2011 Development Effectiveness Overview

IDB
Development Effectiveness

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Message from the President


Arlette Pedraglio / IDB Photographer

As shown in our third annual Development Effectiveness Overview, 2011 marked the consolidation of the Inter-American Development Bank's effectiveness agenda. Since 2008, when the Board of Executive Directors approved the Development Effectiveness Framework, we have set up systems and processes in order to organize our work around the principles of Development Effectiveness, with a special emphasis in measuring our performance and on assuring that our development products are evaluable. These efforts were a core element of the Better Bank Agenda, and were revamped with the principles approved by the Bank's Governors during the Ninth General Increase in the Resources (IDB-9).

Last year, in the 2010 DEO we identified various challenges, and I am happy to report that we met them in the exciting context of implementing IDB-9, that bolstered the Bank's financial strength and renewed our strategic vision, thus allowing us to shape a sounder, more effective and efficient institution. As reported in the 2011 DEO, we work in a continuous basis in order to measure, monitor, and evaluate the progress made to meet the development objectives of our Region. We continued to formulate results-based country strategies, approving nine new strategies in 2011, and we expect that all of our twenty-six country strategies with our development partners in the Region will be results-based in 2012.

Following the IDB-9 vision, during 2011 our annual programming exercises achieved high alignment to the strategic focus, while maintaining the necessary flexibility to respond to a dynamic context. In 2011, we also continued to improve the evaluability of all our loans, meeting the IDB-9 requirement that all projects should have a minimum threshold. Now, at the stage of approval, all our projects (to the public and private sectors) contain elements that guarantee they are well formulated, based on sound empirical and/or theoretical basis that includes an economic analysis, and with the necessary elements to monitor them and measure their results at completion.

Last year, we also made significant progress in measuring the performance of our portfolio, allowing us to identify implementation challenges that will be at the center of our work in the coming years. Finally, we also made steady progress in terms of impact evaluation, maintaining the leadership of the IDB in this area, with over 30 percent of public sector operations including rigorous impact evaluation arrangements.

Our work on development effectiveness shows that the Bank is responding to its partnership with the Region in order to seize the opportunities that lay ahead, and encourage us to redouble our efforts to continue making efficient and effective contributions to the development objectives of Latin America and the Caribbean.

Luis Alberto Moreno
President
Washington, D.C., March 2012

Acknowledgments

The Development Effectiveness Overview (DEO) is the IDB's annual corporate report that accounts for the effectiveness of its work, stating the results achieved with the implementation of the Bank's Development Effectiveness agenda.

The 2011 DEO is focused on the status of the indicators defined by the Bank's Governors within the Ninth General Capital Increase in the Resources (IDB-9), at the beginning of the 2012-15 period. The document reports on how the Bank is implementing the results-based framework from programming to project design, monitoring, implementation and evaluation, allowing it to measure the effectiveness and learn from the results of its work.

This overview is produced by the Office of Strategic Planning and Development Effectiveness, under the guidance of Carola Alvarez, Chief of the Strategy Development Division, and Cristian Santelices, Chief of the Strategy Monitoring Division.

The principal authors of the chapters were Viviane Azevedo, Helio Bertachini, Shakirah Cossens, Yyannú Cruz, Luis Díaz, Pablo Ibarrarán, Ana María Linares, Alessandro Maffioli, Gádor Manzano, Sebastian Martinez, Nancy McCarthy, Patricia Meduña, Francisco Mejía, Matilde Neret, Fazia Pusterla, César Rodríguez, Lina Salazar, Guilherme Sedlacek, Bibiana Taboada, Ichiro Toda, Christian Volpe, and Paul Winters. Jorge Olave edited the report and supervised the editorial design.

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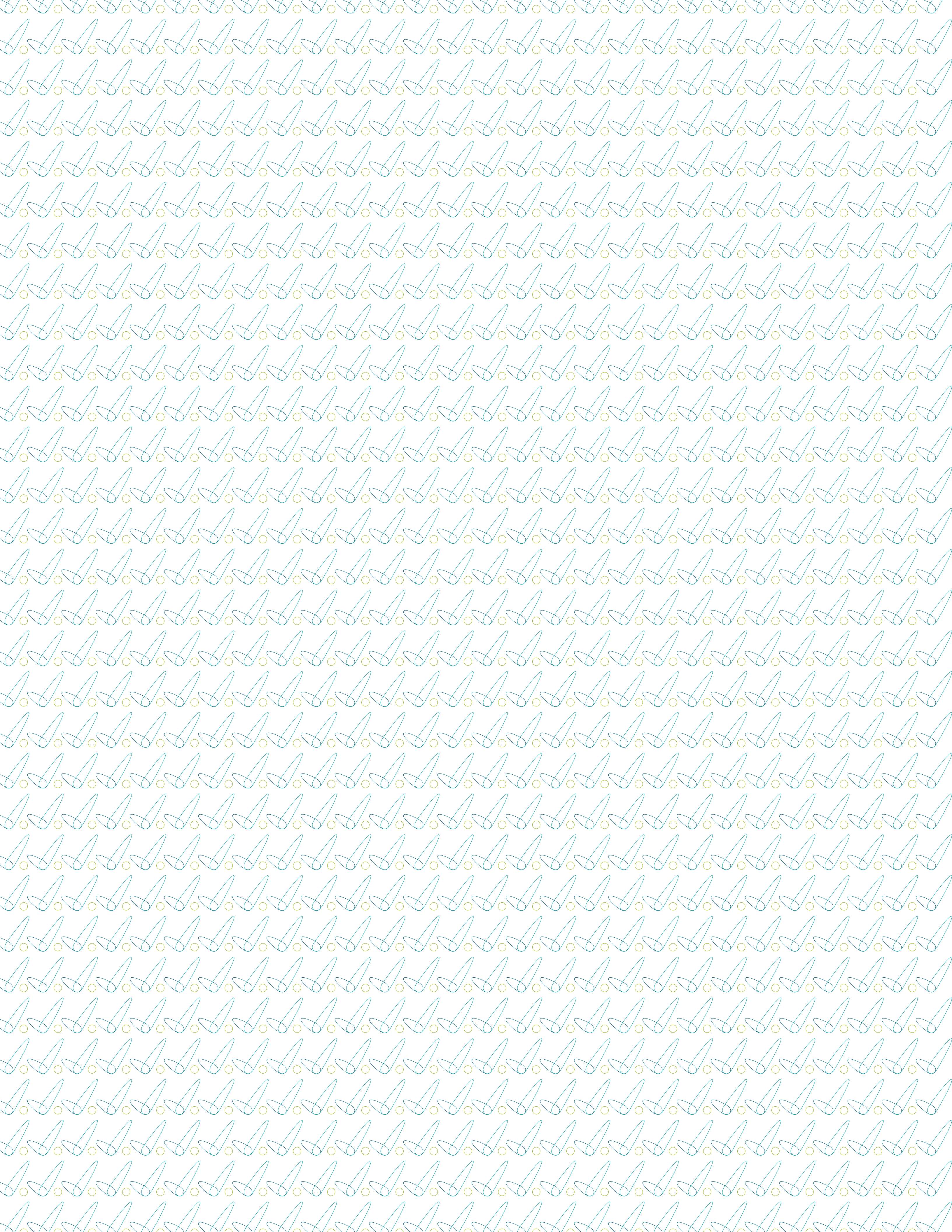
Koldo Echebarría
General Manager & Chief of Development Effectiveness
Washington, D.C., March, 2012



Contents

PART II LEARNING ABOUT THE DEVELOPMENT EFFECTIVENESS OF IDB's PROGRAM

List of Figures, Box and Tables

FIGURES

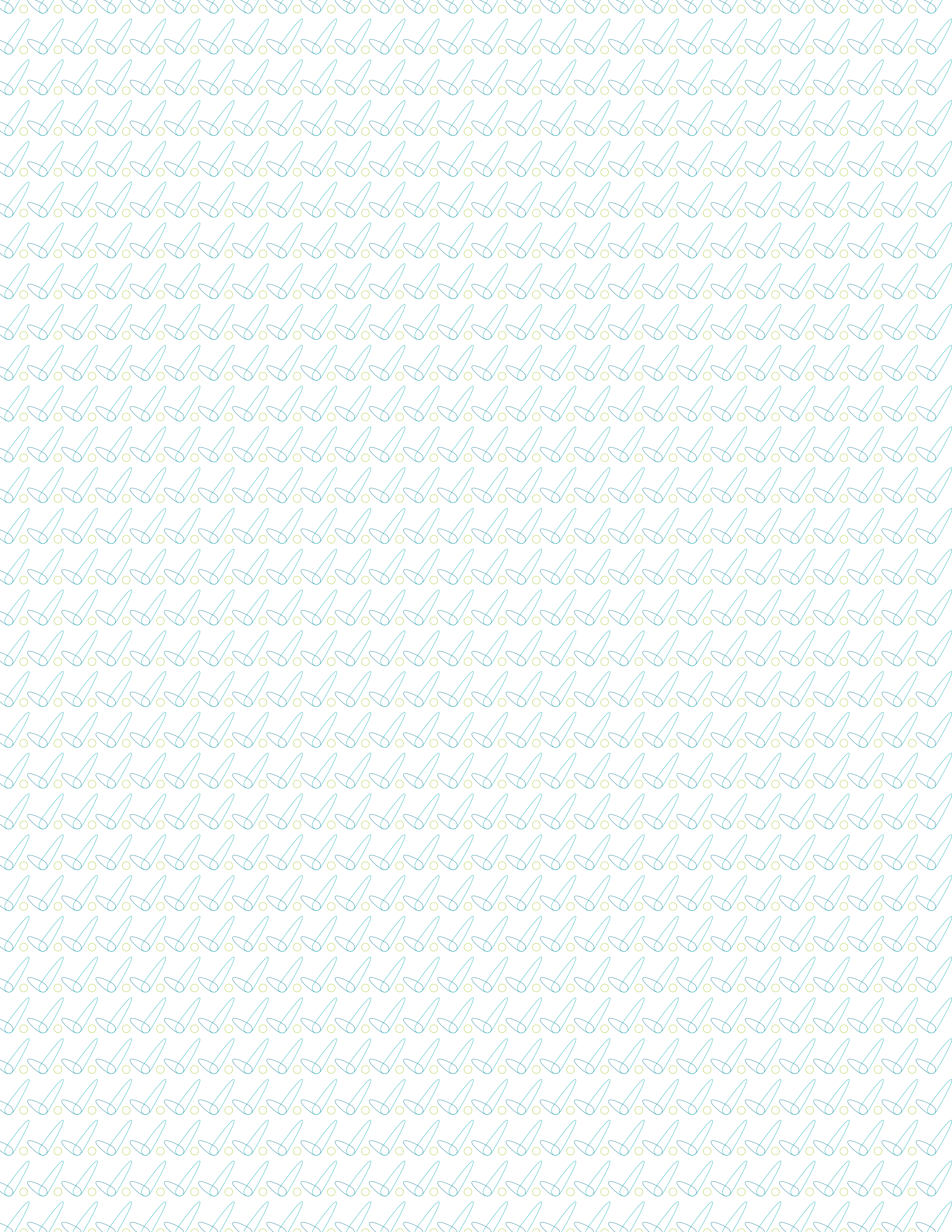
BOX

TABLES

Abbreviations

ABR	Annual Business Review
CPD	Country Program Document
CPI	Cost Performance Index
CS	Country Strategies
DEF	Development Effectiveness Framework
DEM	Development Effectiveness Matrix
DEM-CS	DEM for Country Strategies
DEM-SCF	DEM Structured and Corporate Finance Department
DEO	Development Effectiveness Overview
ECG	Evaluation Cooperation Group
ECG-GPS	Good Practice Standards of the MDB Evaluation Coordination Group
ECG-MDB	Evaluation Cooperation Group of the Multilateral Development Banks
FMM	Urban and Municipal Development Division
FSO	Fund for Special Operations
GDP	Gross Domestic Product
GNI	Gross National Income
GPS	Good Practice Standards
IDB-8	Eighth General Capital Increase in the Resources of the Inter-American Development Bank
IDB-9	Ninth General Capital Increase in the Resources of the Inter-American Development Bank
IIC	Inter-American Investment Corporation
KCP	Knowledge and Capacity Building Products
KNL	Knowledge and Learning Sector
LAC	Latin American and the Caribbean Countries
LMK	Labor Markets Unit
M&E	Monitoring and Evaluation

MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MIF	Multilateral Investment Fund
NSG	Non-Sovereign Guaranteed Operations
OECD-DAC	Organization for Economic Cooperation and Development – Development Assistance Committee
OMJ	Opportunities for the Majority
OVE	Office of Evaluation and Oversight
PCD	Project Concept Document
PCRs	Project Completion Reports
PI	Project Performance Index
PMR	Progress Monitoring Report
PPMR	Project Performance Monitoring Report
PSR	Project Supervision Report
QBR	Quarterly Business Reviews
RBB	Results-based Budgeting
RF	Results Framework
SCF	Structured and Corporate Financing Operations
SECCI	Sustainable Energy and Climate Change Initiative
SG	Sovereign Guaranteed Operations
SME	Small and Medium Enterprise
SPD	Office of Strategic Planning and Development Effectiveness
SPI	Schedule Performance Index
VPC	Vice Presidency for Countries
VPS	Vice Presidency for Sectors and Knowledge
XPMR	Expanding Performance Monitoring Report
XPSR	Expanded Project Supervision Report



Introduction

In 2011 nine Results-based Country Strategies were approved and, as a result of the joint work of the Bank and government partners in the Region, 100 percent of them included satisfactory scores on their Results Matrixes.

The 2011 Development Effectiveness Overview (DEO, 2011) is the third corporate annual report on the effectiveness of the Inter-American Development Bank's work in Latin America and the Caribbean. It serves the dual purpose of establishing accountability for the effectiveness of the Bank's work during the year, and describing how the Bank is learning what works best to solve the Region's development challenges through innovative project and evaluation designs.

In order to strengthen its commitment to doing the right things and to doing things right, in 2008 the Bank's Board of Executive Directors approved the Development Effectiveness Framework (DEF). The DEF defined a two-pronged approach that includes measuring the results of each development intervention as well as tracking institutional level results. This framework was embedded in the Ninth General Increase in the Resources (IDB-9), which requires that all projects meet minimum evaluability standards at approval in order to guarantee that results will be adequately measured and accounted for at completion. With the IDB-9 the Bank distinguishes itself as the only MDB to require a minimum evaluability at entry of all products. The IDB-9 also defines the Bank's Results Framework to monitor, through quantitative and qualitative measures, the progress on reaching the expected results agreed upon by the Bank's Governors. IDB-9 defined lending targets, regional development goals and Bank's outputs to contribute to such goals. Progress on all of these dimensions is reported in the 2011 DEO, fulfilling the IDB-9 mandate to report annually metrics on development effectiveness. Also, in future editions the DEO will follow-up on the recommendations of the Office of Evaluation and Oversight (OVE) to improve loan quality that are endorsed by the Board of Executive Directors.

Part I, *Results on the Effectiveness of our Work,* includes two chapters. The first reports on the results of the Bank's strategic focus as defined in the IDB-9's Results Framework. The second chapter is based on the Bank's innovative framework to track performance using accountability measures for each development product (i.e., country strategies, programming processes and lending programs) at approval, implementation, and completion of the cycle. The sustained efforts to enhance development effectiveness have paid off: in 2011 nine Results-based Country Strategies were approved and, as a result of the joint work of the Bank and government partners in the Region, 100 percent of them included satisfactory scores on their Results Matrixes. Also, 26 annual country programming documents were approved, all of them aligned to their corresponding Country Strategies.

In 2011 the processes and instruments to assess project-level evaluability were enhanced, and the result was full compliance with the IDB-9's requirement that all projects (sovereign guaranteed and non-SG) should pass an evaluability

Monitoring the implementation of the Bank's portfolio is done through the Project Monitoring Report (PMR) system, which was fully implemented in 2011: 93 percent of projects had the required information for an output-based monitoring through the PMR.

threshold.[1] The process to achieve and validate evaluability was revamped and all project teams received feedback early in the project preparation cycle. This effort resulted in significant improvements during project preparation. As a result, over 86 percent of SG operations were highly evaluable. Furthermore, evaluability levels improved across the board, both in terms of sectors, countries, and its dimensions. The share of projects with rigorous evaluation plans[2] remained at around 30 percent in 2011, among the highest level of all MDBs.

Monitoring the implementation of the Bank's portfolio is done through the Project Monitoring Report (PMR) system, which was fully implemented in 2011: 93 percent of projects had the required information for an output-based monitoring through the PMR. In addition to outside evaluations, self-evaluation at project completion is done through the Project Completion Report (PCR), which was completed by 92 percent of the projects that required such report. The PCR is currently under review by OVE: the new completion report will incorporate the main elements from the Bank's DEF and will be implemented during 2012.

In order to report on the efficiency of our work, the Annual Business Review (ABR) for 2011 is included as an annex to complement this accountability excercise. The ABR is a year-end compilation of the Business reports prepared by Management on a quaterly basis to monitor internal performance. A second annex reports on the Bank's progress toward the Paris Declaration commitments.

In the previous DEOs, Part II, *Learning about the Development Effectiveness of the IDB's Program,* has highlighted different dimensions of development effectiveness of the operations the Bank approved that year. The first DEO (2008-09) presented the state of empirical evidence on the effectiveness of solutions included in our loans for that period. The second DEO highlighted the most innovative and rigorous impact evaluations designed within the operations approved in 2010.

The twenty projects selected in 2011 were chosen due to a unique path in their design. They stand out from the rest of projects prepared in 2011 within each sector either by choosing to tackle an unusual development challenge, by choosing an out of the box solution to a recurrent problem, or by designing innovative rigorous impact evaluations.

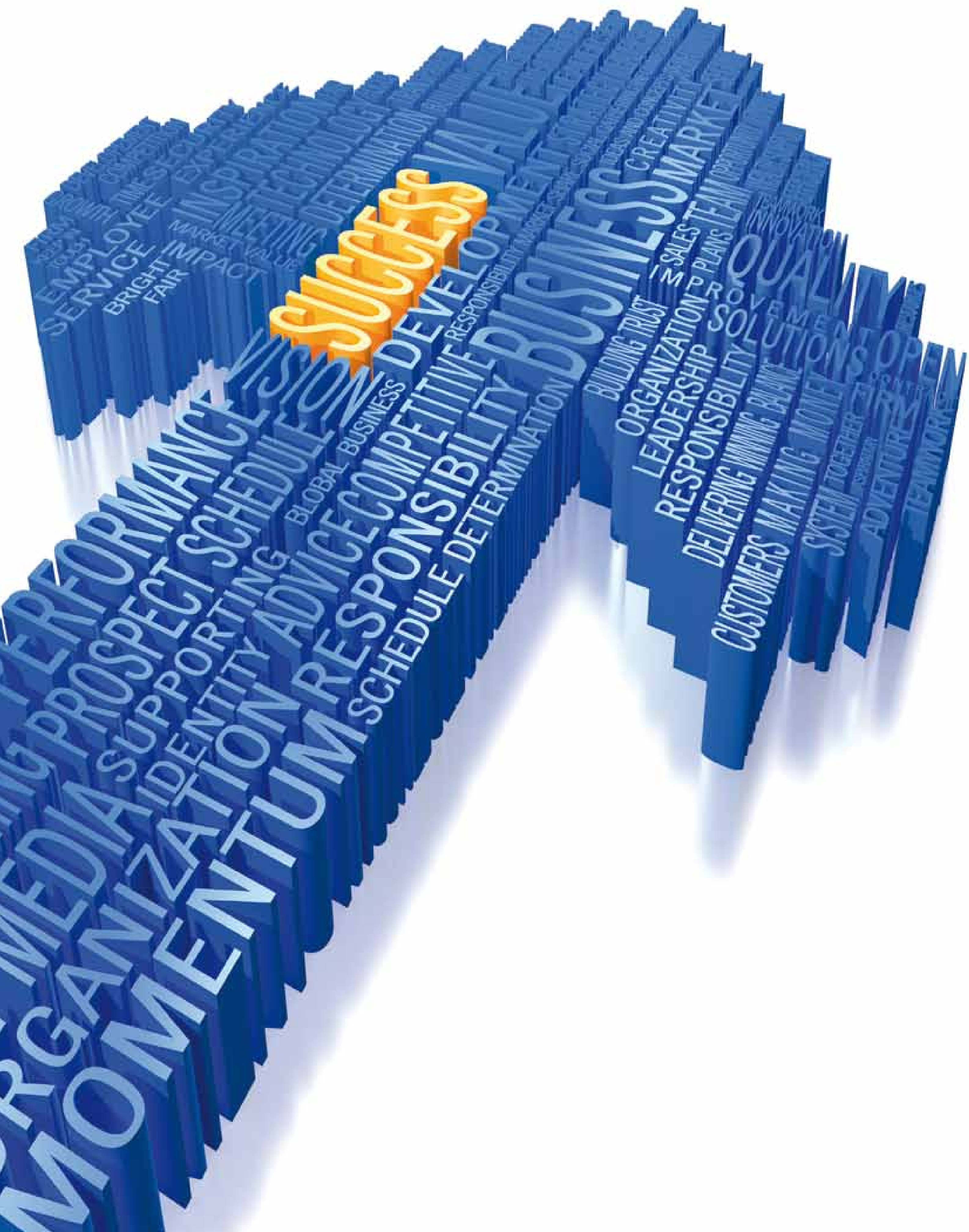
[1] In this document projects refer to loan operations (SG and NSG).

[2] Rigorous evaluation plans are those where a valid counterfactual (*the without-project* scenario) is defined.

