthy points emerged from that discussion: (i) the lack of majority support from the Executive Directors for Management's proposal; (ii) although the importance of supporting SVCs was recognized, an approval and disbursement scenario above the "base case" was not considered prudent at that time; (iii) it was agreed that the 2012 programming scenarios would be considered during discussion of the long-term financial projections, together with the possibility of some type of countercyclical support for countries that required it; and (iv) the Executive Directors wished to caution Management as to the uncertainty surrounding the 2012 "base case" projections, which would depend on whether the Ninth General Capital Increase (GCI-9) materialized or was delayed.

## **3) Initiative for the Promotion of Regional Public Goods. Proposal to Update the Definition of Regional Public Goods and the Eligibility Criteria of the Initiative. Revised Version (GN-2275-23)**

The document under discussion was prepared in response to the Committee's request for an alternative definition of regional public goods as well as new eligibility criteria for proposals based on that definition. The definition and criteria were accepted by the Committee and approved by the Board of Executive Directors.

Prior to the discussions, several Executive Directors proposed expanding the definition of regional public goods to include binational projects and private sector initiatives in special cases where justified, without need of public sector sponsorship. Following due consideration by the Executive Directors, the proposal was included in the final version of the document.

## **4) Fund for Special Operations. Bolivia. Proposal for Changing the Blend Composition of Resources from the Fund for Special Operations and the Ordinary Capital for 2012 (GN-2442-39)**

The proposal submitted for the Committee's consideration was to modify the blend of FSO and Ordinary Capital (OC) resources for Bolivia for 2012 (from 25% FSO and 75% OC to 20% FSO and 80% OC), in keeping with the Debt Sustainability and Enhanced Performance-Based Allocation Framework (DSF/EPBA) and the triggers fulfilled by the Government of Bolivia as

established in the IDB Country Strategy with Bolivia (2011-2015). The proposal also responded to the government's request of 20 January 2012.

The Executive Directors agreed with the proposal and congratulated the Government of Bolivia on the progress made in fulfilling the debt sustainability and project execution objectives set. The Board of Executive Directors approved the proposal under the terms proposed by the Committee.

## **5) 2012 Operational Program Report. Revised version (GN-2661-2)**

In considering the document, Committee members emphasized the flexible, dynamic nature of the Bank's programming exercise. In this regard, several Executive Directors felt it was not unusual that information would change over the course of the year based on dialogue with countries, and reiterated that the operational program need not be fully aligned with the country strategies. Also, considering that the Operational Program Report was a management tool whose usefulness depended on its timeliness, the Committee urged Management to make an effort to present the report earlier in the year, shortening the time between the cutoff date and the presentation of the report.

In the context of that discussion, the Executive Directors also noted the following: (i) the importance of moving ahead with the studies requested by the Governors regarding options for expanding the Bank's financial capacity; (ii) the need to initiate the Bank's actions to promote regional integration projects, recognizing that achieving the institutional targets in this area depended primarily on the countries' demand for these types of projects; (iii) the appropriateness of including the status of the Bank's dialogue with countries in the report, including in those cases where the country strategy was in the preparation process; and (iv) the importance of developing sound metrics on progress in achieving the targets of the Results Framework developed in connection with GCI-9.

On the recommendation of the Programming Committee, the Board of Executive Directors took note of the information provided in document GN-2661-2, which included information specific to each country contained in the Country Sheets (Annex I) and the Country Program Documents (Annex II), and approved the consolidated indicative pipeline for 2012 presented in Annex III, as a starting point for subsequent presentation of project proposals to the Board via simplified procedure for projects that qualify for the procedure under applicable Bank rules. It was agreed that the following year's Operational Program Report would be presented earlier in the year.

## **6) Country Strategies. Audiovisual Presentation (PP-316)**

In response to concerns expressed by various Executive Directors in discussions on the objective, content, cost, and usefulness of country strategies, the Programming Committee met in an informal session to consider the proposal from the Vice Presidency for Countries (VPC) regarding the background and guidelines for producing country strategies. Following the presentation, the Executive Directors raised the need for a frank discussion of experiences in applying the current guidelines in order to start a conversation on what they called a "basic

agreement on the fundamentals.” Several Executive Directors noted the value of certain elements of the process, such as the sector notes, but stressed the need to focus on those aspects that were useful for the borrowing countries in their dialogue with the Bank, which should be dynamic, flexible, and constructive. Other Executive Directors indicated that the instrument should address not only borrowing country needs but also the Bank as a whole, including its other partners.