PART I

Results on the Effectiveness of our Work

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 17 to 45


SUCCESS
BUSINESS
VISION
PERFORMANCE
PROSPECT
SCHEDULE
SUPPORTING
IDENTITY
ADVICE
COMPETITIVE
RESPONSIBILITY
DEVELOPMENT
DETERMINATION
MOMENTUM
ORGANIZATION
MEDIA
GLOBAL BUSINESS
SERVICE
EMPLOYEE
BRIGHT
FAIR
IMPACT
MARKET VALUE
MEETING
INSPIRATION
EXPERTISE
VALUE
CREATIVITY
MARKETING
SALES
TEAM
PLANS
IMPROVEMENT
QUALITY
INNOVATION
SOLUTIONS
OPEN
BUILDING TRUST
LEADERSHIP
DELIVERING
WINNING
MAKING
CUSTOMERS
SYSTEM
TOGETHER
FIRM
ADVENTURE
TEAMWORK

Chapter I

Demonstrating Results from our Strategic Focus

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 19 to 26

The IDB Results Framework (RF) is an integral part of the Bank's results-based management efforts and was designed to guide its work up to 2015. First, Regional Development Goals provide metrics for each of the five selected institutional priorities. Second, selected output indicators from the Bank's programs in execution are included that contribute to those goals. Third, the Bank's Governors agreed to increase the focus of total lending to four specific target areas. Finally, the decision-making at the Bank throughout the year is guided by the internal effectiveness and efficiency metrics defined in the RF. These indicators were defined for 2012-15, and since 2010 the Bank has adapted its reporting instruments to track them. This chapter presents the 2011 values for the RF to document the status at the beginning of the IDB-9 period.

Fig. 1
Monitoring IDB-9

RESULTS	**Regional Development Goals** Provide data on long term development progress (cannot be attributed solely to IDB's interventions)	• Social Policy for Equity and Productivity • Infrastructure for Competitiveness and Social Welfare • Institutions for Growth and Social Welfare • Competitive Regional and Global International Integration • Protecting the Environment, Responding to Climate Change, Promoting Renewable Energy, and Enhancing Food Security
RESULTS	**Output Contributions** Monitor the direct contribution of IDB's interventions towards achieving regional development goals	G • Social Policy for Equity and Productivity Y • Infrastructure for Competitiveness and Social Welfare G • Institutions for Growth and Social Welfare G • Competitive Regional and Global International Integration G • Protecting the Environment, Responding to Climate Change, Promoting Renewable Energy, and Enhancing Food Security
PERFORMANCE	**Lending Program Targets** Express the Bank's highest priorities and mandates	G • Small and Vulnerable Countries G • Poverty Reduction and Equity Enhancement G • Climate Change & Sustainable Energy, and Environmental Sustainability Y • Regional Cooperation and Integration
PERFORMANCE	**Operational Effectiveness and Efficiency Indicators** Review performance of IDB's business model	G • Effectiveness - Country Strategy G • Effectiveness - Loans • Effectiveness - Economic and Sector Work • Effectiveness - Partner Satisfaction Y • Efficiency Y • Human Resources

Indicators are currently being monitored and reporting will begin in 2012. Progress code is based on the average status in each group of Results Framework indicators.

G On-track · Y No Clear Trend · R Off-track · Data Unavailable

A. REGIONAL DEVELOPMENT GOALS

The RF approved by the Bank's Governors in the course of IDB-9 includes regional goals to be tracked throughout the period to measure longer term development progress in the Region. Indicators that track regional development goals focus on ultimate objectives that are not under the direct control of the IDB (or of policymakers), and are according to the Bank's priority areas. The criteria used to select the specific indicators included: (i) relevance to the Bank's priorities; (ii) whether they are, or have links to, a Millennium Development Goals (MDGs), and (iii) whether they are included in other MDBs results frameworks or used by other international cooperation agencies.

Table 1
Regional Development Goals

Goal	Baseline	Year	Progress	Progress Year
1- Social Policy for Equity and Productivity				
2.1.1 Extreme poverty rate	12.6%*	2007	12.3%	2010
2.1.2 Gini coefficient of *per capita* household income inequality	0.55	1999-04	0.52	2005-10
2.1.3 Share of youth ages 15 to 19 who complete ninth grade	47%	2000-07	56%	2005-10
2.1.4 Maternal mortality ratio	110*	2000	85	2008
2.1.5 Infant mortality ratio	21	2007	19	2009
2.1.6 Share of formal employment in total employment	46.3%	2007	47.0%	2009
2- Infrastructure for Competitiveness and Social Welfare				
2.2.1 Incidence of waterborne diseases (per 100,000 inhabitants)	9.6*	2002	5.9	2008
2.2.2 Paved road coverage (Km/Km^2)	0.038	2006	0.034	2010
2.2.3 Percent of households with electricity	93%	2007	94%	2010
2.2.4 Proportion of urban population living in dwellings with hard floor *Proxy** Proportion of urban population living in slums (MDG)****	30% *29.2%*	2008 *2000*	 *23.5%*	 *2010*
3- Institutions for Growth and Social Welfare				
2.3.1 Percent of firms using Banks to finance investments	19.6%	2006	33.6%	2010
2.3.2 Ratio of actual to potential tax revenues *Proxy**: Actual tax revenue collected (% of GDP)*	78 *17.7%*	2007 *2007*	 *18.2%*	 *2010*
2.3.3 Percent of children under five whose birth was registered	89%*	2000-07	90%	2000-09
2.3.4 Public expenditure managed at the decentralized level as % total public expenditure	20%	2007	19%	2009
2.3.5 Homicides per 100,000 inhabitants	25.1%*	2008	24.6	2010
4- Competitive Regional and Global International Integration				
2.4.1 Trade openness (trade as percent of GDP)	84.9%	2004-07	83.6%	2007-10
2.4.2 Intraregional trade in LAC as percent of total merchandise trade	24.2% exports	2004-07	28%	2007-10
	33.1% imports	2004-07	34.9%	2007-10
2.4.3 Foreign direct investment net inflows as percent of GDP	4.2%	2004-07	4.2%	2007-10
5- Protecting the Environment, Responding to Climate Change, Promoting Renewable Energy, and Enhancing Food Security				
2.5.1 CO2 emissions (kilograms) per US$1 GDP (PPP)	0.29	2006	0.29	2008
2.5.2 Countries with planning capacity in mitigation and adaptation of climate change	3	2009	11	2011
2.5.3 Annual reported economic damages from natural disasters	US$7.7b	2007	US$2.1b	2009
2.5.4 Proportion of terrestrial and marine areas protected to total territorial area (%)	19.3%*	2009	19.3%	2010
2.5.5 Annual growth rate of agricultural GDP (%)	3.66%	2005-07	1.78%	2008-10

*** Baseline reviewed to reflect adjustment to data source.**
**** A proxy is reported for 2011 due to the unavailability of data for the original indicator.**
***** Slums are defined as "households with at least one of the four characteristics: lack of access to improved drinking water, lack of access to improved sanitation, overcrowding, and dwellings made of non-durable material".**

B. OUTPUTS CONTRIBUTION TO REGIONAL GOALS

Outputs selected aim to measure the direct contribution of the Bank to Regional Development Goals. These outputs are representative of the Bank's interventions, and reflect the five institutional priorities that the Bank defined to pursue its overarching objective of reducing poverty and inequality and promoting sustainable growth,[3] but are not to be considered exhaustive as Bank operations will generate other outputs as well. Outputs take into account a sustained flow of existing resources in the active portfolio as well as new resources to be available through IDB-9. Both SG and NSG operations contribute to the RF outputs.

Table 2

Bank Output Contribution to Regional Development Goals

	IDB-9 Target	Progress	Status*
	2012-15	2011	
1- Social Policy for Equity and Productivity			
3.1.1 Students benefited by education projects (girls, boys)	8,500,000	2,562,893	G
3.1.2 Teachers trained	530,000	61,075	G
3.1.3 Individuals (all, Indigenous, Afro-descendant) receiving a basic package of health services	23,00,000	1,152,354	Y
3.1.4 Individuals (all, Indigenous, Afro-descendant) receiving targeted anti-poverty program	16,000,000	12,045,181	G
3.1.5 Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity	600,000	317,872	G
3.1.6 Number of jobs added to formal sector	160,000	4,512	R
2- Infrastructure for Competitiveness and Social Welfare			
3.2.1 Households with new or upgraded water supply	2,770,000	31,164	R
3.2.2 Households with new or upgraded sanitary connections	3,600,000	87,541	Y
3.2.3 Km of inter-urban roads built or maintained/upgraded	53,000	10,185	Y
3.2.4 Km of electricity transmission and distribution lines installed or upgraded	1,000	2,559	G
3.2.5 Number of Households with new or upgraded dwellings	25,000	45,688	G

[3] The five priorities are Social Policy for Equity and Productivity, Infrastructure for Competitiveness and Social Welfare, Institutions for Growth and Social Welfare, Competitive Regional and Global International Integration, and Protecting the Environment, Responding to Climate Change, Promoting Renewable Energy, and Ensuring Food Security.

3- Institutions for Growth and Social Welfare			
3.3.1 Micro/Small/Medium productive Enterprises financed	120,000	40,312	G
3.3.2 Public Financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues)	28	108	G
3.3.3 Persons incorporated into a civil or identification registry	3,000,000	2,009,504	Y
3.3.4 Municipal and other sub-national governments supported	1,000	171	G
3.3.5 Cities benefited with citizen security projects	32	13	G
4- Competitive Regional and Global International Integration			
3.4.1 Number of public trade officials and private entrepreneurs trained in trade and investment	65,000	1,279	R
3.4.2 Regional and sub-regional integration agreements and cooperation initiatives supported	10	4	G
3.4.3 Number of cross border and transnational projects supported (infrastructure, and customs, etc.)	22	10	G
3.4.4 Number of international trade transactions financed	1,000	1,437	G
3.4.5 Mobilization volume by NSG financed projects/companies	US$31.2 billion	US$4.9 billion	Y
5- Protecting the Environment, Responding to Climate Change, Promoting Renewable Energy, and Enhancing Food Security			
3.5.1 Percentage of power generation capacity from low-carbon sources over total generation capacity funded by IDB	93	100	G
3.5.2 Number of people given access to improved public low-carbon transportation systems	8,500,000	833,287	G
3.5.3 National frameworks for climate change mitigation supported	5	7	G
3.5.4 Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing	10	5	G
3.5.5 Number of projects with components contributing to improved management of terrestrial and marine protected areas	30	3	G
3.5.6 Farmers given access to improved agricultural services and investments	5,000,000	2,522,080	G

*** The status is based on a formula weighting performance (80%) (2011 Actual values/2011 Plan) and accuracy (20%) (2012-15 plans/RF Targets).**

C. LENDING PROGRAMS INDICATORS

The Bank's lending capacity will have greater strategic focus through its four targets: (i) supporting development in small and vulnerable countries; (ii) help countries reduce poverty and enhance equity; (iii) assisting borrowers in dealing with climate change, renewable energy, and environmental sustainability, and (iv) increasing regional cooperation and integration. The Bank's targets include both SG and NSG operations and are expressed as a percentage of total lending. Baselines represent the Bank's historic average lending volumes for 2006-09. Loans might qualify for one or more categories and therefore the lending estimate percentages do not add up to 100 percent. The estimated lending volume goals for each of the lending categories are set to be met at the end of the period of 2012-15, and will vary year to year.

Table 3
Lending Program Estimates

Lending Program Indicators	Baseline 2006-09	Estimated 2015	Progress 2011	Status*
1.1 Lending to small and vulnerable countries	27%	35%	36%	G
1.2 Lending for poverty reduction and equity enhancement	40%	50%	49%	G
1.3 Lending to support climate change initiatives, sustainable energy (including renewable) and environmental sustainability	5%	25%	33%	G
1.4 Lending to support regional cooperation and integration	10%	15%	12%	Y

*** Percentage variances against the 2015 estimate are used to determine status.**
Note: Since projects can qualify for more than one lending category the estimated percentages proposed do not add to 100 percent.

D. OPERATIONAL EFFECTIVENESS AND EFFICIENCY

Delivering results on the ground requires the Bank to step up its "results-based" management, by tracking its performance periodically through a comprehensive set of indicators of operational effectiveness and efficiency. These indicators include measures of "client satisfaction" that will be measured by surveying in 2012 the perception of our partners on the Bank's delivery of services in order to make necessary adjustments to be better placed to respond to client needs. Annex I presents the complete set of efficiency indicators that Management utilizes in its internal Quarterly Business Reviews to manage by results throughout each fiscal year.

Table 4
Operational Effectiveness and Efficiency

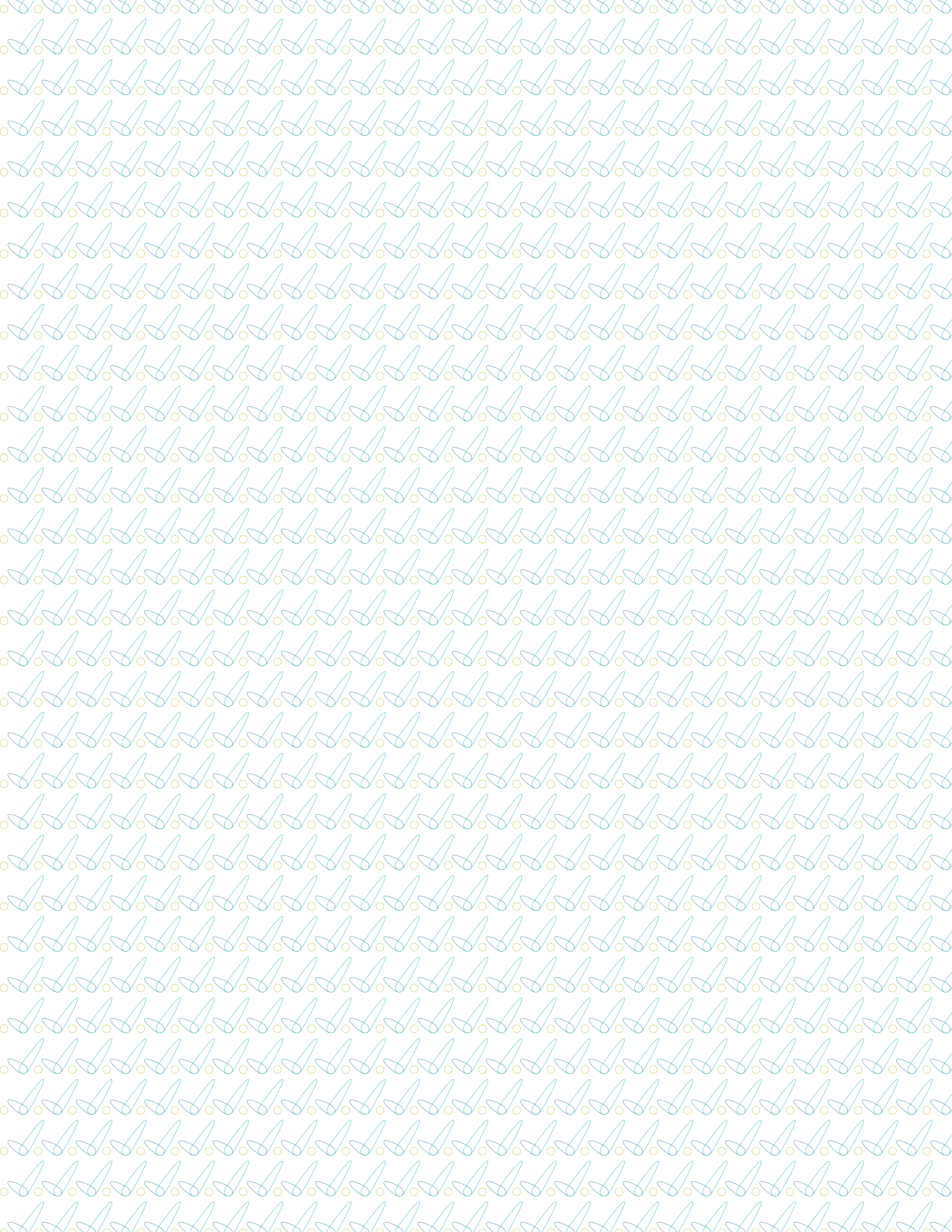
	Baseline	Estimated	Progress	Status*
	2006-09	2015	2011	
1- Effectiveness – Country Strategies				
4.1.1 Percent of country strategies with satisfactory scores in evaluability dimensions	27%	85%	100%	G
Percent of country strategies that have satisfactory results that can be validated at completion for:				
4.1.2 Sector outcomes	-	65%	100%	G
4.1.3 Financial outcomes	-	75%	100%	G
4.1.4 Progress on building and using country systems	-	55%	58%	G
2- Effectiveness – loans				
For sovereign guaranteed (SG) operations (approvals)				
4.2.1 Percent of new operations with satisfactory scores on evaluability dimensions	26%	85%	98%	G
4.2.2 Percent of projects with high environmental and social risks rated satisfactory in implementation of mitigation measures	-	85%	73%	G
Project portfolio performance satisfactory from monitoring reports (execution) - SG				
4.2.3 Percent of projects that have satisfactory performance	-	70%	64%	G
4.2.4 Percent of projects with satisfactory rating on development results at completion	-	60%	88%	G
For non sovereign guaranteed (NSG) operations (approvals)				
4.2.5 Percent of new operations with satisfactory scores on evaluability dimensions	-	85%	100%	G
4.2.6 Percent of projects with high environmental and social risks rated satisfactory in implementation of mitigation measures	-	85%	79%	G
Project portfolio performance satisfactory from monitoring reports (execution) - NSG				
4.2.7 Percent of projects that have satisfactory performance	-	70%	91%	G
4.2.8 Percent of projects with satisfactory ratings on development outcomes at completion	60%	65%	69%**	G
3- Effectiveness – Knowledge and Capacity Building Products (KCPs)* **				
4.3.1 Percent of completed KCPs with results that can be validated	-	100%	-	-
4.3.2 Percent of completed KCPs with satisfactory results	-	65%	-	-
4- Effectiveness – Partner Satisfaction****				
4.4.1 Percent of external partners satisfied with Bank delivery of services for country strategies	-	70%	-	-
4.4.2 Percent of external partners satisfied with Bank delivery of services for loan operations	-	70%	-	-
4.4.3 Percent of external partners satisfied with Bank delivery of services for KCPs	-	70%	-	-

CONTINUE TABLE 4 →

CONTINUE TABLE 4

5- Efficiency				
4.5.1 Cofinancing (percent of Regular Lending Program)	29%	30%	16%	R
4.5.2 Trust Funds (percent of Regular Lending Program)	2%	3%	2%	G
4.5.3 Total administrative expenses per US$1 million approved*****	US$41,900	US$34,000	US$39,227	G
4.5.4 Total administrative expenses per US$1 million disbursed*****	US$50,150	US$45,000	US$50,685	G
4.5.5 Percent of administrative expenses in operational programs	61%	68%	67%	G
4.5.6 Cycle time: country strategy (Inauguration to delivery of Strategy to Government)	20 months	6 months	17 months	R
4.5.7 Cycle time: SG loan preparation time (Profile to approval)	9.5 months	8 months	6 months	G
4.5.8 Cycle time: SG loan disbursement period (eligibility to first disbursement)	19 days	19 days	27 days	R
4.5.9 Cycle time: NSG loan preparation time (Profile to approval)	12 months	6 months	6 months	G
4.5.10 Cycle time: NSG loan disbursement period (eligibility to first disbursement)	-	10 days	8 days	G
Human Resources				
4.5.11 Percentage of professional and executive staff who are women, grade 4 or above	28%	40%	33%	G
4.5.12 Percentage of Upper Management staff who are women (Executive staf and Representatives/EVP and Vice-Presidents)	18% / 0%	38% / 40-60%	28% / 20%	Y
4.5.13 Percentage of Professional staff based in COF	26%	40%	32%	G

*** Percentage variances against the target are used to determine status.**
**** The results of the self-evaluation exercise for 2008-09, which was completed in 2011.**
***** Data pending the implementation of monitoring and evaluation of TCs.**
****** The survey on partner satisfaction will be conducted in 2012.**
******* Target figures for administrative expenses are set in constant 2009 US$.**



Chapter II

Measuring the Effectiveness of our Products

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 29 to 45

We measure the effectiveness of our products by ensuring that the Bank is doing the right things and doing things right.[4] Doing the right things entails that the Bank prioritizes well and effectively, and that the reasons for that prioritization are clearly demonstrated. By providing broad strategic objectives, the RF of the IDB-9 sets the aggregate prioritization for the institution. More specific prioritization at the country level takes place during the strategic-dialogue phase during the definition of Results-based Country Strategies (R-BCS), and in the yearly programming exercises. This requires an approach by country and sector based on a common understanding of the country's development challenges, and how the Bank can support its development partners.

Once that results-based strategic framework is in place (RF and R-BCS), the emphasis of our work shifts to doing things right. In essence, this involves managing, monitoring and evaluating projects to ensure that their intended impact and value is realized on the ground.

The Bank tracks two measures of performance for its development products. On the one hand, we measure how we are maintaining our strategic focus: from the IDB-9, to country dialogue and programming, to the delivery of specific operations. We achieve this by measuring alignment of each product to the previous level. On the other hand, we measure results achieved at each level. This ensures that we not only measure outputs delivered but also outcomes and in some cases longer term impact of each intervention.

A. DOING THE RIGHT THINGS: RESULTS BASED COUNTRY STRATEGIES AND COUNTRY PROGRAMS

In order to define the areas in which the Bank will work with partner countries in the region, a strategic planning exercise with the country is carried out to identify which development challenges could benefit significantly from the IDB's financial and technical support. A thorough assessment of priorities takes place at the strategic dialogue stage, which is reflected in a multi-year Country Strategy (CS). The CS collects the country's priorities, and while most of them are aligned with the IDB's institutional priorities, the Bank needs to be flexible to respond to country's demands and thus it is not expected that CSs will have 100% alignment to IDB-9. The Bank faces the challenge to implement this process more efficiently, in order to reduce significantly the CS preparation cycle while maintaining the strategic relevance of this excercise.[5]

The CS provides the strategic guidance to programming, which takes place in the annual Country Program Document (CPD). As in the case of the alignment of CSs to IDB-9, while the CS provides the framework for CPDs, the Bank's ability to respond to emerging challenges implies that less than 100% alignment between CPDs and CSs is expected. Both CSs and CPDs are designed with a results-based perspective, in order to provide a framework for the work of the Bank in each country.