While several Executive Directors requested additional details on the time and cost of preparing country strategies, they did not call into question the mandate to develop country strategies, but did question the need for Management to establish general guidelines governing country strategies. Regarding the need to revise the guidelines, certain Committee members advised caution in conducting a thorough review of the instrument when a full cycle of new country strategies had yet to be completed (country strategies had been prepared for only 18 of 26 countries) and there was not yet a single country program evaluation.

While convincing arguments were put forward on both sides, it was not yet clear how the discussion among the Executive Directors would be structured in the near future.

## **7) Long-term Financial Projections and Programming: Room for Flexibility. Audiovisual Presentation (PP-325)**

The Budget and Financial Policies (BUFIPOL) and Programming Committees of the Board held a joint informal session to consider Management’s proposal to introduce room for flexibility in the processes involved in the Bank’s long-term financial projections (LTFP) and programming exercises.

The Finance Department (FIN) and VPC explained that the purpose of the proposal was to respond to requests from the Board to establish a formal process for review of the annual amounts indicated in the LTFP in order to ensure consistency between the LTFP, budget preparation, and the programming exercise. The process contemplated two levels of review of the amounts in the LTFP, and the corresponding allocation of programming resources in two phases, the first occurring in August of the current year for the majority of resources (roughly 85%) to be allocated for the following year, and the remainder during the current year and up to the end of the second quarter of the following year. Budget formulation would be based on 100% of the resources approved. This approach would provide a comprehensive view of the entire process in such a way that all the resources would be allocated to meet country needs in two phases.

The Executive Directors’ discussion of the proposal raised the following points: (i) the importance of emphasizing that the programming exercise was not a rigid process in which the amounts allocated could not be modified, but rather a dynamic process guided by Bank-country dialogue; (ii) the need to ensure financing for the preparation of operations in the B pipeline; (iii) whether it was appropriate to embark on a review of processes that could introduce more rigidity than flexibility in a context of uncertainty and volatility, when it was probably more appropriate to consult with the Board, when necessary, to adjust the programming and resources needed. In addition, the Executive Directors mentioned the need to bear in mind that finance

charges were not the only adjustment variable in the Income Management Model (IMM); the importance of introducing greater flexibility into the budget, which should ultimately be adapted to the programming process; and the importance of not waiting until the end of the year to make adjustments that would increase flexibility, as if they resulted from lack of foresight. Lastly, the Executive Directors felt that the current economic cycle could not be addressed with instruments such as those under discussion, which related to the regular lending program, and that other actors such as the Department of Research and Chief Economist (RES) and other Management bodies would need to be involved in order to anticipate cycles and potential crises.

Management (VPC and FIN) noted that the past two years since the introduction of the LTFP had been a learning process, and that the process in question addressed the fact that the structural demand from the Bank's member countries significantly exceeded the availability of loan resources under the GCI (over US\$15 billion, compared to US\$12 billion available per year). Also, contingent lending instruments, which would have different budget implications, were a subject for another discussion. The LTFP document only presented financial projections under different scenarios, given the conditions established in the IMM. VPC and FIN said that the process needed to be separated from the parameters input into the LTFP, which could be adapted to any set of parameters they wished to consider. Also, the LTFP complied with the IMM provision that finance charges should cover 90% of the Bank's administrative expenses.

Since the discussion was in an informal meeting, the BUFIPOL Chairperson concluded by stating that Management would begin implementing the process with the next programming period (2013), and the rules established to organize the work of Management and the Board were clearly not immutable; hence the importance of ongoing dialogue with the Board, as suggested in the new process for the Bank's regular operating program. It was also clear that definitions relating to the Bank's countercyclical response and the use of available capital would be subjects for another discussion.

## **8) Programming Preview Document for Jamaica (GN-2666)**

The Programming Committee met on 18 June 2012 to consider the programming preview document (PPD) for Jamaica (GN-2666). The Chairperson opened the meeting with a review of the procedures for distributing and translating MSAs and the corresponding PPDs, particularly in special cases where the results of the MSA were negative. The Chairperson also noted that VPC was preparing an internal protocol to establish an internal distribution mechanism within Management, consistent with the concerns expressed by Committee members (the internal protocol would be circulated to the Committee for information). A proposed protocol for translation and distribution to the Board will also be presented. The Chairperson said that the Board would receive the proposal in the first week of July, which would likely delay distribution of the new MSAs by at least one week.