1. Results-based Country Strategies 2011

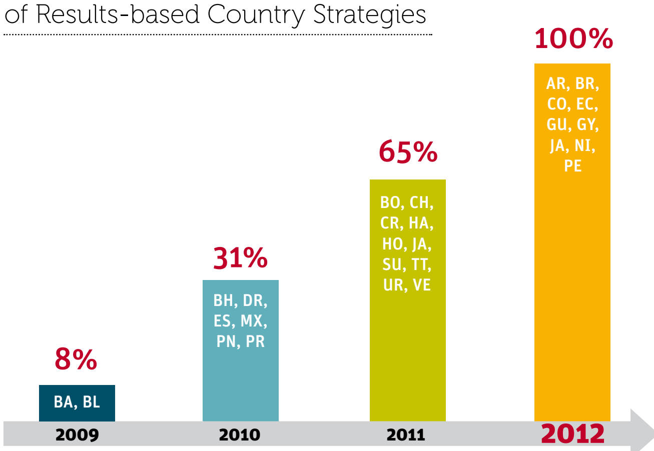
2011 marked the second year of implementation of the Bank's country dialogue aimed to: (i) results-based country strategies and (ii) results-based country program documents. Country strategies provide the overall strategic context where individual Bank activities are articulated to respond to our clients needs; while country program documents present the specific lending program for each year under the strategic umbrella of the country strategy. The Bank expects to achieve full implementation of results-based country strategies by 2013. So far 65 percent of current country strategies have been prepared under the results-based framework; and in 2012,

[4] The measures of effectiveness reported in the DEO are based on the data generated by IDB's management as part of the implementation of the Development Effectiveness Framework. Some of the reported data will be validated by the Bank's independent evaluation office (OVE), and when those validations are available they will be included as reference in forthcoming editions of the DEO.

[5] As reported in indicator 4.5.6 in the previous table on Operational Effectiveness and Efficiency, the current CS preparation cycle takes 17 months, and the target is to reduce it to six months by 2015.

with nine additional country strategies to be approved, the Bank will reach full implementation (Figure 2).

Fig. 2
Timeline for the Implementation of Results-based Country Strategies



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Nine results-based country strategies were approved by the Board during 2011: Bolivia, Chile, Costa Rica, Haiti, Honduras, Suriname, Trinidad and Tobago, Uruguay and Venezuela. All nine strategies were assessed for the degree of evaluability.[6] Country strategies are reviewed for: (i) alignment to ensure country focus and, (ii) effectiveness to ensure that the country strategy is based on empirical evidence and identifies objectives and expected results.

Evaluability at the country level is a measure of how well a proposed strategy or program sets out criteria and metrics to be used in its subsequent evaluation, and it reflects the work of the governments' with the Bank to define and agree on such metrics.[7] Country-level evaluations in turn seek to answer the question of whether the Bank did the right things by examining whether the design and implementation of a country strategy and program were right for the circumstances of the country. Recognizing that formal attribution is extremely difficult to establish in a country strategy or program evaluation given the multiplicity of factors that affect development outcomes and impacts at the country level, the ECG-GPS focuses rather on establishing the contribution of the CS to key results or outcomes.

Evaluability reviews entail an in-depth analysis of three key areas: (1) the quality of the country and sector diagnostics; (2) the link between diagnostics and strategic objectives, and (3) the quality of the country-strategy results framework, to determine whether indicators that will be used for monitoring and evaluation are SMART–specific, measurable, achievable, realistic and timely. All country strategies reported satisfactory scores[8] in the three key evaluability dimensions (relevance, effectiveness and risk).

For *relevance,*[9] the link between diagnostics and strategic objectives was clearly expressed in all country strategies and consistent with each country's development challenges and priorities (ownership and alignment). Moreover, all country strategies were selective and focused and provided an indicative mix of Bank products to achieve strategic priorities (coherence).

For *effectiveness,*[10] all nine country strategies were based on high quality country diagnostics. Almost all of the sec-

[6] Evaluability is the extent to which their proposed result-based approach will be able to demonstrate its outcomes in a credible and reliable fashion at completion.

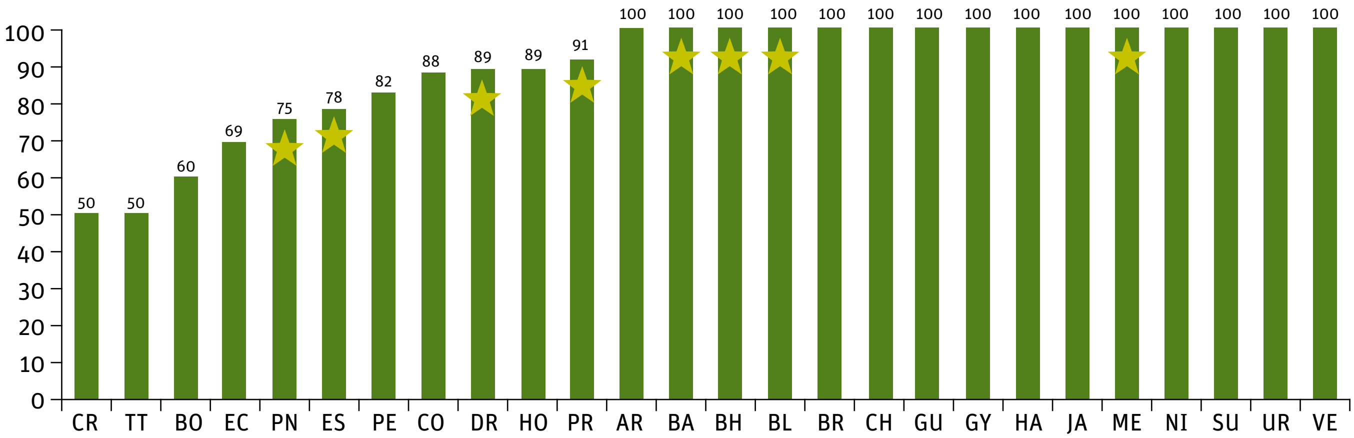
[7] *ECG-Good Practice Standards, Country Strategy and Program Evaluations,* 2008, p. 13.

[8] Scores are defined on a 1 to 10 scale. Values of 6 or more are satisfactory.

[9] Two sub-criteria constitute relevance: i) Ownership and alignment, which measure the consistency of CS objectives with the country's needs and with the government's plans and priorities; and ii) Coherence, that measures the extent to which the CS was selective and focused, whether it provides a suitable mix of Bank instruments to achieve strategic priorities, and whether it takes into account development partners' interventions to ensure a suitable division of labor.

[10] Effectiveness is measured by the quality of the results framework (whether an evidence based diagnosis supports each area of Bank intervention and if expected results and indicators are well defined); by the definition of financial transfers (financing envelope estimations and annual financial flows) and by the use and build up of country systems.

Fig. 3
Percent of Country Programs Aligned to Country Strategy Sectors



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tor diagnostics could identify problems and their determinants based on empirical evidence. The sector diagnostics could also characterize the population affected by such problems, as well as define the possible types of interventions. The objectives defined in the country strategies have a direct correspondence with the sector diagnostic. The quality of the country strategies results frameworks was also high, including a clear and specific identification of objectives, and expected results and indicators.

2. Alignment of Country Programs with Results-based Country Strategies

The second fully fledged country-program exercise occurred in 2011. Country Program Documents (CPDs) were prepared for 26 countries out of 26. CPDs are rated accordding to the alignment of the programming activity for the year with the country strategy objectives. The majority of CPDs (85 percent) was highly aligned with CS objectives. In the cases were there was partial alignment, a sound justification was provided in order to support the relevance of the operations included in the work plan. The majority of interventions included in the 2010 CPDs were approved as expected. Particularly, 23 percent of CPDs reported full approval of loans planned, while 55 percent of CPDs reported that over 70 percent of operations programmed were approved. Changes in programming were mainly caused by the need to respond promptly to changing government priorities and challenges (such as emergency responses to natural disasters). A star in the Figure 3 denotes that a Result-based Country Strategy has been approved for that country prior to the programming exercise.

3. Alignment of Operations with IDB-9 and/or Country Program Priorities

The strategic guidance provided by the RF and by the CS programming exercise has resulted in strong alignment between the two frameworks, namely the RF and the CS. Figure 4 shows that 84 percent of the projects approved in 2011 were aligned to the CS and to the RF lending priorities. It is also clear that these frameworks allow for flexibility to respond to development challenges, as 14 percent of the projects were not fully aligned to the CS,[11] and there were a few cases (less than two percent) where

[11] Alignment to Country Strategies considers the degree to which a project contributes to the CS's development objectives and whether the project includes indicators that are directly linked to the CS's result matrix.

to meet country's priorities, the Bank approved projects that were not aligned to the most recent country strategy and that did not directly contribute to the RF lending program.

In 87 percent of the projects approved in 2011 there is direct relation to the indicators for the Bank's Output Contribution to meet the Regional Development Goals defined in the RF (quadrants one and three in Figure 5). In 13 percent of the projects the outputs to be produced are not those included in the RF, but particular to the needs of the project. Additionally, more than half of them (eight percent) were identified in the programming exercise. Again, the strategic focus has guided programming and project design, with the necessary flexibility to respond to a dynamic and changing environment.

B. DOING THE RIGHT THINGS: SOVEREIGN GUARANTEED OPERATIONS

Results-based programming is followed by the preparation, approval and implementation of development projects. In the case of Sovereign Guaranteed Operations (SG), the IDB partners with governments to prepare projects that propose concrete solutions to address development challenges identified during the programming phase. Having agreed with the countries where to work, the challenge is to do things right, to prepare sound projects, to implement them efficiently and to measure their results to ensure delivery on the ground.

Fig. 4
Alignment between Country Strategies and the IDB-9 Lending Programs

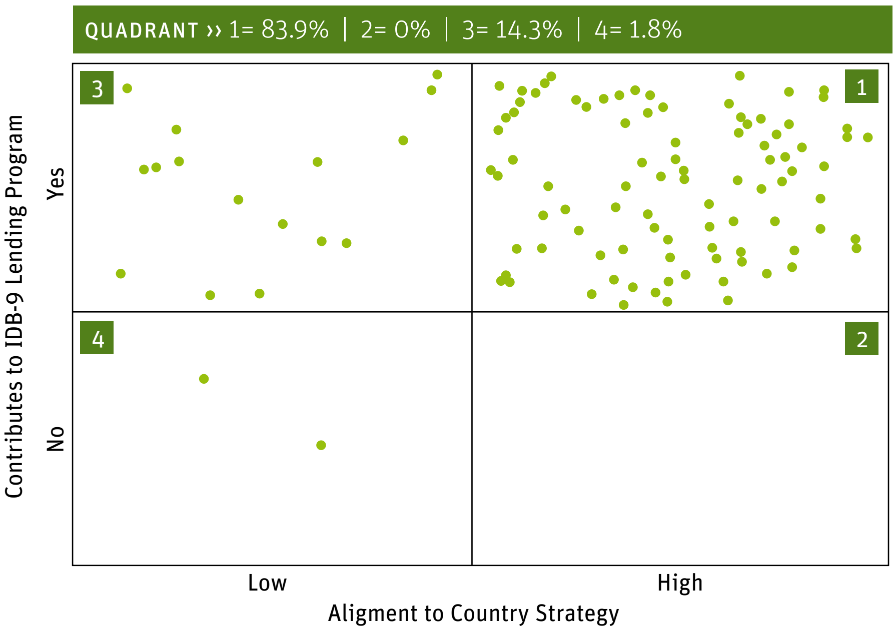
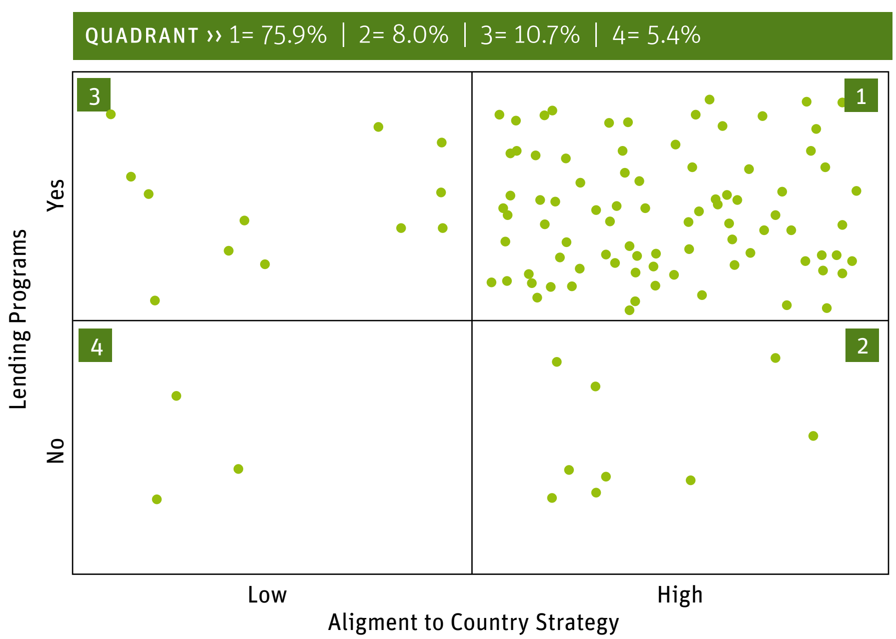


Fig. 5
Alignment between Country Strategies and Bank's Output Contribution to IDB-9 Regional Development Goals



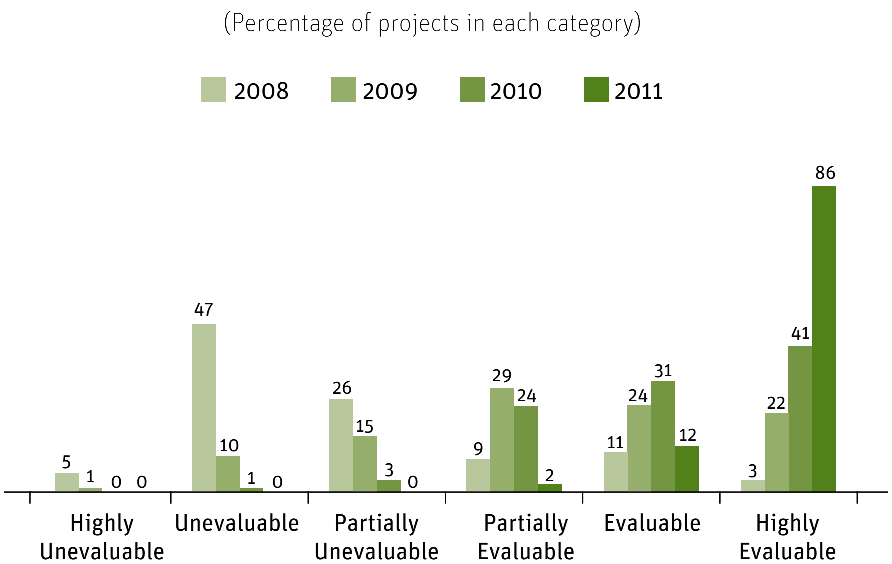
The performance of SGs is tracked from project design to project completion. At entry, operations at the Bank are assessed for their degree of evaluability, the "extent to which an operation can be evaluated in a reliable and credible fashion,"[12] through the Development Effectiveness Matrix (DEM). In order to ascertain this condition, proposals are reviewed to ensure the diagnostic and the proposed solution are empirically supported, to be certain that provisions exist for a proper monitoring of the project's implementation (the production of outputs as planned in terms of time, cost and quality) and to perform valid evaluations at project completion.

The evaluation function at the IDB includes several instruments, that are complemented by outside midterm and final evaluations. The DEM is the Bank's evaluability tool at entry, the PMR is the tool that tracks project performance and focuses on outputs and efficiency delivery, while the PCR is the self-reporting tool on the achievement of results, which starting in 2012 will be subsequently validated by the Bank's independent Office of Evaluation and Oversight (OVE).

1. Ensuring Operations are Evaluable at Entry

The IDB distinguishes itself among MDBs by incorporating early on in the project preparation cycle provisions to ensure that the Bank and its partners in the region will be able to measure the results of its projects at completion. Sovereign guaranteed operations have been rated by the Bank's Management for evaluability since 2009,[13] and the use of the DEM by project teams has been fully mainstreamed into the project preparation process.

Fig. 6
Evaluability Levels at Approval



2011 was the first year of implementation of the IDB-9 requirement that states that projects must meet a minimum evaluability threshold of five to be submitted for approval to the Bank's Board of Directors. Figure 6 shows the percentage of projects above that threshold (partially satisfactory or higher) for 2011 not only reached 100 percent as mandated, but also continued to improve with 86 percent of all projects reaching the Highly Evaluable mark. This positive trend shows a strong commitment during project preparation to make projects evaluable at entry.

Support to strengthen evaluability provided to project teams early in the project preparation cycle in 2011 allowed the Bank to have only a few projects that did not meet the evaluability threshold at the initial internal review by the Administration.

[12] OECD-DAC, 2002. *Glossary of Key Terms in Evaluation and Results-based Management.*

[13] Projects approved in 2008 were scored for evaluability ex-post, in order to have a baseline of how project proposals would be like in the absence of the evaluability tool and process.

Only 14 projects of a total of 122 approved were below the threshold at Quality and Risk Review (QRR)—the first internal review—and had to improve the information and analytics in the loan proposal before being submitted to the Board of Executive Directors for approval (Figure 7).

Overall improvements in evaluability levels have come about from significant improvements in all four evaluability dimensions, namely: project logic, evaluation and monitoring, risk management, and economic performance. Scoring for each of the core evaluability. Figure 8 shows that 100 percent of projects included an ex-ante economic analysis, and significant increases were obtained in both monitoring and evaluation and risk management, while program logic reported a moderate improvement.

The results-based agenda at the Bank has brought about a dramatic increase in the utilization of rigorous methods for evaluating our interventions. For example, the increase in the number of projects that are trying to ascertain the direct contribution of a project to the development challenge by using impact evaluation methods (which establish counterfactuals and thus net effects or results) has increased from eight to 31 percent of all operations approved in just four years, placing the IDB at the forefront of MDBs in terms of impact evaluation (Figure 9).

Fig. 7
Evaluability Levels at QRR versus Board Approval

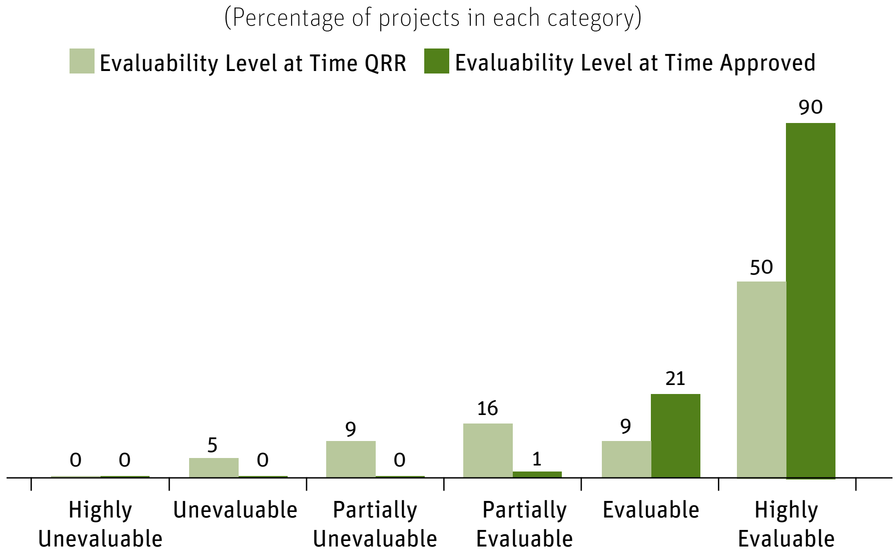
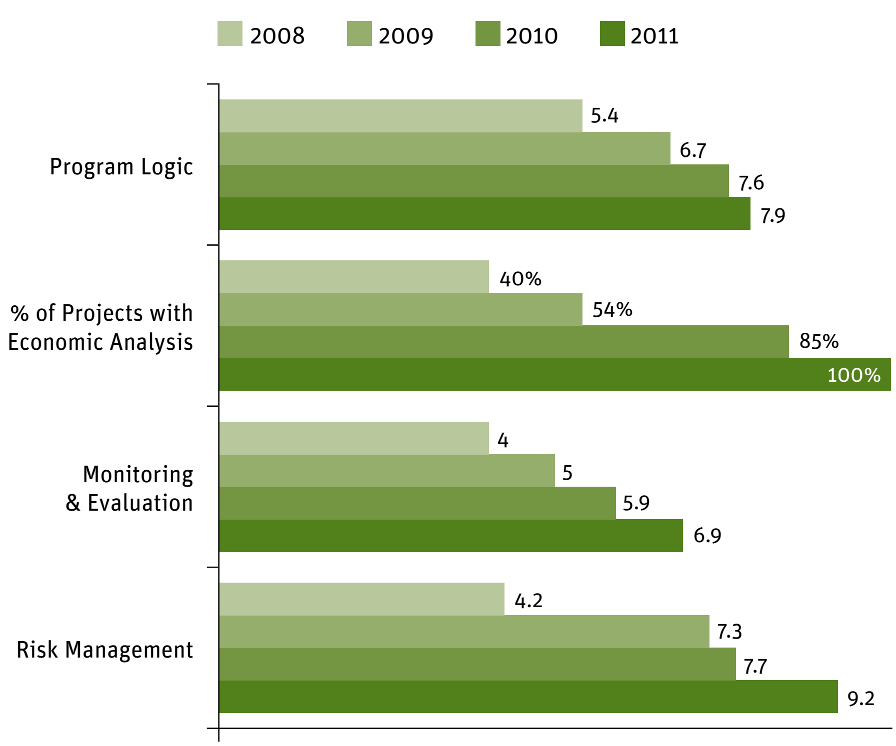


Fig. 8
DEM Ratings, Scores by Evaluability Dimension



2. Tracking Project Implementation

Portfolio at a Glance. The Bank's active portfolio in 2011 adds up to 591 SG lending operations and US$22.6 billion of undisbursed balance. Table 5 contains two indicators on the disbursement performance of investments by country. The first measure reports the percentage of the beginning of the year undisbursed balance that was actually disbursed by the Bank in each country during 2011. The second measure refers to the average disbursement period of projects since first disbursement. The last column lists the number of Bank's projects in each country as to contextualize the previous data.

Fig. 9

Percentage of Projects with Impact Evaluation at Approval

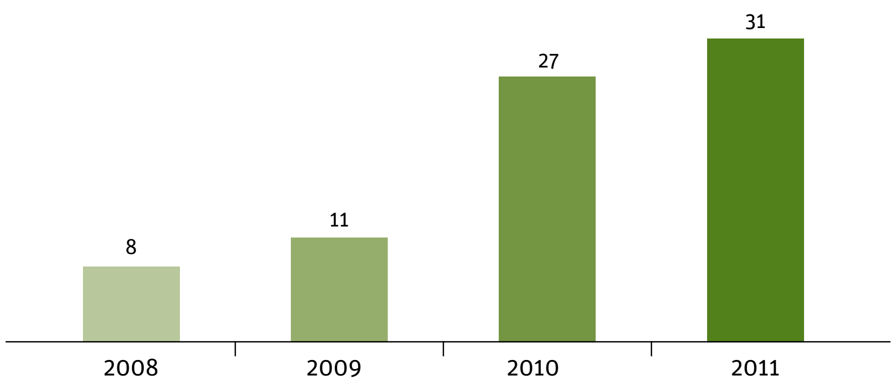


Table 5

Sovereign Guaranteed Investments Portfolio

Country	Disbursements* in 2011 as share of undisbursed balance as of 1/1/2011	Average period in execution** (in years)	Number of operations in execution**
Mexico	59%	0.9	13
Bahamas	55%	3.8	2
Ecuador	41%	2.1	17
Jamaica	37%	2.5	9
Haiti	34%	4.1	31
Dominican Republic	33%	3.0	15
Argentina	31%	4.1	44
Suriname	29%	3.0	6
Colombia	29%	2.6	18
Uruguay	29%	3.5	28
Nicaragua	28%	2.8	28
Guyana	26%	2.6	11
Honduras	24%	3.5	25
Venezuela	23%	2.3	9
Peru	22%	3.7	18

CONTINUE TABLE 5 ⟶

CONTINUE TABLE 5

Country	Disbursements* in 2011 as share of undisbursed balance as of 1/1/2011	Average period in execution** (in years)	Number of operations in execution**
Bolivia	19%	2.7	25
Paraguay	19%	3.3	17
Costa Rica	17%	3.8	6
Panama	16%	3.5	17
Brazil	16%	2.5	62
Chile	9%	2.7	7
Guatemala	8%	4.2	12
Belize	7%	1.8	4
Trinidad and Tobago	5%	3.8	6
Barbados	5%	2.4	9
El Salvador	1%	5.0	2

*** Refers to disbursements during 2011 for operations in portfolio as of January 1st, 2011.**
**** Disbursing period is calculated from first disbursement to date.**

In number of operations, almost half of the portfolio consists of infrastructure and environment sector loans. Institutional Capacity and Finance sector loans are 30 percent of the portfolio, while social sector loans are 20 percent. Compared to previous years, this portfolio composition reflects a significant change in the distribution of Bank operations by sector, in which traditionally the social sector amounted for the largest share. In fact, comparing 2006 and 2011 end of year balances, which are shows in Figure 10, there is a sharp contrast between the contributions of the different sectors to the Bank's lending activity. Basically, the infrastructure and environment sector has increased its participation in the Bank's portfolio balance by 20 percentage points. By the end of 2011 the undisbursed balance of the infrastructure and environment sector reaches 64 percent of the SG portfolio.

Total disbursements in 2011 account for US$8.4 billion, of which US$7.8 billion correspond to SG operations and US$618 million to NSG operations. The distribution of 2011 disbursements, for both SG and NSG operations, by country, is found in Figure 11. Mexico and Argentina are the countries with the highest amounts disbursed (over US$1.5 and US$1.2 billion), followed by Brazil and Colombia (over US$760 and US$690 million), and then by Ecuador, Venezuela and the Dominican Republic (over US$450, US$380 and US$350). Chile is the country with the most resources disbursed for NSG operations, followed by Costa Rica and Jamaica.

Results from our Portfolio. In order to monitor the implementation of the projects in the Bank's portfolio, the PMR was launched in 2009 and has been used since then as one of the DEF's results-based tools for collecting information and reporting on progress towards achieving the goals of the IDB-9. The PMR system captures the status of projects at a point in time relative to what was expected at the time of approval. It provides quantitative and qualita-

Fig. 10
Active Operations with Sovereign Guarantee by Sector

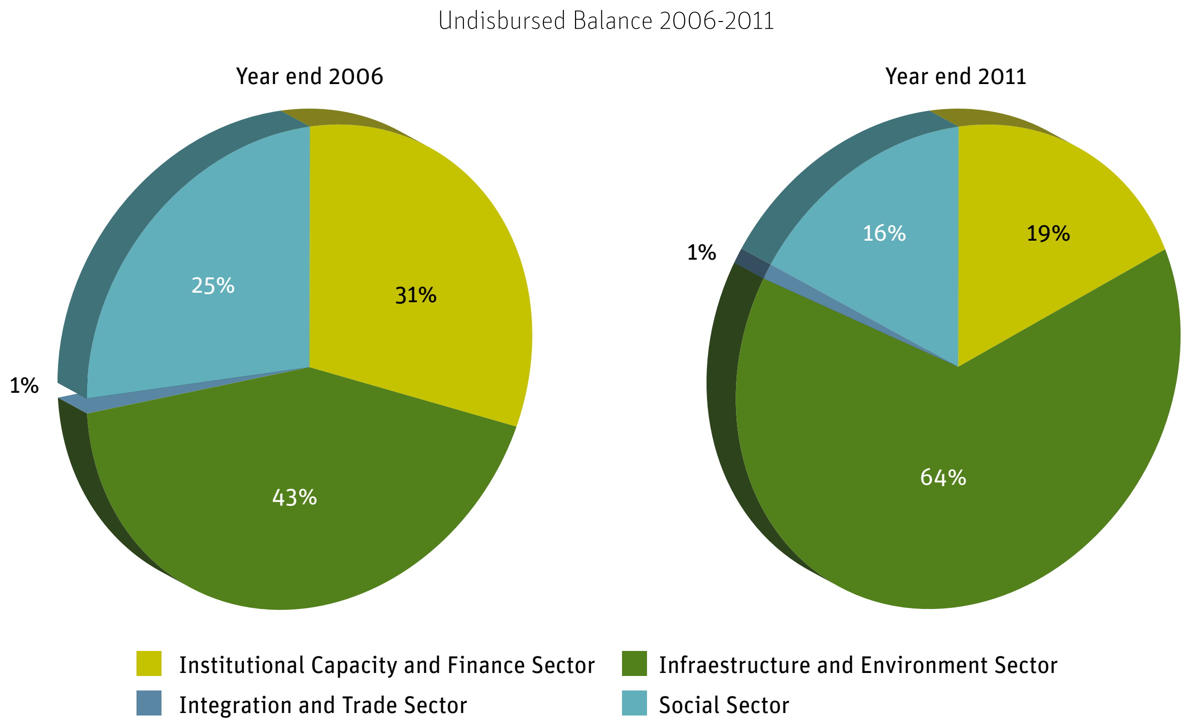


Fig. 11
NSG (left scale) and SG Disbursements (right scale) in 2011 by Country, US$ million

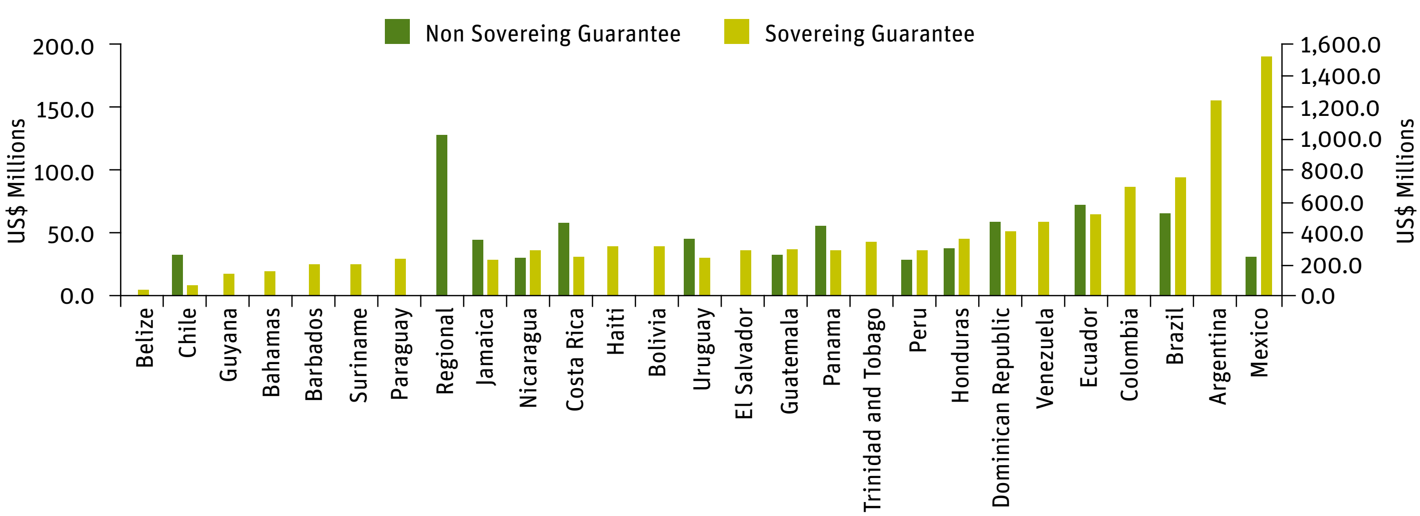
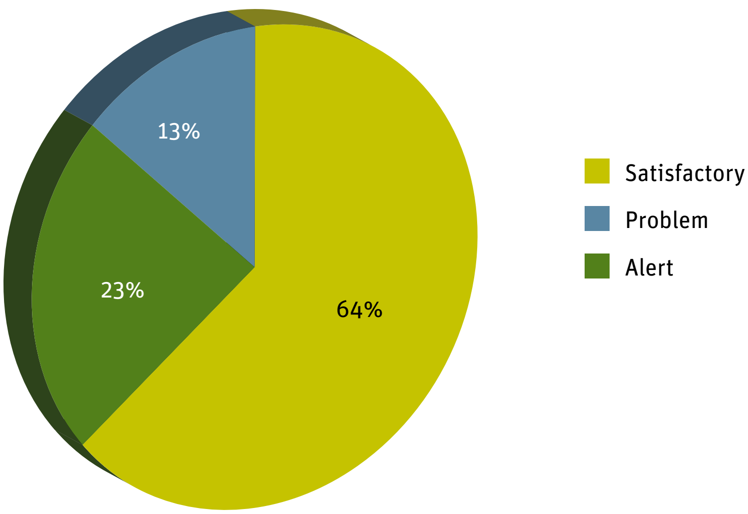


Fig. 12
Performance Index Classification Bank-wide



tive information on project progress, including planned versus actual, in terms of time required and budget for the delivery of outputs. The PMR system calculates a Performance Index (PI) which measures the relationship between physical outputs and the real cost of delivering them.[14]

A first level of analysis of the PMR shows the distribution of projects according to their score in the PI.[15] The PI ranges between zero and one, with one being the highest score possible. Projects with scores over 0.8 are rated as "Satisfactory", projects with scores between 0.4 and 0.8 are rated as "Alert" and projects with scores below 0.4 are rated as "Problem". Figure 12 shows the distribution of projects in the categories defined by the 2011 PMR score: 64 percent of projects were "Satisfactory", 23 percent were "Alert" and 13 percent were "Problem".

Further analysis of the PI allows one to deconstruct the score of each project score into two sub-indexes: the Cost Performance Index (CPI) and the Schedule Performance Index (SPI). These two numbers indicate which deviations from the original plan at project approval are more significant for a given project: cost deviations or schedule deviations. If a project is following its budget strictly and paying exactly what it had expected for products, but is lagging behind in terms of scheduling and expenditures, the project will rate favorably in the CPI and not so favorably in the SPI. In contrast, if a project is closely following its original schedule and delivers products on time, but reports extra costs and is deviating from its initial budget, then the project will rate favorably in the SPI and not as favorably in the CPI.

Figure 13 shows a scatter plot with the CPI score in the vertical axis and the SPI score in the horizontal axis. Each dot corresponds to a project (blue for "Problem", green for "Alert" and yelow for "Satisfactory") and the blue line is a 45-degree line showing how dots should look if projects had the same CPI and SPI score. The Figure reveals that most projects have a higher CPI than SPI score, which means that on average projects tend to deviate more from their schedule than they tend to deviate from their budget. This is true for projects at all levels of performance, but even more so for those classified as "Problem" or "Alert".

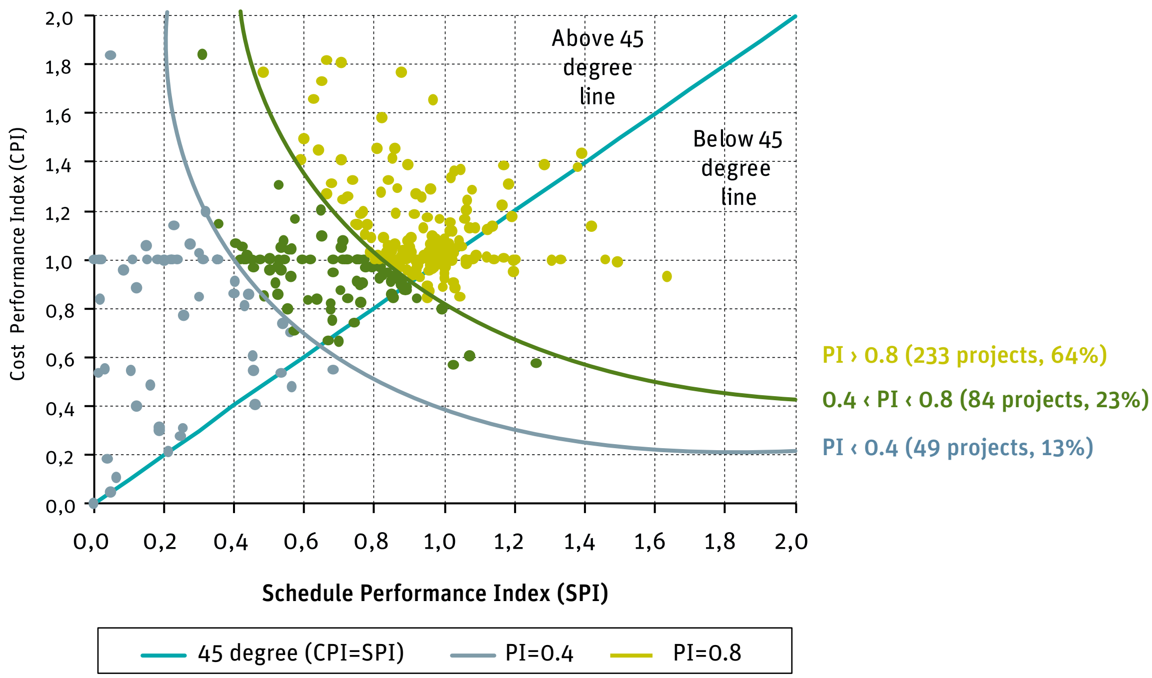
This implies that in order to improve performance, projects need to improve on achieveing targets on time, which requires both more accurate planning and better implementation capacity. That is consistent with the reasons most cited by project teams as causes of low scores in the PI: a) delays in bidding processes; b) issues

[14] The PI, as part of an adaptable management tool as the PMR system, will be modified as necessary based on the feedback from country offices in terms of how to maximize its potential to better monitor project implementation.

[15] The analysis was based on the Performance Index (PI) calculated in March 2011 for 366 operations, representing the eligible portfolio. Policy-based programs, closed operations and outliers (those with a PI greater than 2) were excluded.

Fig. 13

Cost Performance Index (CPI) versus Schedule Performance Index (SPI)



that were not picked up during design of the project; c) overly ambitious annual targets, and d) lack of clarity of the Bank's administrative processes and procedures by the executing agency.[16]

3. Measuring and Reporting the Results of our Work

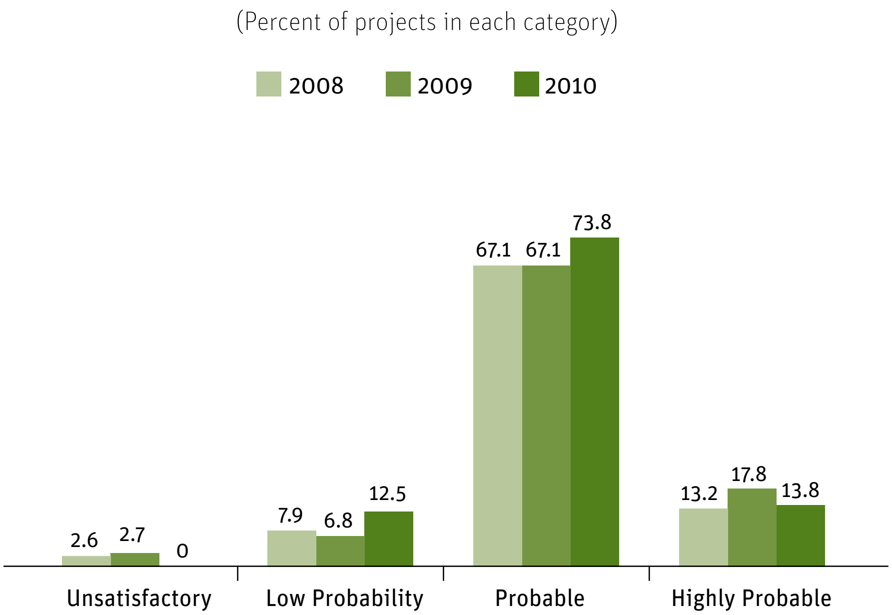
Following the ECG's Good Practice Standards for Evaluation, a key step in the evaluation system of the IDB is when the administration produces self-evaluation reports at project completion, which are validated by OVE. Under the implementation of the DEF, the timely production of PCRs rose substantially: 83 percent of projects closing in 2008 produced a report on time (by mid 2009), 85 percent of projects closing in 2009 produced a PCR by mid 2010, and 92 percent of projects that closed in 2010 complied in their reporting by mid 2011.

The current PCRs look at three core dimensions: the likelihood that the project will meet its development objectives (DO), the implementation progress assessed at completion (IP) and sustainability. Management's self-evaluation assessments are based on a scale of one to four, with four being the highest score.

Figure 14 shows that the mode is a value of three, which means that most projects reported to have achieved their development objectives. These self-reporting scores have not been validated independently. The PCR preparation standards and processes are being revised by OVE during 2012, in order to align them to the DEF. Next year, the Office of Evaluation and Oversight (OVE) will begin an annual validation of PCRs and will report its findings to the Board of Directors.

[16] Values significantly greater than one may reflect efficiency gains; but they may also be the result of poor planning, in terms of anticipating greater costs or longer time to complete the planned products that what was required during implementation.

Fig. 14
PCR-Likelihood of Achieving Development Objectives



C. DOING THINGS RIGHT: NON-SOVEREIGN GUARANTEED OPERATIONS[17]

1. Revised Development Effectiveness Framework for NSG Operations

In March 2011, the Development Effectiveness Framework for the NSG operations was revised, mainly in response to requirements of the IDB-9. The main changes made in the NSG-DEM were in the following areas: (i) introduction of evaluability elements; (ii) adjustments of the "IDB strategic development objectives" section to reflect the new corporate priorities under the IDB-9 (Lending Priorities and Bank Result Framework), and to fully harmonize with the DEM of the SG operations, and (iii) a 10 point scoring system from the 5 point scale. In response to the Governors' requirements for the Bank projects to meet a minimum evaluability threshold, the procedure for DEM review was changed as well.

The NSG-DEM's section on the IDB's strategic objectives has also been revised to include the four lending priority areas under IDB-9, as well as the five pillars under the Bank Result Framework (RF). The same classification and structure is found in the DEM for SG projects, and the project's alignment to these areas is assessed based on the same criteria that are applied to SG operations, thus enhancing the harmonization with the SG Development Effectiveness Framework. Project consistency with the Bank's Country Strategy and Country Programming Documents is also assessed in the same way as for SG operations, and reflected in the NSG-DEM.

2. Monitoring and Evaluation of the NSG Operations under the NSG-Development Effectiveness Framework

Monitoring Activities. Under the DEF for NSG projects, the development impact and additionality of projects identified in the ex-ante DEMs has been monitored since 2010 as a part of the annual Project Supervision Reports (PSRs) prepared by the Portfolio Management Unit (PMU). This PMU report replaces the earlier monitoring of mainly economic and developmental impact within the Logical Framework format. The monitoring continues throughout the entire loan/guarantee and, at project completion, a self-evaluation report is produced, called Expanded Project Supervision Reports (XPSRs).

In 2010, the third benchmarking exercise for ECG-GPS for Private Sector Investment Operations was carried out. In the report, the IDB was cited

[17] Following the ECG Good Practice Standards on Evaluation that provide different standards and metrics for SG and NSG operations, the DEO reports on the effectiveness of NSG operations separate from SG operations.

for making the most improvements of all MDBs in terms of ECG compliance from the previous benchmarking exercise, having improved from eight percent compliance in 2004 to 89 percent compliance in 2010, and the IDB ranked third overall.

3. Results of NSG Operations in 2011

Ex-ante NSG-DEM Results: The DEM allows the analysis of expected development outcomes and additionality of NSG projects. For 2011, 32 projects were approved. (21 projects for SCF and 11 projects for OMJ). Table 6 and Figure 15 show the distribution of the average DEM and evaluability scores by sector[18] and performance area, while also showing comprehensive scores. However, it should be noted that the number of projects included is too small to draw statistically meaningful conclusions. It should also be noted that there are a few differences between SCF and OMJ's scoring criteria in some areas.