After a brief presentation by Management, Committee members indicated that the document in general should provide more information, particularly in terms of background, context, and additional justification for the two operations selected to be approved and disbursed in the remainder of the year. In particular, the Executive Directors questioned the rationale supporting

the inclusion of a tourism sector operation (Marriott hotel construction), and wished to know whether the Government of Jamaica had reviewed the current program and whether it would effectively contribute to addressing the weaknesses identified in the MSA. Also, the Executive Directors asked whether the document suggested that there needed to be a program with the International Monetary Fund (IMF), and whether restricting disbursements to one operation supporting the fiscal sector was the right decision. Committee members also questioned the opportunity cost of what remained to be done on the development agenda, and commented on the need to avoid duplicating efforts in preparing independent macroeconomic assessments (IMAs) and MSAs. Several Executive Directors stressed that NSG operations should not be considered as country risk and that the tourism sector was essential to the Caribbean countries' development agenda.

During the discussion, it was noted that the 2013 MSAs were ready and could potentially provide better context for decision-making on the topics being addressed in the meeting. A question was also asked about the portfolio's complementarity with those of other institutions.

Management described the work done on portfolio analysis and the fluid dialogue with the Government of Jamaica, which agreed with the content of the proposal. The Chairperson concluded by noting that Management would prepare a revised version of the document including the information requested by the Executive Directors so as to improve the document and better reflect the discussion.

Under "other business," the Executive Director for Venezuela conveyed his chair's position on the Chief Economist's use of aggregate data from the MSAs in his presentation during the previous Board meeting, expressing concern for what appeared to be improper use of confidential information. The Committee Chairperson said that the matter should be addressed when the presentation was continued at a forthcoming meeting of the Board.

### **Hand-off:**

During the past year, the Executive Directors, Management, and OVE have made an effort to get the Committee caught up in terms of discussing country strategies and country program evaluations. This was made possible by teamwork and effective work planning by all those involved, who were convinced of the importance to the Bank and its member countries of conducting discussions at the appropriate time.

One issue that might warrant attention in the future is the discussion of the objective, content, cost, and usefulness of country strategies. It is important to find the best way to address this issue so as to consider both the concerns expressed by various Executive Directors and the fact that the current guidelines for preparing country strategies were relatively recent and there had not been sufficient time to complete the cycle for any strategy by conducting the respective evaluation.

Similarly, it is important to continue working with OVE to ensure that the evaluations provide increasingly greater value added. The current evaluation exercise is limited to country strategies, but a mechanism should be found that reflected the programming exercises as well.

Continued attention should also be given to issues arising from implementation of the MSA exercise. Because this is a new exercise, it is important to continually incorporate lessons learned and identify the impact it could have on different areas of the Bank. Regarding the latter point, I feel it is important to evaluate the challenge it would present for the teams to incorporate the potential outcomes of the exercise into the process of negotiating operations with the private sector.

Moreover, the content, discussion format, and frequency of reports on the Bank's work in Haiti and NSG operations should be reviewed.

Lastly, I would like to express my thanks for the support I received this year from all the Executive Directors who participated in Committee meetings. Their constructive contributions and advice greatly facilitated the Committee's work. I would also like to extend my sincere appreciation to the VPC teams, especially Roberto, Florencia, and Gabriela, for their exceptional professionalism and commitment to their work. I would like to thank the OVE team, especially Cheryl, for their support over the past year and their willingness to discuss matters on which there might be disagreement. Those discussions always served to benefit the Bank's work and that of the member countries. In addition, I would like to thank the RES team, especially Eduardo, José Juan, and Andrew, for all their time and efforts on matters under the purview of this Committee. To the team in the Office of the Secretary, particularly Julio, Carmen, Margarita, and Edward, who made the Committees' and Board's work possible, my sincere thanks for all your support. Finally, I would like to express my tremendous appreciation to Marlon Tabora, who was my right hand during my term as Chair. His great capacity, tireless efforts, and endless patience were key to the success of our work. Many thanks to all of you; it was a pleasure to have worked with you this year.