Monitoring Results: In 2011, SCF's PMU included PSR DEMs in the Project Supervision Reports (PSRs) for those projects in the portfolio for which ex-ante DEMs had been prepared. In addition, project results monitoring exerci-

Table 6
Average Scores in Performance Areas 2011

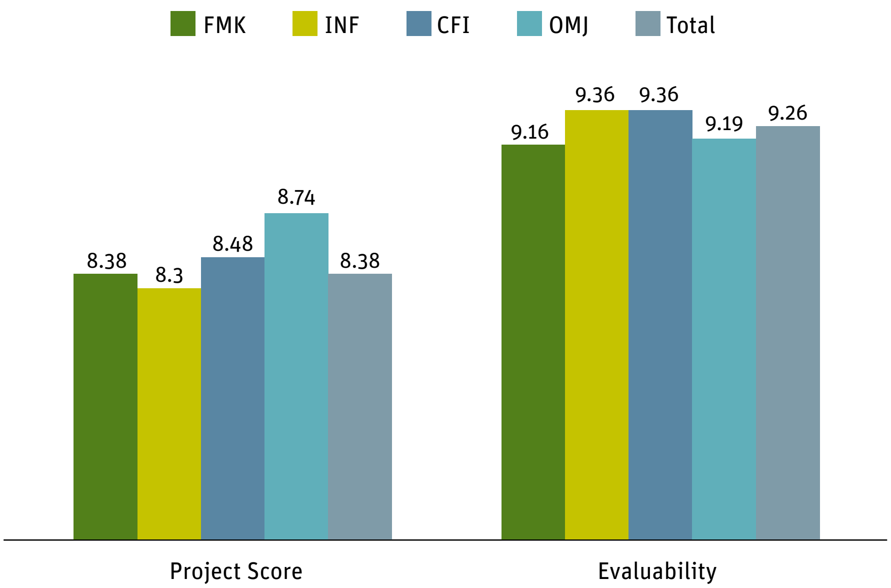
Project Scores: 2011	Total	FMK	INF	CFI	OMJ
Development Outcome	8,05	8.15	8.04	7.83	88.74
Business Performance	8.34	8.40	8.47	8.04	8.72
Economic Development	8.11	8.59	7.80	7.44	9.27
Environmental and Social	6.73	6.91	6.67	6.40	7.11
Private Sector Development	8.09	7.83	8.44	8.24	8.81
IDB Strategic Objectives	10	10	10	10	9.32
Corporate Strategic Objectives	10	10	10	10	10
Country Development Objectives	10	10	10	10	10
OMJ Strategic Development Objectives					8.64
Additionality	7.66	7.58	7.67	7.81	8.41
Financial Additionality	8.37	8.37	8.30	8.46	8.59
Non Financial Additionality	7.25	7.02	7.2	7.81	8.28
Overall Scores	8.38	8.38	8.30	8.48	8.74
Evaluability Scores: 2011	**Total**	**FMK**	**INF**	**CFI**	**OMJ**
Business Performance	9.30	8.96	9.33	10.0	9.55
Economic Development	9.41	9.31	9.33	9.74	8.98
Environmental and Social	9.82	9.82	10.00	9.60	8.75
Private Sector Development	8.62	8.68	8.68	8.61	8.99
Overall Scores	9.26	9.16	9.36	9.36	9.19

[18] FMK = Financial Markets, INF = Infrastructure, CFI = Industry & Services, OMJ = Opportunities for the Majority initiative with focus on Bottom-of-the-Pyramid population.

ses of some projects used the previous monitoring framework based on the logical framework and PPMR, but also applying the DEM 5 point-scale rating. Among 35 projects whose development results were monitored, 6 projects had an overall Excellent rating, 19 had an overall Good rating, 7 projects had an overall Satisfactory rating, and 3 projects have an overall Partially Satisfactory rating. The assessment of the development outcomes of all 35 projects is shown in Figure 16.

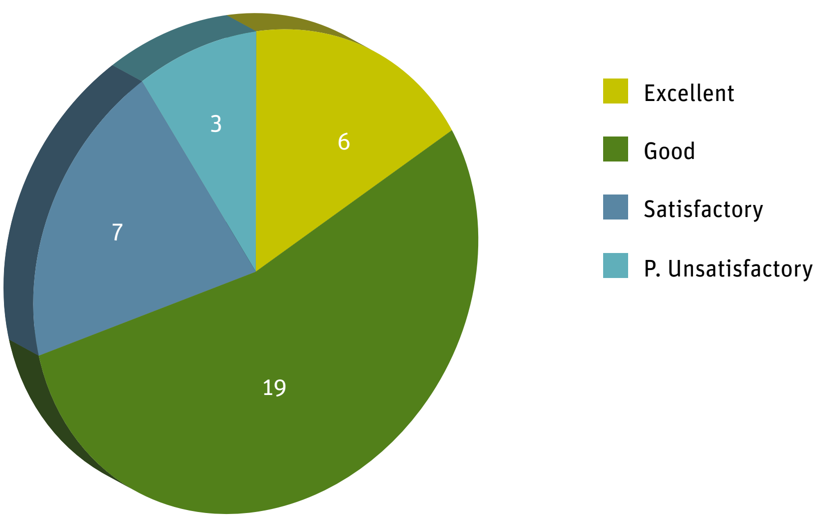
Evaluation Results: In March 2011, the 2008 and 2009 XPSR exercise was completed as planned. For this batch, XPSRs were prepared for 13 projects (nine for 2008 and four for 2009 exercise), which are composed of five projects in the area of financial markets and eight projects in infrastructure.

Fig. 15
Comprehensive Rating of NSG Projects, by Sector



FMK = Financial Markets, INF = Infrastructure, CFI = Industry & Services, OMJ = Opportunities for the Majority initiative with focus on Bottom-of-the-Pyramid population.

Fig. 16
NSG Project Development Results 2011



The Table 7 summarizes the main results validated by OVE on the four performance dimensions of the projects for 2008-09 exercises, and some highlights of results are also explained.

NSG projects showed relatively high success rates (both Excellent and Satisfactory) for all the four performance areas; Project Development Outcome (69 percent success rate), IDB's Investment Profitability (77 percent), Additionality (69 percent), and Work Quality (84 percent).

Table 7
Summary Project Development Results as Validated by OVE

Performance Areas	Highly Satisfactory %	Satisfactory %	Partially Unsatisfactory %	Unsatisfactory %
I. Project Development Outcome	**31**	**38**	**23**	**8**
Contribution to Company Business Performance	46	23	0	31
Contribution to Economic Development	31	31	23	15
Environmental and Social Performance	15	77	8	0
Contribution to Private Sector Development	8	61	31	0
II. IDB Investment Profitability	**15**	**62**	**8**	**15**
III. IDB Additionality	**0**	**69**	**31**	**0**
IV. IDB Work Quality	**23**	**61**	**8**	**8**
Screening, Appraisal, and Structuring Work	0	61	31	8
Monitoring and Supervision Work	30	54	8	8
IDB Role and Contribution	0	85	15	0

For Project Development Outcome, all of the four performance areas showed very positive success rates in terms of the sub-categories of Company Business Performance (69 percent success rate), Contribution to Economic Development (62 percent success rate), Environmental and Social Performance (92 percent), and Contribution to Private Sector Development (69 percent success rate).

The evaluation exercise for 2010 consists of 15 projects: (5 in financial market, 9 on infrastructure, and 1 agribusiness project). Currently the Office of Evaluation and Management is in the validation process. Management work on the 2011 XPSR exercise has started as well.

D. SPECIAL INITIATIVES OF OMJ AND SCF

In 2011 OMJ started using the PULSE system to monitor and measure more efficiently the impact of its projects. With the implementation of PULSE, OMJ moved to a cloud-based system through which the clients are able to report directly and quickly on the results of their projects, allowing OMJ and PMU officers to monitor closely social and financial performance metrics.

Together with the PULSE system, OMJ adopted the Impact Reporting and Investment Standards (IRIS) taxonomy, which was developed to provide a common reporting language for impact-investing related metrics. Today, IRIS has become the standard language in the impact investment industry and is supported by a large number of like-minded double bottom line investors (i.e. both financial and social returns), including the USAID, the Rockefeller Foundation, the Calvert Foundation, and the Bill & Melinda Gates Foundation, among others, as well as over 1,300 Microfinance Institutions that report to MixMarket (the largest existing database on MFIs).

OMJ is more effectively fulfilling its mission to promote market-based solutions to poverty challenges in Latin America. PULSE is helping OMJ to better manage its

portfolio, understand the impact of the projects within and across sectors, and support OMJ to showcase its performance and impact to its main stakeholders inside and outside the Bank.

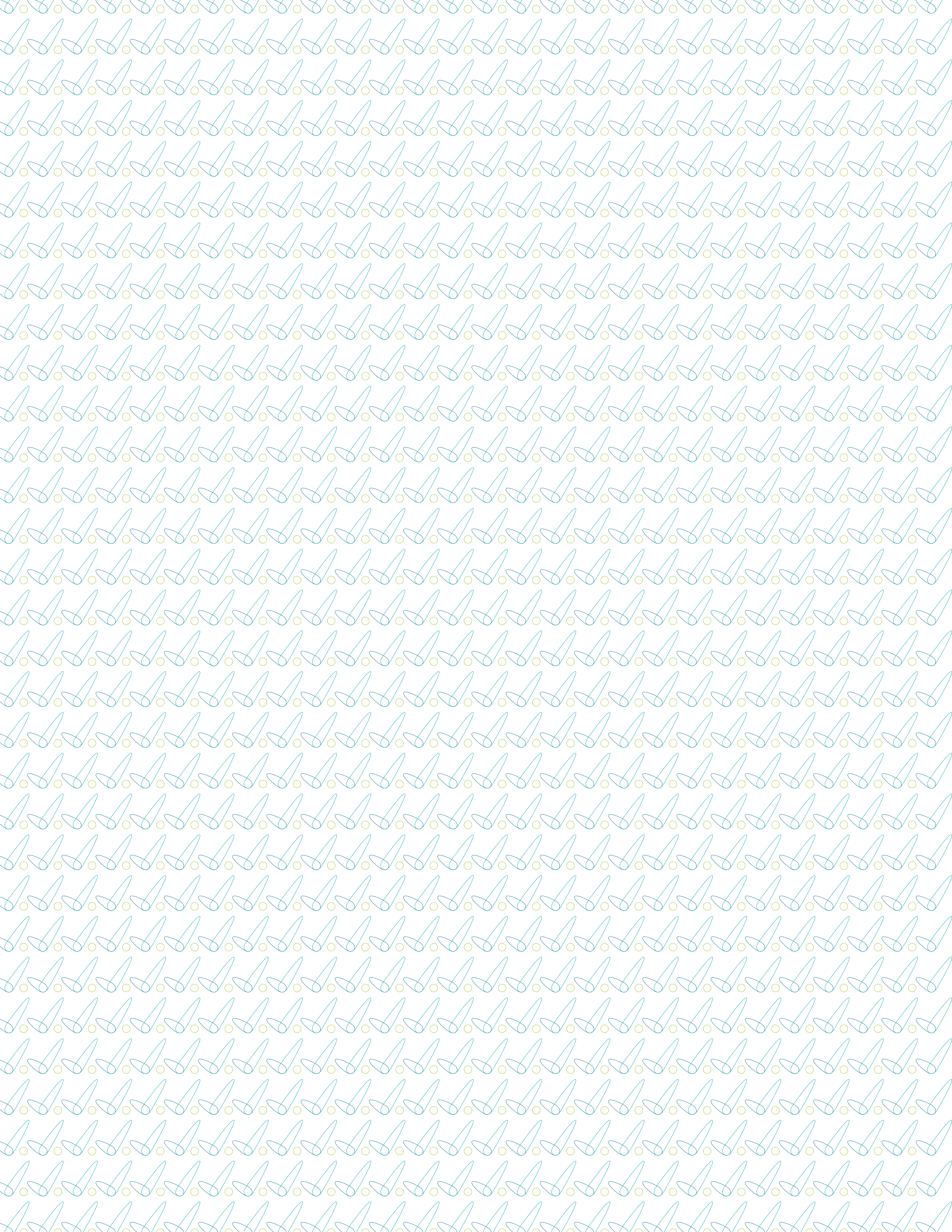
Tracking social results is critical for both OMJ and its clients as they work together to design new market-based business models to address entrenched poverty challenges. OMJ has learned that most clients are eager to report their results and most of the required information can be reported by the client with no major effort, due to the fact that this information is often already being compiled by them given its importance in understanding their business performance. Considering the size of OMJ loans and the transaction costs undertaken by private sector clients, OMJ seeks to avoid creating an undue reporting burden.

IDB, through OMJ, became the first MDB to adopt both PULSE and IRIS, allowing it to capture standardized social data directly on the ground from clients. In doing so, OMJ challenged the traditional impact measurement approach addressing a major issue across MDBs and impact investors: how to define, track, and report on the social performance of invested capital in a consistent and standardized manner.

To contribute to the results-based agenda of the Bank, OMJ plans to mobilize the necessary resources and launch two impact evaluation exercises in 2012. Rigorous impact evaluations require the use of reliable counterfactuals and take significant time and resources to be designed and implemented. In the 2012 DEO, OMJ will include a description and progress report of these evaluations.

The Structured and Corporate Finance Department (SCF) launched a new departmental vision that prioritizes three objectives, which are: i) improving living standards of people, ii) supporting climate friendly investments, and iii) supporting SMEs. Preliminary targets have been set for the period of 2011-15, and remaining methodological challenges to properly measuring projects' contribution to these three metrics are being addressed. SCF has been in close contact with the International Finance Corporation (IFC)—which has developed a similar initiative—to learn from their experience and to coordinate harmonized approaches.

In order to improve development result aggregation and comparison across projects, SCF has been carrying out an exercise of standardizing performance indicators. Standardized indicators are expected to feed into the Bank's Result Framework output indicators, SCF's Vision Statement goals, and DEM indicators. This exercise has drawn, among others, on indicators used by other MDBs, as well as the Impact Reporting and Investment Standards initiative (IRIS). Related to this exercise, SCF participated in a Working Group of MDBs which aims at harmonizing indicators for private sector investment operations.



PART II

Learning about the Development Efectiveness of IDB's Program

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 47 to 105

Chapter I

Social Policy for Equity and Productivity

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 47 to 61

The IDB supports a broad range of social policies with the purpose of reducing poverty, enhancing equity and promoting productivity. To do so, in 2011 the Bank approved projects that address old problems with a new perspective that involves multidisciplinary work within the Institution. This chapter will present several instance of innovations in this area. One example is a water and sanitation project in Mexico's primary schools, where education and water and sanitation teams partnered to address a pressing problem, namely that some schools were a source of disease for many children. This project shows a results-oriented Bank at work, whose the focus is the development challenge and where the required technical resources are pulled together to design adequate responses. Another example of innovative work is illustrated by the Bank's long term commitment to Haiti's plan for education reform. The short term response has been combined with long term planning to put Haiti's education system on to a sustainable path that will provide quality education to all of the country's children.

The Bank also approved projects that will implement new approaches and mechanisms to solve long-standing problems, as illustrated by the regional health initiative *Salud Mesoamerica 2015* that will use an innovative results-based financing scheme to implement evidence-based solutions. The social safety net reform in Trinidad and Tobago that will deal with second generation challenges faced by conditional cash transfer programs is another example included in this chapter, as well as the integrated approach to promote women's rights and empowerment in El Salvador.

This chapter also shows how recent research on the importance of socio-emotional skills on labor market performance of disadvantaged youth has been incorporated in the Bank's work on job training, and how continuous rigorous evaluations have enabled the government of the Dominican Republic to learn and improve their project.

A. IT TAKES A COMMUNITY TO KEEP SCHOOLS HEALTHY: WATER, SANITATION, AND HYGIENE IN MEXICO'S BASIC EDUCATION

For some children in Mexico, going to school may be making them sick and actually limiting their potential to succeed instead of broadening their horizons. It is estimated that over 2 million students throughout Mexico are affected by problems with their schools' inadequate water and sanitation facilities.

The public schools that lack access to safe drinking water and sanitary restrooms are dangerous not only because they can cause illness, but also because they are unequipped to prevent the spread of disease. This lack of preparation can have dramatic consequences in the case of health epidemics, such as the H1N1 flu crisis that Mexico experienced in 2009. In addition to the immediate health risks, academic achievement and future opportunities are put at risk for children who miss school frequently due to preventable disease. The public school system can play an important role in keeping communities healthy, and communities need to play an important role in keeping their schools healthy long term.

The Water, Sanitation, and Hygiene Program in Basic Education (PASHEB, for its initials in Spanish) was developed to reduce the risk of illness caused by unsafe water and bathroom facilities, as well as to cut the rate of illness-related absenteeism. The program tackles these issues by improving school infrastructure and by promoting good hygiene and a healthy school environment through education. Sustainability through community engagement is a key component of this innovative collaboration.

PASHEB is unique in that it involves the entire school community in the maintenance of sanitary facilities and healthy hygiene habits. Experience and evidence show that plumbing infrastructure fails due to a lack of main-

One particularly innovative aspect of the PASHEB evaluation is the comparative study of two groups of parents. Over a three year period, the first group will initially be given financial support from the government to maintain the bathroom facilities. These resources, however, will decrease over the course of the program ending in no funds the final year. The opposite will be true of the second group that will start with no funding for maintenance in the first year, and then receive more and more resources through the end of the program.

This comparative analysis will allow us to see how much the educational and institutional components promote community participation and what role financial resources play in incentivizing participation. The evaluation will also look at parents' expectations of the government's role in maintaining the schools.

Evidence currently suggests that when Parent Committees receive federal funding to maintain school facilities, their participation decreases. This in turn has reduced federal investment in schools. Communities have interpreted the withdrawal of funding as a lack of interest in maintaining the facilities. PASHEB seeks to do exactly the opposite through a sustainable solution that reinforces the importance of hygiene in schools.

Some communities are more involved in their schools than others. Some schools may have exceptional principals and teachers who prioritize hygiene and health education, while others may not. Since no two schools are exactly alike, the evaluation will minimize different variables by selecting a representative sample of schools from a large pool throughout the country.

B. REBUILDING MORE THAN SCHOOLS: LESSONS FROM KATRINA FOR A NEW AND IMPROVED HAITIAN EDUCATION SYSTEM

Two years have fast come and gone since an earthquake caused immense damage and losses in Haiti, followed by an avalanche of international support. And just as in the immediate aftermath of this tragedy, the Bank, along with its partners, are steadily hard at work to rebuild an essential ingredient of the country's future: its educational system.

Long term planning has naturally followed from the state of emergency caused by the disaster, and the Bank's resolve to support Haiti's plan for education reform resulted in late 2011 in the approval of a second US$50 million grant. These resources are being applied to key components of the government's reform plan, which benefited from technical advice by the designers of the reconstruction plan for the education sector of New Orleans after Katrina.

A key element of Haiti's education reform is the access to schooling. This means construction and equipment of public schools in areas with no school alternatives; rehabilitation of schools damaged by the earthquake; and tuition waivers that allow approximately 220,000 children to attend non-public schools for free. But getting kids to school and keeping them there requires more than buildings and tuition waivers. It also means access to uniforms, text books and other school materials.

The resources of this second grant will provide approximately 30,000 children and 2,000 teachers with the necessary school supplies kits. To date, the Bank's efforts have produced clear, measurable results: approximately 70,000 children have returned to temporary classrooms that the Bank helped build in the quake area. Access to brand new public schools and materials will be possible when the academic year 2012-13 begins.

Once the imperative need for access to education has been addressed, the issue of quality of education arises. As might be expected, quality is not a trivial matter in this very challenging context. Some calculations suggest, for example, that about 80 percent of the 60,000 teachers in grade levels 1-9 teach without having received any relevant diploma or initial training. In the quest for a pedagogical model that would provide students with quality instruction under the present circumstances, the Bank is supporting the implementation of innovative methods of delivering education, including radios or preloaded MP3 players for schools in remote areas.

Even as the donor community concentrates efforts on developing a unified teacher training system to provide

tenance. The evidence also suggests that regular maintenance is insufficient without the support of the community. Improving upon previous programs, PASHEB includes an educational component for parents, teachers, and students to learn how to protect their own health as well as the health of others. The training is designed to promote a culture of health in the community that prioritizes hygiene and disease prevention. By maintaining the schools communally, students, parents, and teachers invest in each other's wellbeing and take stock in the safety of the community.

By 2014, PASHEB ambitiously aims to improve the lives of more than one million schoolchildren in over 20,000 schools throughout Mexico. The scope and urgency of this health crisis demanded a serious evaluation to measures the effectiveness and sustainability of the proposed solution.

There are three main objectives in evaluating the program:

a. Effectiveness. Does the program work? Does it reduce students' risk of illness? Does it change attitudes toward prevention and care? If not, what aspects of the program are effective and which are ineffective? How can certain aspects of the program be modified to make it more efficient?

b. Evidence-based Results. What change is taking place in the schools as a result of PASHEB? What is the relationship between certain activities, products, and results? The answers will help to improve the design of the program and to best utilize resources. An analysis of the beneficiaries will also take certain variables into account such as gender, climate, urban or rural setting, vulnerability to infection, and education level.

c. Sustainability. Are the interventions of the program sustainable? Will the school facilities continue to be maintained by the community? Will members of the community continue to teach and practice safe hygiene?

a long term answer to the problem, the radio instruction program would provide a transitional solution to transform classrooms into interactive learning environments, which may be extended in time. Traditional lessons will be supplemented by daily broadcasts into classrooms designed to guide teachers through the use of songs, dramas, and other activities.

Interactive radio instruction (IRI) is not an untried experience. It has already reached students in fragile contexts such as Somalia and South Sudan, and is currently being used in "little mathematicians", a program supported by the Bank that develops solid foundations in basic math among children aged four to six in Paraguay. It is worth noting, however, that although IRI has been implemented in several countries and under various circumstances, a rigorous evaluation was conducted only in the case of "little mathematicians" with positive results in terms of achievement in math. In the case of Haiti, an experimental evaluation will be conducted alongside the radio program to provide evidence of the levels of success of this alternative delivery method for lessons. In the first phase approximately 200 schools will be randomly distributed in two groups: one will receive the program for grades 2^{nd}, 3^{rd} and 4^{th}, while the other group will serve as a control.

The rigorous evaluation of the radio program in Haiti is one instance in which the Bank is promoting another significant cause: the generation of data for effective tracking of activities and decision making. By shedding light on the efficiency of the program, the evaluation will allow to help improve the tools and processes involved in providing quality education, even in remote areas in LAC and elsewhere in the world.

An important matter for decision making is the quantity and quality of relevant indicators available for informing programs and objectives. With the earthquake, the systems for collection and safekeeping of educational statistics—already scant and outdated in Haiti—were, as much else in the country, severely damaged. Given the population and education data available, accurately calculating even basic educational indicators such as gross and net enrollment rates is a challenging issue. As part of the reconstruction process, the Bank, with the rest of the donor community, has pledged resources to improve in this area. Help has been committed to rebuilding improved, more meaningful and more comprehensive ways to inform decision-making in the sector.

Some of these activities include support for the development of systems to track enrollment and attendance at school level, a school mapping exercise, and the school census. These are not minor efforts. The census alone constitutes the largest data collection attempt in Haiti in recent years, and it will help—along with other data generation efforts—to fill loopholes and provide factual information to shed light on problems which are, as of now, suspected but for which not clear evidence is available due to lack of measurable data.

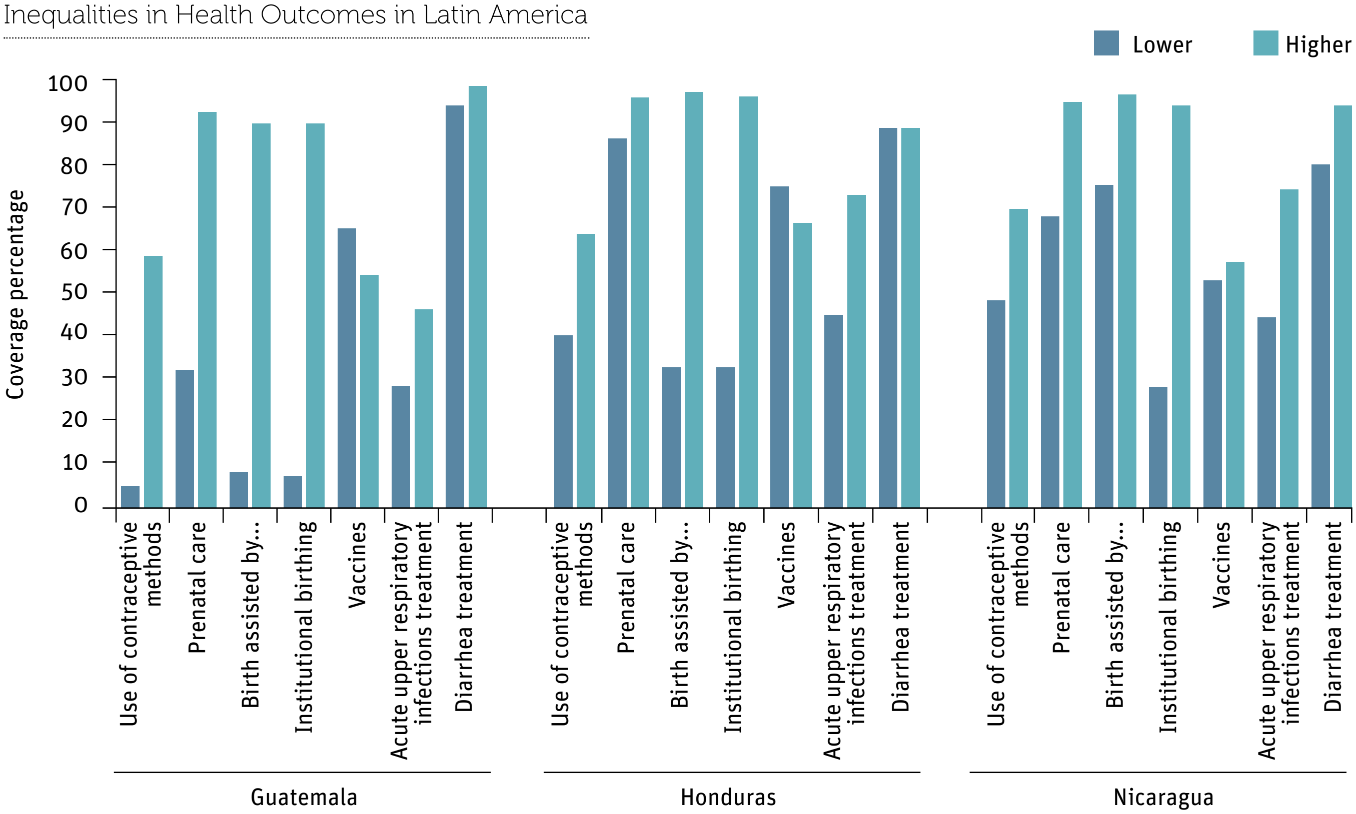
As the main donor in the education sector in Haiti, the Bank has developed an intense strategy in the country since the earthquake, starting with its first response to the emergency itself and naturally extending to a more durable, sustainable plan for education in the country. The efforts discussed above take many forms. They include a multimillion dollar grant aimed at providing immediately basic necessities in the classroom. But also encompass longer term planning for bettering the education sector in Haiti, such as the implementation of IRI to provide quality educational materials in remote areas, or the even farther reaching effort to construct and implement a strategy that will produce reliable data for future use in informing decision making. Although diverse, all the actions have a common denominator: educational quality as part of the process to provide a better future for the country after the disastrous consequences of the earthquake.

C. USING RESULTS-BASED FINANCING TO IMPACT THE HEALTH OUTCOMES OF THE POOREST

Countries are increasingly turning to incentive-based models to tackle some of their most stubborn health problems. "Pay for performance" or results-based models move away from traditional input based financing by rewarding the production of more and better health

Fig. 17

Inequalities in Health Outcomes in Latin America



services, and in some cases improved final health outcomes. On the demand side, financial incentives through conditional cash transfers have shown some positive impacts on health care utilization and mixed results on final health outcomes (Fiszbein and Shady, 2009). On the supply side, where service providers are rewarded for results, less is known in the Latin America context, though evidence emerging from other regions suggests that conditional incentives to health care providers may also be a promising tool for improving the quantity and quality of health care services. However, can incentives also help to improve the health status of the population with performance-based model? In a region with one of the highest levels of income inequality in the world, the *Salud Mesoamerica*[19] 2015 (SM2015) initiative aims to do precisely that by rewarding countries that achieve concrete improvements in the health indicators of the poorest quintile of the population.

SM2015 is an innovative public-private partnership designed to reduce health inequalities in the Mesoamerica region by extending coverage and improving the quality of health interventions for the poorest 20 percent of households. The initiative promotes country specific solutions through packages of integrated services with proven efficacy, concentrating on maternal-child health, nutrition, immunization and malaria and dengue (Figure 18).

SM2015 is funded by the Bill & Melinda Gates Foundation, the Carlos Slim Health Institute and the Government of Spain, and is executed through the Inter-American Development Bank. The initiative provides grants equal to 50

[19] Mesoamerica compounds: Mexico, Guatemala, El Salvador, Belize, Honduras, Nicaragua, Costa Rica and Panama.

percent of the total project value with governments in the Mesoamerica region contributing the other 50 percent. In addition, the initiative offers governments a Results-based Financing (RBF) incentive payment of 25 percent of the total value of the funding envelope. Targets are agreed with governments on a set of key payment indicators directly related to the maternal and child health outcomes that the initiative seeks to improve. If a weighted average of 80 percent of targets is achieved at the end of each 18 month funding period, then the government receives the "performance tranche" incentive payment.[20]

Fig. 18

Theory of Change of *Salud Mesoamerica 2015*

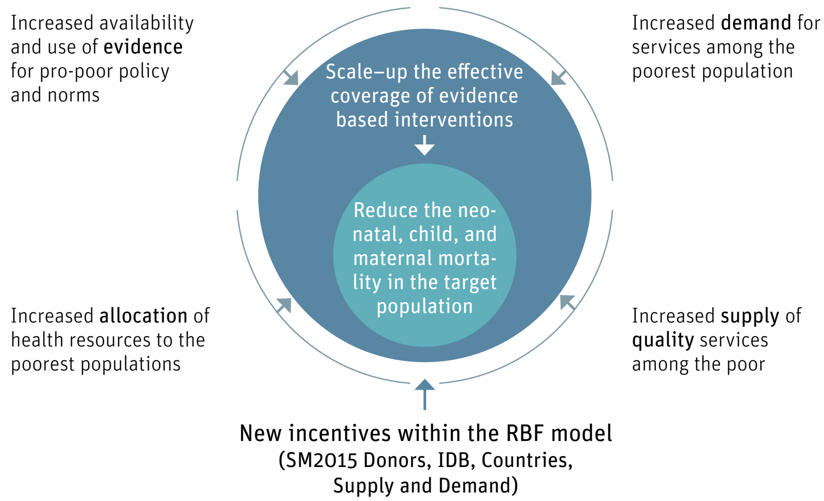
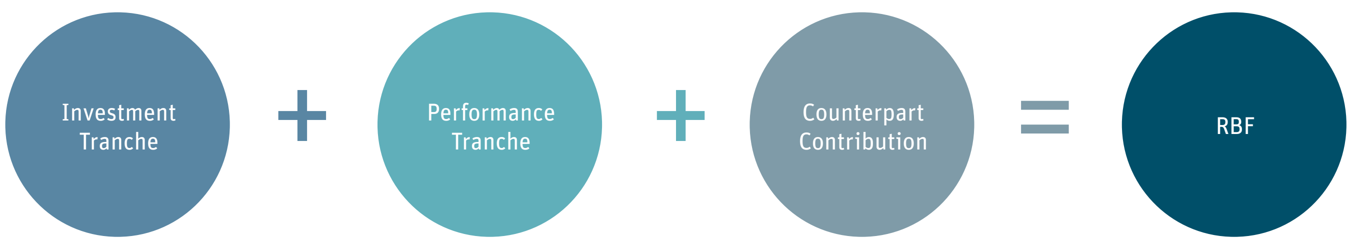


Fig. 19

Financing Scheme of *Salud Mesoamerica 2015*



Monitoring, evaluation and learning are central components of SM2015. The initiative plans multiple rounds of survey data in each country for the purposes of monitoring indicators, rewarding performance, and measuring impacts. Given that the initiative uses innovative financing mechanisms to promote proven health interventions, the impact evaluation agenda focuses heavily on testing the effectiveness of the performance models for improving the quantity and quality of health service delivery, utilization of services and effects on final health outcomes.

Evaluations range from testing of the SM2015 incentives at the national level, to incentives to community health workers on the supply side and conditional cash transfers and community based agreements for poor households and communities on the demand side (Figure 19).

Does Results Based Financing for National Governments Work? In El Salvador, SM2015 is supporting a national health reform which finances the expansion of health services in the poorest municipalities in the country. In order

[20] For more information see www.sm2015.org

to evaluate the impact of RBF at the national level, outcomes in municipalities financed under the initiative will be compared to similar municipalities which receive unconditional funds. Similarly in Honduras, SM2015 is supporting the provision of health services through the country's decentralized health management organizations.

With funding available to support only half of the organizations in the country, a lottery was conducted to select those that would receive funding under the initiative. Whether or not SM2015 financed municipalities and health management organizations outperform their comparison groups, they will provide an important insight on whether national governments respond to financial incentives to increase performance in the health sector.

Are Commitments Stronger than Cash? In Nicaragua, SM2015 is supporting an innovative intervention consisting of Community Based Agreements (CBAs) between communities and health centers as a way to reduce cultural and economic barriers to health care utilization. Community health committees sign a statement committing to pre-specified improvements in health indicators, for example in the number of pregnant women completing a prenatal care visit early in the pregnancy, or the proportion of children receiving vaccinations. A randomly selected group of communities will additionally be offered cash incentives if the commitments are met, and a third group of communities will receive an unconditional grant to help the community health committee to cover costs incurred under the agreement such as transporting patients to the local clinic. The evaluation seeks to shed light on the pathways through which the CBAs works. The evaluation will tell us whether CBAs based on a "moral" commitment can produce improvements in health, or if liquidity constraints and lack of motivation need to be overcome with monetary incentives.

D. IMPROVING EFFICIENCY AND EFFECTIVENESS OF SOCIAL SAFETY NETS IN TRINIDAD AND TOBAGO

Social safety nets play a critical role in sustaining a minimum standard of living for the population, and may help promote economic development by allowing households to make riskier but higher return investments without facing destitution in the case of failure. Social safety nets take on particular importance during economic downturns as the economy stalls and jobs are lost. Yet just when the need for safety nets is greatest, the fiscal implications of an economic downturn mean that many times governments have fewer resources to meet a growing demand for social services. In these contexts, learning about reforms that have the potential to improve the effectiveness and efficiency of programs becomes particularly relevant.

In Trinidad and Tobago, where the economy suffered a contraction in the latest economic downturn with a decrease of 3.5 percent in real terms in 2009 and no growth in 2010, the Government is implementing an ambitious program of social safety net reforms. Many of the social safety net programs are based on cash grants and diverse methodologies for enrolling beneficiaries. The program will improve efficiency by reducing duplication and generating economies of scale in the administration of grants, implementing a single method of identifying poor households and one delivery channel for cash grants.

Improving the targeting mechanism that identifies eligible households is also expected to contribute to a more efficient safety net system by identifying more precisely the populations in need which would most benefit from the safety net programs. Finally, the reforms aim to increase the effectiveness of interventions, particularly cash grants, by promoting human capital accumulation in poor households through enforceable and verifiable conditions.

The safety net reforms are being accompanied by rigorous evaluations to estimate the impacts that social safety net reforms produce on the welfare poor households. The impact evaluation will focus on "second generation" questions for conditional cash transfers, for example how targeting results in adjustments to the composition of households receiving benefits, the impact of withdrawing ineligible households, and how to do this effectively. The evaluation will also consider how enforcing new forms of conditions affect human capital development.

BOX / PUPA: Financing Innovative Early Childhood Development Program for the Base of the Pyramid

Cognitive development acquired in early childhood is linked to success in life. Results of rigorous impact evaluations support this evidence as children with lower levels of cognitive development are more likely to have lower school achievements and earn lower wages than their peers (Currie and Thomas, 1999; Case and Paxson, 2006; Grantham-McGregor et al., 2007).

The IDB is financing a new social business program to roll out an innovative early childhood development program that will benefit as many as 224,000 low-income pre-school children in Brazil. The principal social objective of the PUPA program is to contribute to the improvement of quality Early Childhood Education for children from low-income communities. The Brazilian National Household Survey estimates that only 11.3% of children aged 0-3 years attended a daycare center and 68.4% of children aged 4-6 years attended preschools in 2007. Enrollment in municipal preschools has been increasing in recent years, yet enrollment in daycare centers has stalled. Many of the children not in formal daycare centers or preschools have parents who work, so these children are typically attended by informal caregivers, either relatives or people within their communities. The quality of activities to stimulate the child's cognitive development in daycare centers and preschools is mixed, and both parents and informal caregivers typically only provide basic care and feeding to the children.

The program will work with a network of non-governmental organizations and micro-franchisees, i.e. women from targeted low-income communities, to sell the educational kits to families and informal caregivers. It is expected that as many as 1,400 women micro-franchisees will benefit from business training and employment opportunities through PUPA. The products, offered at affordable prices and significantly below the retail price of LEGO toys, have been developed in partnership with renowned early childhood education institutions such as Instituto Zero a Seis and the University of São Paulo.

PUPA is the first private company in Brazil to tap into the low-income market for early childhood educational products. The company is a spinoff of the successful team at Zoon Editora, which over the past seven years has delivered educational materials accompanying LEGO toys to over 1.5 million students aged between 7 and 14 in primary schools across Brazil. In the next five years, PUPA expects to train and certify over 65,000 informal caregivers, and to reach over 224,000 children across Brazil.

This innovative iniciative is expected to measure the impact of the program on children's socio-emotional and cognitive development by collecting indicators and data that have been shown to predict success in school and to mitigate the effects of poverty on child development. They will reflect skills and competencies that all children, regardless of ethnicity, race, gender, socioeconomic status or any other factor can be expected to do at a determined age. All data will be collected via observation, and strategies will be created and applied to avoid any possibility of using such data to inappropriately screen or label children. These data also will include information on key associated factors (e.g., household characteristics, poverty baseline data, etc.). Caregivers will receive substantial training and an ECD Certification, which will improve their skills and increase their ability to provide better quality Early Childhood Education. Caregiver's progress will be closely monitored in order to understand their newly acquired knowledge, and how well they are applying their training with children under their care.

E. *CIUDAD MUJER* IN EL SALVADOR: EMPOWERING WOMEN TO PROMOTE DEVELOPMENT

Nobel Laureate Amartya Sen, wrote in 1990 “women are increasingly seen, by men as well as women, as active agents of change: the dynamic promoters of social transformations that can alter the lives of both women and men.” This quote summarizes a growing consensus that women should be seen not as a vulnerable population requiring protection, but as powerful agents of economic and social change. The potential for women’s empowerment to promote growth and development is enormous: women achieving greater human development are not only good in and of itself, but it also benefits children and society as a whole.

Duflo (2011) takes a broad look at the relationship between women’s empowerment and economic development. Duflo concludes that although economic growth and development tend to benefit women more than men, they are not enough to eliminate gender disparities; “equity between men and women is only likely to be achieved by continuing policy actions that favor women at the expense of men, possibly for a very long time”. She also analyzes whether women’s empowerment leads to economic development, and concludes that although not the magic bullet, women’s empowerment does indeed promote economic development.

In the context of Latin America and the Caribbean, a region characterized by stark inequalities, the gender dimension of inequality is particularly relevant. Despite a complete closing of the gender gap in education, women’s labor force participation rates continue to lag men’s, and women earn significantly less than men with comparable personal and job characteristics. There is a pressing need to design and implement policies specifically designed to promote women’s empowerment. As shows by Duflo, economic development will help, but it is not enough (and this may be particularly true in a region characterized by large structural inequalities).

To promote women’s empowerment in several dimensions, the government of El Salvador has created an innovative program that will put in place one-stop centers to provide critical services for women. These centers, called *Ciudad Mujer,* cover four core areas (besides providing child care services for women who attend the centers) as follows:

a. Integrated health services with an emphasis on sexual and reproductive health.
b. Economic autonomy (job training, labor intermediation, and business development services including microcredit).
c. Prevention of violence against women, as well as quality services for survivors of violence.
d. Community education to promote the understanding and enhancement of women’s rights.

The *Ciudad Mujer* program concentrates existing services in one-stop-centers in order to reduce the transaction costs for women using the services, while at the same time increasing the quality of these services. This approach is novel and untested, so to fill the knowledge gap on the individual components and to test the integrated approach promoted by *Ciudad Mujer,* an experimental impact evaluation will be conducted. The proposed methodology is to randomize the promotion of the services offered and possibly complement this by exploiting the gradual implementation of the project. An ex-ante economic analysis showed a significant rate of return on this investment; monitoring and evaluation data will be used to validate this initial analysis.

F. HOW EVALUATION FINDINGS ON SOCIO-EMOTIONAL SKILLS HAVE IMPROVED THE YOUTH TRAINING PROGAM IN THE DOMINICAN REPUBLIC

Youth training programs have been implemented in Latin America and the Caribbean since the early 1990s. These programs target less-educated youth—a group that faces serious difficulties to achieve a successful insertion into the labor market—with the explicit aim of raising participants’ job skills and matching them to suitable employers. A salient characteristic of these programs is their emphasis on socio-emotional skills, which is included and has gained increasing importance in most of the projects (Ibarrarán and Rosas, 2009; González-Rozada, Ripani and Rosas, 2011).

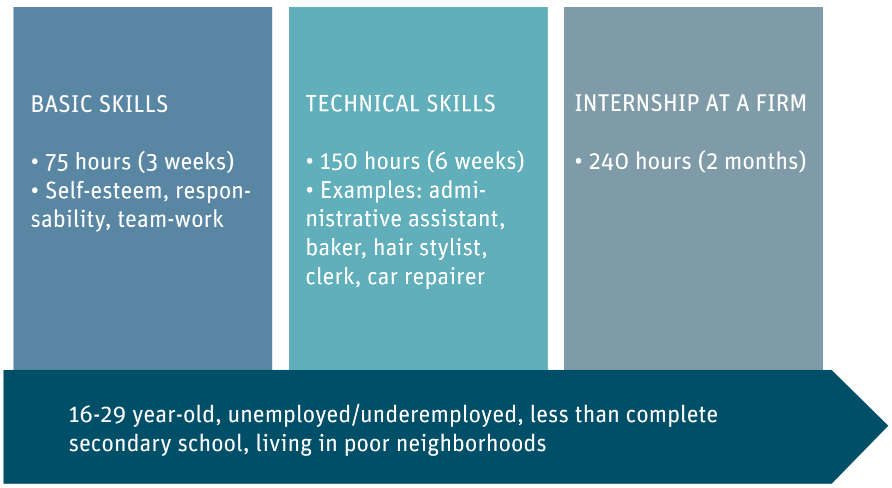
These programs teach job readiness and life skills to economically disadvantaged youth, and often provide them with internships as a means to gain actual labor market experience, while allowing employers to test if program participants have the attitudes and behaviors that will enable them to work productively at their firm.

Although there is evidence on the relevance of non-cognitive or socio-emotional skills in explaining the academic and labor market performance of individuals, until recently job training programs have included socio-emotional skills components in an ad-hoc manner, based on scant qualitative elements and without focusing too much on measuring neither those skills nor the results of training in improving thems. Recent evidence on the importance of non-cognitive skills that arise both from econometric analyses of determinants of success in the labor market as well as from qualitative analyses show that employers value certain behaviors that are linked to high-productivity workers (Heckman, Stixrud and Urzúa, 2006; Urzúa, 2009; Fazio, 2011).

Additionally, while conceptually socio-emotional skills are well defined, it has been difficult to measure and analyze them empirically. Recent literature has explored alternative measurements (Brunello and Schlotter, 2011; Felfe, Lechner and Stein, 2011), mostly for developed countries. Hence, there is a knowledge gap on how to measure socio-emotional skills in the region and elsewhere, and, most importantly, of the relevance of such skills in explaining the labor market outcomes of the disadvantaged youth. Also, and from a policy perspective, it is necessary to know if and how socio-emotional skills may be acquired by youngsters in LAC.

One of the most innovative youth-training programs in the region is the Dominican Republic's *Juventud y Empleo*. JE was designed in 1999 and is the first program of its type to have an experimental evaluation design from its start. This has allowed learning from the implementation of the program and using the findings from the evaluation to improve the design, in what constitutes a virtuous cycle of evaluation and feedback. This cycle includes rigorous quantitative as well as qualitative evidence, which has allowed modifying the program to test new hypotheses. For example, the first evaluation of the program (Card et al., 2011, using data for 2005) showed positive impacts on quality of employment but

Fig. 20
Structure of the *Juventud y Empleo* Training Program



not on overall employment, which is consistent with a sluggish economy that has low employment-GDP elasticity (Haussman et al., 2011) and with the absence of unemployment insurance. Analyses based on focal groups with employers suggested that life skills were much more valuable than technical skills (Fazio, 2011), so the life skills component was revamped. (Figure 20).

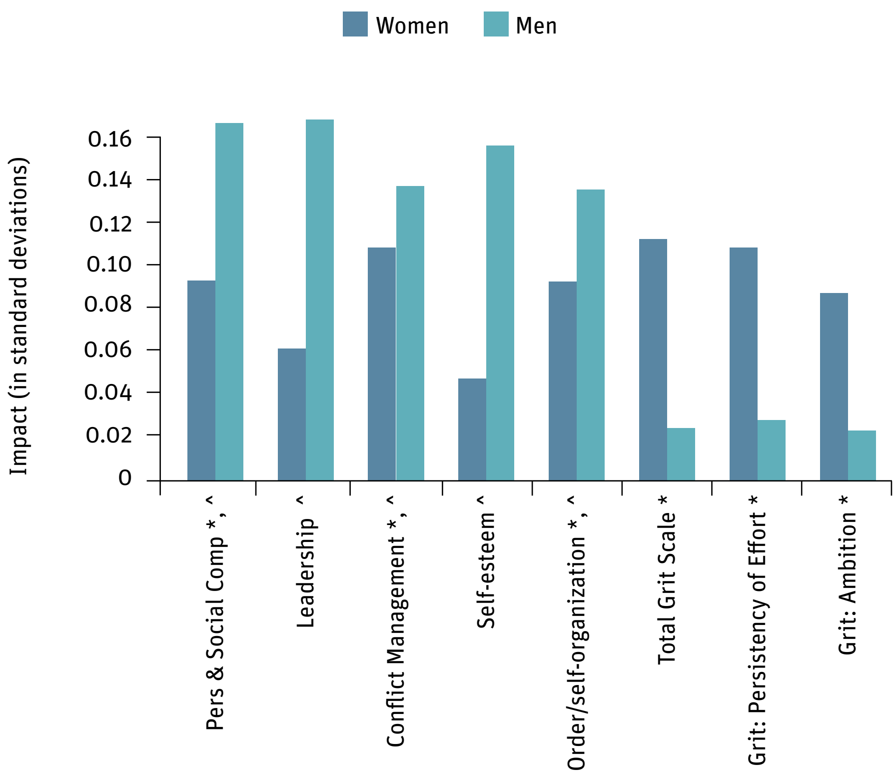
The most recent evaluations (Ibarrarán et al., 2012; Martinez et al., 2011) were designed not only to show the labor market impacts of the program, but also to measure the socio-emotional skills of participants, whether these skills where enhanced as a result of the program and their impact in the labor market performance of trainees. The results of these evaluations show that, although the training of the cohort under study was implemented under adverse economic conditions, the program maintained a positive impact in terms of job quality, in particular for men. There is also some evidence of positive employment effects for women (which will be confirmed with new data collection in 2012).

In terms of expectations about the future and socio-emotional skills, the results of the evaluation are encouraging. On one hand, participants —in particular women who represent about 65 percent of program participants, and the youngest (16-19 year old)—have higher expectations about the future than those that did not participate in the program, in terms of having a better life in twenty years, living in a better neighborhood, owning a business, and moving up in the wealth ladder. At the same time, teenage pregnancy decreased significantly among program participants, about five percentage points (from a teenage pregnancy rate of eleven points among young women that did not participate in the program). Thus, teenage girls not only have higher expectations about the future but also change their behavior accordingly and reduce their pregnancy rate.

The program also had a significant impact on various measures of socio-emotional skills. While the scant empirical work on this topic complicates the interpretation of the size of the results, we document improvements of about ten percent of a standard deviation attributable to the seventy-five hour life skills training module. Available evidence on sports and child development programs in Germany find impacts of 13 percent of a standard deviation (Felfe et al., 2011). Figure 21 shows that there are overall important impacts for both men and women.

Recent evaluations show interesting findings about the contribution of socio-emotional skills to labor market performance. First, Martínez et al. report that the impacts of programs that only offer life skills do not differ from programs that offer life skills and technical training. Hence, all the benefits from this program are attrib-

Fig. 21
Impact of *Juventud y Empleo* on Socio-emotional Skills



Note: In the horizontal axis, (*) and (^) indicate statistically significant differences for women and men.

utable to the life skills component, which is less costly in a per-hour basis than technical training. This finding corroborates earlier analyses by Ibarrarán and Rosas (2007) for Panama. Second, when focusing on the control group one finds suggestive evidence that socio-emotional skills increase the probability of employment: on average, a one standard deviation increase in the Grit Persistency of Effort is associated with a two percent increase in the probability of being employed. While these analyses need to be substantiated and validated when more data is available for these populations, they constitute an important first step to fill important knowledge gaps.

Based on the second round of evaluations, the new JE program will double the hours dedicated to life skills, and will limit technical training only to those individuals that are likely to benefit from them. The program will also pilot new training modalities and will strengthen the network of national employment service offices that coordinate labor training and intermediation services. The rigorous evaluation approach is part of the day-to-day management of the project and will allow testing new hypothesis and providing with feedback to modify as necessary the implementation.

Chapter II

Infrastructure for Competitiveness and Social Welfare

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 63 to 73

Infrastructure has been identified as a major determinant of the regions productivity gap, which explains the strong commitment of the IDB in supporting countries to enhance their housing, water and sanitation, transport and energy sectors in order to catalyze sustainable development. Among the projects approved in 2011 in this area, we present examples of those that were based on comprehensive sector diagnosis supported by the Bank that allowed for the design of innovative solutions, and which evaluation arrangements were defined to learn about their effectiveness. For instance, the comprehensive approach to the provision of housing in Nicaragua was designed based on a sector wide diagnosis that looked at what policies were in fact achieving in terms providing affordable housing solutions to the poor and proposed solutions differentiated by market segments and taking into account affordability. This, and new targeting mechanisms to ensure that resources reach the intended beneficiaries, are a salient features of the Bank's approach to closing the housing deficit.

While overall access to water and sanitation has increased in the region, substantial inequalities persist, in particular affecting the rural poor. Access to cleaner water and better sanitation is expected to promote a cleaner environment and help interrupt the transmission of diarrhea, parasites and respiratory diseases. To address this issue the Bank approved a project in Bolivia that will provide solutions to hard-to-reach communities, and that will have a rigorous impact evaluation to learn how to promote equity in an efficient way.

The Bank's support to improve the energy mix in Barbados is also based on a comprehensive assessment of the sector that showed that regulatory changes to enable investments in the sector were necessary to improve the energy matrix. With these elements, the necessary regulatory and policy changes were supported through a policy-based loan, that would allow necessary investments—some of which will also be financed by the Bank—to take place.

A similar approach was followed in the Bank's support to reform the air transport system in Bahamas. Given the crucial role of air transport to bring tourists to the country, a thorough diagnosis and analysis of evidence-based solution took place, and a solution was drafted that included enacting the necessary regulatory measures and technical assistance to implement specific policies. Given that in this area best practices are available from other countries, the reform will be monitored and its effectiveness assessed based on standard indicators, which will allow verifying that the reform is adequately implemented and that it yields the desired outcomes.

Finally, the largest project approved in 2011 that will finance the completion of São Paolo's beltway is included in this chapter. This project shows how the Bank complements private sector investments and provides substantial technical and financial support to the Government of Brazil in order to complete a key piece of infrastructure.

A. NICARAGUA: A COMPREHENSIVE SECTOR APPROACH TO THE PROVISION OF HOUSING SOLUTIONS

As is the case in most of LAC, Nicaragua is characterized by a large housing deficit that is estimated to have reached close to 957,000 dwellings in 2007.[21] Of this, 36 percent corresponds to the quantitative deficit and 64 percent to the qualitative deficit.[22] A high proportion of dwellings lack basic services: according to the 2005 Census, 20 percent of dwellings lack access to potable water, 32 percent do not have electricity and 73 percent are not connected to the sewerage system. Dwellings are also of very low physical quality: 52 percent

[21] Estimation made by the Government of Nicaragua based on the 2005 Census.

[22] The quantitative deficit includes the quantity of dwellings required to cover a population growth of 1.7 percent annually, and dwellings that are inhabitable due to their precarious and unsafe condition. Qualitative deficit refers to dwellings that are in poor conditions and require improvements. Poor housing conditions are defined as dwellings that have one or more of these characteristics: mud floor, roof made of precarious materials, and walls in poor conditions or made of temporary materials such as cardboard, twigs, plastic, etc.

lacked paved floors, walls or ceilings and, 54 percent of the dwellings which were classified as being in regular condition needed significant improvements. Nicaragua also has a high rate of urbanization and low employment rates which have limited low income urban families from having formal access to land, resulting in the proliferation of squatter settlements.

In 2011, the Government of Nicaragua requested a loan from the IDB to help address the housing deficit problem faced by low income families. The total available funds to cover the cost of the program were US$40 million. This represents a relatively marginal amount relative to the large housing deficit in Nicaragua. It was thus essential to ensure that the funds were directed to low income families that had very limited or no other alternatives to finance their housing needs. It was also essential these funds were provided in a cost efficient manner. A diagnostic study of the sector was commissioned to have a clear understanding of the housing needs, to relate these needs to affordable solutions, and to identify existing housing financing available in the country by income level so that the project be adequately targeted to the underserved population.

The analysis revealed that, as expected, the majority of the housing needs are concentrated in the lowest income deciles. According to the 2005 National Housing Plan, approximately 82 percent of the housing deficit falls in the bottom six deciles, with 48 percent of the housing needs concentrated in the bottom decile (poorest).

Past government policy efforts aimed at providing housing funding to low and middle income families, that do not have access to commercial bank credit in Nicaragua, have primarily been channeled through two programs: 1) a direct subsidy program financed by an IDB loan since 2003, and 2) an interest subsidy program for loans provided by financial institutions to families whose incomes fall below US$1300 a month (which includes part of the top decile).

The analysis concluded that the most important housing programs that were designed to serve low income families were not reaching the target population. Most of the subsidy provided by both programs has been directed to families between the 7th and 9th income deciles. Families in the bottom six deciles (earning three or less minimum salaries, where 82 percent of the housing deficit lays), have been underserved by the existing programs. Furthermore, resources were not been utilized in an efficient manner. The subsidized interest rate program and the direct subsidy program were targeting the same group of families earning more than three minimum salaries.

To address these issues, the program was designed to take into account the differentiated housing supply and demand constrains faced by families across the different income deciles in Nicaragua. The program differentiates solutions for different housing problems and market segments. As compellingly argued by S. Angel (2000), "There is no question that inadequate housing is strongly associated with poverty and the lack of ability to pay", and later

by M. Hoek-Smit (2009), "Housing subsidy policy requires a comprehensive approach to dealing with … affordability issues." In this context, the program targets families with three or less minimum salaries (below the 7th decile). To the extent that families have the capacity to access credit they will do so. However, families with less than two minimum salaries or US$255 are unlikely to afford a credit, and thus should only be given a direct subsidy.

Families will be provided with a menu of financing options based on what they can afford. These options combine direct subsidies, microcredit and family savings to finance the construction of a new progressive housing and to improve existing dwellings. Subsidies will be allocated through two modalities: (1) for families whose monthly income falls below two minimum salaries, the subsidy will cover the total cost of construction minus US$150 of family savings which the family is required to provide within a period of six months, and (2) families with monthly incomes between two and three minimum salaries are required to have savings of US$300 and credit in order to obtain a subsidy. The credit will be provided by financial institutions with experience in microcredit.

The project will provide subsidies to an estimated of 8,266 families: 4,000 for new progressive housing and 4,266 for shelter improvements. While the effect that the project will have on the country's total housing deficit is relatively small, it will add significant value by demonstrating and documenting good practices in its design and targeting mechanisms:

a. The project is designed based on the results of a thorough sector diagnostic.
b. It provides funding for housing to those that are least served and where the deficit is highest.
c. It ensures that the higher income levels, not included in the program, are being attended by other programs, thus minimizing the risk that the project funds will be diverted to higher income segments.
d. It offers differentiated financing solutions to address affordability issues.
e. It provides progressive housing solution for the poor and as well as slum upgrading.
f. It further ensures that the project will be targeted during execution by setting specific indicators that will track the family incomes of the subsidy recipients and monitor the means-test qualification of families in each of the housing subsidy segments in the targeted municipalities.

More broadly and consistently with the housing policy literature, the project is designed explicitly recognizing (and adopting) the need to adopt a comprehensive approach to a housing subsidy program, and in this process identifying:

a. The housing problems and objectives to be addressed for different market segments.
b. The type of subsidy to reach each objective, taking into account affordability.
c. The groups to be prioritized.
d. That housing options exist for middle income (with income close to the poverty line) households and avoid their capture of housing made available to the poor.
e. A monitoring and evaluation framework for adequately assessing progress and results achieved in each market segment and household income group.

B. WATER AND SANITATION FOR SMALL TOWNS AND RURAL COMMUNITIES OF BOLIVIA

Clean water and proper sanitation are fundamental for health and wellbeing, with implications ranging from poverty reduction to gender equity. Globally, lack of proper water and sanitation is the second cause of death for children under 5 and accounts for over eight percent of total lost disability adjusted life years in developing countries (Smith et al., 1999). Water and sanitation interventions are particularly important for prevention of diarrheal disease amongst young children, which is responsible for an estimated 2.5 million deaths of children under five per year in developing countries (Kosek et al., 2003).

In Latin America and the Caribbean, although progress has been made in expanding coverage of water and sanitation services over the past decades, important differences persist both regionally and within countries. It is

estimated that in the region, 50 million people lacked access to water and 125 million remained without sanitation. Not surprisingly, many of those lacking water and sanitation are poor and live in rural areas (IDB, 2007).

In Bolivia, gaps in water and sanitation coverage in rural areas are particularly acute, with 49 percent of the rural population lacking access to water services and 63 percent of the population lacking sanitation. Providing water and sanitation in remote areas with little local capacity is a challenge that requires innovative solutions. The Water and Sanitation for Small Towns and Rural Communities of Bolivia project partners with local people to develop water distribution systems and improved sanitation facilities.

The project targets places with fewer than 2,000 inhabitants in 26 of the poorest municipalities in the country, with a goal of reaching more than 11,000 households over five years. In addition to financing infrastructure in rural areas, the project conducts intensive development activities to promote the adoption, management and sustainability of the new systems, and will help strengthen local municipal governments.

A particular challenge in Bolivia is the delivery of services to the smallest and most remote communities, where the need is many times greater. To learn about cost-effective solutions in the segment with fewer than 500 inhabitants, the Bolivian Government, in partnership with the IDB and the Government of Spain, is implementing a rigorous impact evaluation that will measure how the water and sanitation interventions have affected the health of young children and the economic lives of families. With resources available to implement projects in a limited number of communities each year of the project, the program will conduct a public lottery in the presence of community leaders to select which communities will be offered financing in each year of the program. Communities selected to receive the intervention at the beginning of the program will be compared to those selected for funding in the latter stages of the project in order to evaluate the causal effects of the improvements in water and sanitation.

In order to achieve a complete picture of the benefits produced by the program, the evaluation will measure a comprehensive set of outcomes. Since access to more water and better sanitation is expected to promote a cleaner environment and help interrupt the transmission of diarrheal diseases, the evaluation measures health outcomes amongst children, particularly those related to diarrhea, parasites and respiratory diseases. Reducing the cost of accessing water, for example by bringing clean water closer to the user, is also expected to bring benefits to women and children who traditionally carry

water for domestic use. The evaluation will measure time use, economic activities and income and expenditures to assess changes in the wellbeing amongst families.

The project is being implemented alongside a similar program of rigorous evaluation in urban areas of Bolivia. These experiences will provide important lessons for scaling up water and sanitation services within the country, and together with an ongoing randomized evaluation of water and sanitation in Paraguay, will make an important contribution to the evidence base on the effectiveness of water and sanitation in the region.

C. SUPPORT FOR SUSTAINABLE ENERGY FRAMEWORK FOR BARBADOS

In 2010 the Government of Barbados was spending more than 10 percent of its Gross Domestic Product on oil imports and its own electricity bill, more than it spent on education.[23] This was the result of the country's high dependence on imported fossil fuels for most of its energy needs at times of high volatility in the international energy market. The impact on the country's population was also visible in the high rates paid for electricity by residential consumers, among the highest in the world (US$0.30 per kWh).

With few possibilities of expanding its own limited production of fossil fuels, the Government explored effective ways to balance the demand and supply of electricity. On the demand side this meant introducing actions to curtail demand growth via greater energy efficiency (EE) and energy conservation (EC). On the supply side it meant expanding production from renewable energy (RE) sources. However, the country lacked an enabling policy and regulatory framework for public and/or private investments to take place in these new and unchartered areas. Moreover, it lacked the analytics, namely RE and EE potential, installation and operation costs, payback time among others, on which to make informed decisions about what reforms to undertake and how to sequence them.

Before launching into a full-fledged project, the Government, with technical assistance funded by the IDB, analyzed the RE and EE potential of the country. The study showed the economic and commercial feasibility of several RE technologies when compared to the avoided cost of diesel for electricity generation. The overall RE potential was estimated in 28.9 percent of the total installed capacity of electricity (in terms of MW).

The same was done for the economic and commercial feasibility of several EE appliances when compared to the avoided cost of diesel for electricity generation. The study showed that the most cost effective appliances for the Barbados' market are Compact Fluorescents Lamps, power monitors, premium efficiency motors, efficient air conditioning systems, variable frequency drives and efficient chillers. If the population of Barbados used these technologies, the potential savings generated through EE would be 19.4 percent of the total electricity consumption in MWh.

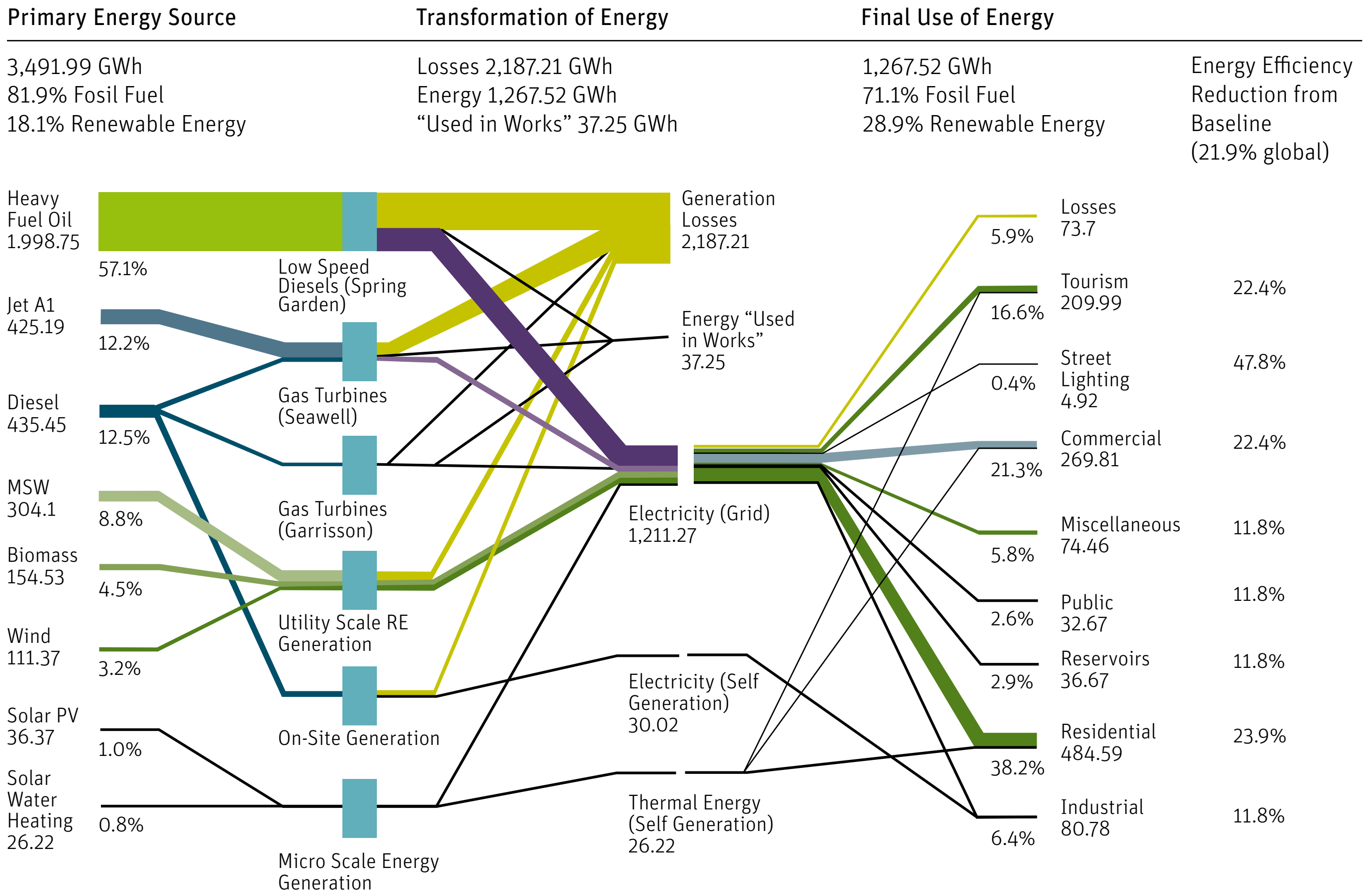
Both RE and EE potentials were calculated considering a baseline of zero RE and EE projects implemented as of May 2011, and extrapolated over a period of 20 years, comparing a business as usual scenario with reduced number of RE and EE projects in the energy matrix, versus a sustainable energy scenario where a substantial number of technically and commercially viable RE and EE projects are incorporated in the energy mix.

With this information in hand, the Government and the Bank designed a programmatic operation with two consecutive policy-based loans to develop the policy and regulatory conditions that would promote the sustainable use of energy through EE, RE and EC projects. The Program Support for Sustainable Energy Framework for Barbados II (BA-L1021) is the second in the series.

The Program is designed to help Barbados reach its economically viable EE and RE potential by 2029: reducing electricity consumption by 21.9 percent, and generating

[23] Barbados spent US$363 million on oil imports in 2009 and more than US$37 million on the Government's electricity bill for 2010, the sum of which represents more than 10 percent of its GDP.

Fig. 22
Proposed Barbados Energy Matrix



Source: Castalia and Stantec calculations

up to 28.9 percent of its energy from renewable sources. For this, the Program finances activities to: (i) develop a new policy and legislation for RE; (ii) develop a new policy and legislation for EE; (iii) introduce ethanol and Bio-Energy (BE) in the energy matrix; (iv) improve the efficiency and sustainability of fossil fuels consumption; (v) draft the National Sustainable Energy Policy; (vi) prepare a Nationally Appropriate Mitigation Actions plan as possible instrument for carbon finance, and (vii) provide institutional strengthening, capacity building and public education and awareness for sustainable energy.

Of particular interest in the design of this program is how attainment of expected results (reduced electricity consumption and increased energy generation from renewable resources) is not only based on the policy changes that will be financed under another IDB-funded investment operation (Sustainable Energy Investment Program-Smart Fund BA-L1020). The investment loan, approved in 2010, also known as the Smart Fund is specifically geared towards addressing the lack of resources and effective financing vehicles to implement RE and EE projects within different sectors of the economy, targeting Small and Medium Enterprises, in particular the tourism sector.

Results related to the implementation of any specific RE, EE and EC projects financed by the Smart Fund have therefore been incorporated into the results matrix of the Program and their benefits have been accounted for in the Program's economic analysis, under the consideration that those projects, although not funded directly by the Policy-based Loan operation, could not have been possible had the Program not created an enabling policy and regulatory environment. Appropriately, the Program's Monitoring and Evaluation Plan includes indicators that seek to capture project-level output information in addition to policy changes as illustrated by the following list:

a. Electricity Generated from RE Systems (MWh/year, MWh generated to date).
b. Electricity Saved through EE Projects (MWh/year, MWh saved to date).
c. Fossil Fuels Saved (barrels of oil equivalent).
d. Policy documents and legislation for sustainable energy (documents).
e. Institutional Strengthening (number of positions filled; time for EIA approval.
f. Increased Awareness (number of events or programs).

Calculating electricity generation from RE will require information on number and size of RE systems installed and connected to the grid, and funded under various initiatives such as the Smart Energy Fund. Calculating EE savings will require gathering data from different projects, also funded under different initiatives. Fossil fuel savings will include those created from various sources: RE, EE, efficient transportation and introduction of bio-fuels, expansion of the natural gas network, and again, implemented under various initiatives. Tracking policy documents and legislation will focus on the different outputs prepared, completed, presented, or approved under the program. Tracking institutional strengthening will focus on positions filled and increased efficiency of key public entities. Finally, assessing increased awareness will focus on events and programs launched under the program.

D. REFORMING THE AIR TRANSPORT SYSTEM IN BAHAMAS

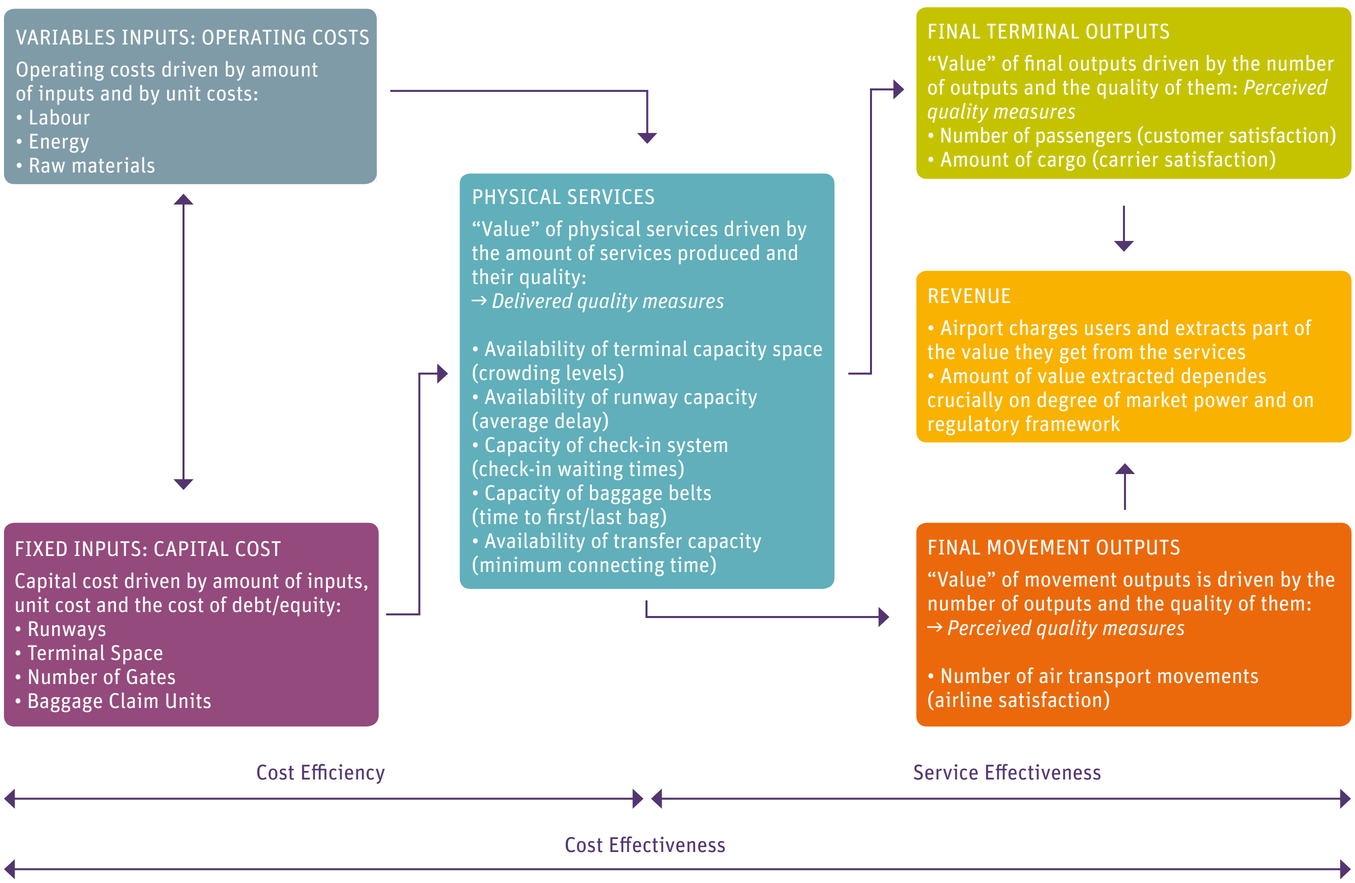
Over half of the GDP growth in Bahamas comes from tourism; it directly or indirectly employs 60 percent of the country's labor force. As an island nation, air transport is almost the exclusive mode of transport for tourists and is therefore critical to the health of this crucial industry. To promote the development of safe, secure and efficient air transport in this country, in 2011 the Bank supported the Air Transport Reform Program. Using lessons from international experience, it promotes a series of reforms that are rooted in the view that transportation is a key factor affecting the competitiveness of firms and industries within the country. The specific reforms seek to improve the management of the sector to facilitate the growth of industry.

In 2010, air arrivals totaled 1.3 million passengers out of which 80 percent arrived from the United States. There are 53 licensed airports in the country of which 18 serve as international ports of entry with customs and immigration facilities with the remainder serving the domestic commercial market and general aviation including privately held airstrips.

The current institutional framework of air transport is characterized by a high degree of concentration of functions: the Civil Aviation Department (CAD), is responsible for policy making, technical regulation of the sector, the operation of most public airports, air traffic control, and the investigation of incidents and accidents. This current concentration of functions within the CAD goes against best practice in governance structure, which requires separation of policy making, regulatory, and operational function. Separating these functions helps avoid inherent conflicts of interest.

Recognizing the need to reform, the Government of Bahamas, with assistance from the Bank, has embarked on a series of institutional, legal and policy

Fig. 23
Contemporary View of the Airport Business



initiatives. These initiatives form the core of the Air Transport Reform Program, which combines a policy-based loan with reimbursable technical cooperation funds. While separating the policy making, regulatory and operational function of CAD makes logical sense, the challenge in enacting such a reform is in identifying specific directions to take. In designing the reforms, the government, also with support from the Bank, used previous experiences in such reforms from Canada, Australia and New Zealand, among others.

While these may seem unusual comparisons, the structure of airport operations, air traffic control, and technical regulations as well as air policy and strategy prior to their reforms were similar in these countries to what currently exists in Bahamas. Further, these economies have relatively small populations scattered over large geographic areas, a small number of airlines and rely heavily on airlines for global connectivity, All three, and New Zealand in particular, rely heavily on tourism for growth, income and employment and are dependent on air transport to bring those tourists. The pressure on air system, including increasing air traffic, the need to expand capacity, and the rethinking of the government's role, was also similar.

The Air Transport Reform Program in Bahamas was then designed using the empirical evidence and lessons learned from these previous experiences. In general,

these reforms mirror those used in these countries and elsewhere including separating institutional functions and creating new financial structures. The reforms in other countries were found to improve efficiency, reduce costs, and expand investment without reductions in service quality or air safety. These lessons helped to direct the reform in a manner that made them most likely to be successful in meeting program objectives.

To assess whether the reform meets its development objective, the program has identified a set of outcomes and associated indicators to measure effectiveness that are consistent with indicators used elsewhere. A link has been shown between increased air connectivity and job creation, so the International Air Transportation Association connectivity index will be used to evaluate the development of the sector. To measure gains in the efficiency of the sector as seen through lower transport costs, the average operating expenses per traffic unit will be collected and analyzed. Finally, in order to assess improved safety the number of incidents per year will be measured. These indicators represent a reasonable approach to measure effectiveness in such contexts and have been used in Australia and New Zealand to consider the progress of their reforms.

Overall, the Air Transport Reform Program in Bahamas represents an attempt to use all available evidence to design a strong program and to put into place careful measures of success to track the progress in bringing about effective development.

E. COMPLETING THE *RODOANEL:* THE CONSTRUCTION OF THE NORTHERN SECTION OF SÃO PAULO'S BELTWAY

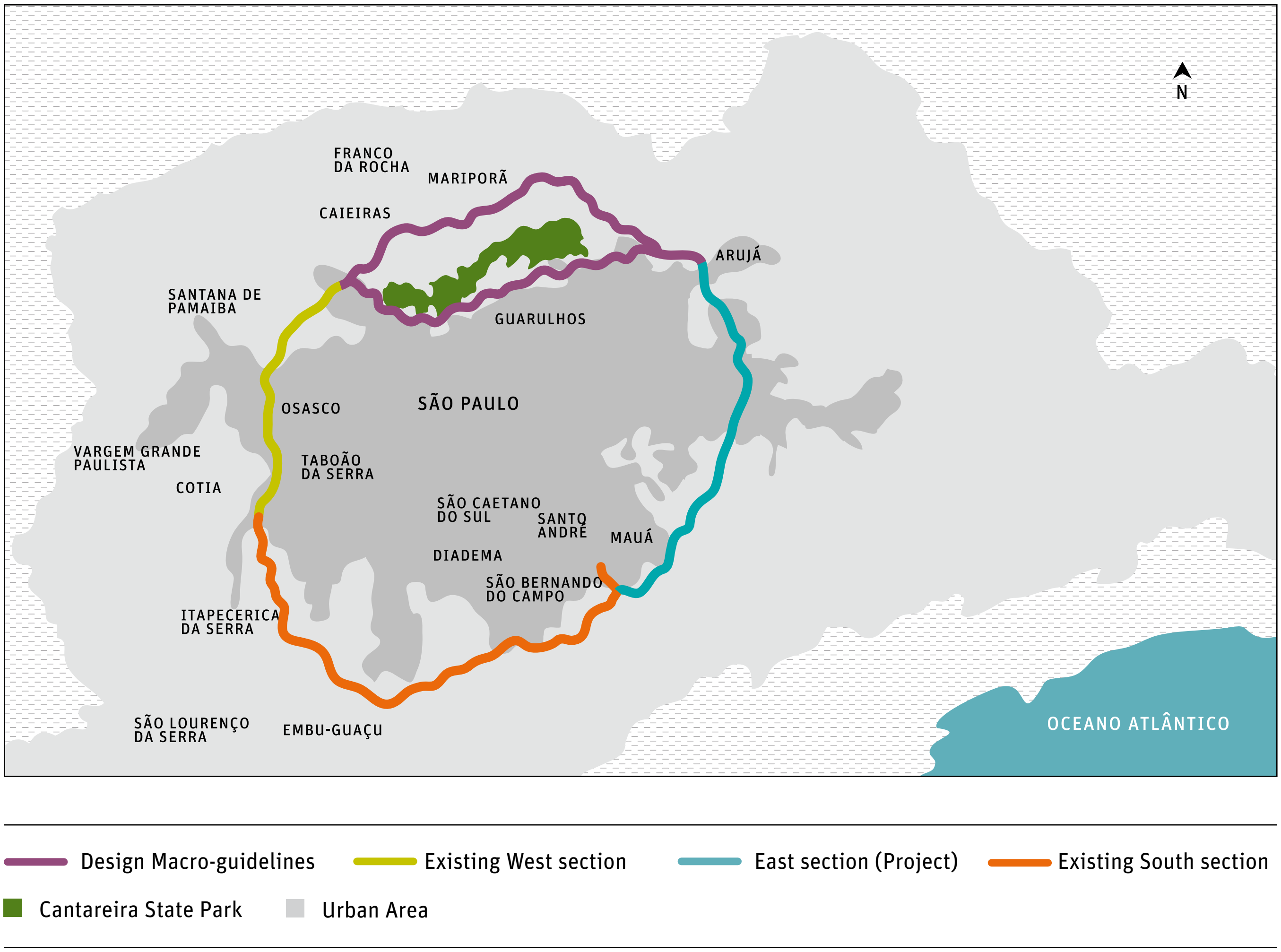
São Paulo's beltway, or *Rodoanel,* is a priority project for the state and federal governments of Brazil, and it is included in the National Growth Acceleration Plan. The *Rodoanel* is divided into four sections: the Western Section, which is 32 km long and has been in operation since 2002; the Southern Section, which is 61 km long and began to operate in 2010; the Eastern Section, the construction of which began in August 2011; and the Northern Section addressed in this operation, which is nearly 43 km.

Operation of the existing 93 km of the *Rodoanel* (the Western and Southern Sections) has already produced a significant reduction in travel times for crossing the São Paulo Metropolitan Region (SPMR); the improved connection with the Anchieta and Imigrantes expressways that give access to the Port of Santos (Southern Section) has reduced truck traffic on the city's main roads by 43 percent, and has cut the level of airborne particulate matter within its area of influence by 47 percent. During the morning rush hour, the average travel time on the existing local road system was 88 minutes between the Bandeirantes and Imigrantes expressways (60 km). Using the Western and Southern Sections, it now takes around 40 minutes, representing a substantial time savings.

However, the full benefits of the *Rodoanel* require its completion adhering to the highest technical and environmental standards. While the private sector has developed the east and south sections of the circuit, the complexities of the northern section implied substantial public sector financing, and the Bank has supported Brazil with financial and technical support in this endeavor (the IDB also supported the construction of the west part of the beltway). Figure 24 shows that the technical analyses supported by the Bank compared alternative ways to complete the Rodoanel, considering social and environmental issues related to resettlement and the maximum protection of the Cantareira State Park. The implementation of the best alternative (the one that leaves the state park outside the beltway) includes detailed plans to deal with social and environmental issues that follow lessons learned from the construction of the rest of it, and that will be closely monitored.

By completing the northern part of the beltway, the program will contribute to obtain the full benefits of the sustainable economic development of the SPMR and to improve the quality of life of its population. It is expect-

Fig. 24
Alternatives to Completing the *Rodoanel*



ed that mobility, connectivity, safety, and convenience for users of the regional road system will continue to increase as a result of the construction of the beltway according to modern and efficient technical standards of design and operation in terms of road safety, emergency response, and user support. Moreover, one of the main achievements of this is the transformation of the metropolitan transportation and logistics system from its current configuration to a radial-ring design. This will increase connectivity to the airport and to the port and contribute to enhance economic development of the SPMR.

Chapter III

Institutions for Growth and Social Welfare

Development Effectiveness Overview 2011
Inter-American Development Bank.
Washington, D.C.
Pages 75 to 85

Besides strengthening institutional capacity of sector ministries and agencies in most of its projects, the Bank promotes efficiency of key public sector institutions as a way to achieve greater effectiveness of public expenditure, and foster inclusive and sustainable growth. This chapter describes projects that will strengthen key institutions in the region that, according to the evidence, play an important role in enhancing competitiveness thus enabling growth and efficiency. In Ecuador, the expansion of access to capital markets for microenterprises through microfinance is based on best practices and will be rigorously evaluated, thus contributing with hard evidence to the current debate on the potential of microfinance. The chapter shows the efficiency gains of combating corruption in Brazil, and describes how the Bank is supporting such efforts. Also, the recent reform of pension schemes in Honduras illustrates how sustainability of key institutions is supported by the IDB. Finally, we describe a project that will strengthen the creation, analysis and use of criminological information in Ecuador to improve police effectiveness.

A. GLOBAL CREDIT FOR MICROFINANCE SUPPORT PROGRAM IN ECUADOR

Credit is a key input into economic activity and an engine for economic growth. By lending money to entrepreneurs in order to fund profitable ventures that might otherwise go unfunded and providing incentives for repayment, credit markets lead to the creation of wealth and can therefore serve as a vital instrument for lifting households out of poverty.

In developing countries, however, credit markets often function poorly and are not very inclusive. Ecuador is no exception. According to a study realized by the National Program for Finance, Entrepreneurship, and Economic Solidarity of the Government of Ecuador, some 500,000 microenterprises had unmet demand for credit in 2010, or 31 percent of all such firms in the country. Unmet demand for credit among microenterprises suggests that profitable investments are not being undertaken because of a lack of access to funds. While unmet credit demand among worthy microenterprises is a problem from the perspective of efficiency, it is also of concern in the context of poverty and inequality, as microenterprises can be a source of income growth and employment among the most disadvantaged members of the population.

If these unrealized projects are indeed profitable, why do they go unfunded? One possible explanation is the presence of asymmetric information that arises when entrepreneurs know more about the risks and expected returns of the projects than lenders do. Projects may indeed be profitable, but lenders cannot be sure. As a result, credit contracts may include terms that poorer borrowers are unable or unwilling to meet in order to take out a loan. For example, lenders may include collateral requirements in loan contracts that cannot be met by poorer borrowers, or even if they can be met, borrowers might be unwilling to risk losing collateral in the case of default.

Another possibility is credit rationing brought about by transaction costs. Lenders have to gather information on potential borrowers in order to assess credit worthiness. For example, in order to loan to a farmer, a lender would likely want to verify that his or her crop has been planted. In order to lend to an entrepreneur, a lender might want to visit the business to confirm its existence, learn what type of person the borrower is, etc. These actions add fixed costs that make up a higher portion of the total cost of a small loan made to a microenterprise than a larger loan to a wealthy borrower. As a result, lenders have an incentive to exclude poorer borrowers or charge them higher interest rates in order to make a profit. These and other facets of credit markets that work against poor borrowers are detailed in Stiglitz and Weiss (1981), Karlan and Morduch (2009), and Banerjee and Duflo (2010).

The Global Credit for Microfinance Support Program (GMSP) will address unmet credit demand among microenterprises in Ecuador by providing credit to microfinance institutions that lend to microenterprises. These institutions are known as Popular Finance Entities, or EFP for their initials in Spanish. The availability of new funds to the EFPs should cause them to expand their

lending activities. By targeting lenders that work with microenterprises, the latter group should be the primary demand-side beneficiaries of the credit expansion.

The goal of the GMSP is to raise incomes, increase hiring, and improve business performance (e.g., profits, net assets) among clients of participating institutions by way of greater access to credit. A particular emphasis will be placed on gender equality in credit access. Determining whether or not this goal is accomplished will be the subject of a rigorous impact evaluation. In the context of the GMSP, measuring the impact of credit by simply comparing households with and without loans would likely result in biased estimates. For example, those that take out loans for their businesses may have more entrepreneurial spirit than those who do not. This spirit is difficult if not impossible to measure, and is also likely correlated with income and business performance. Thus any measured differences in outcomes between borrowers and non-borrowers may confound the effects of entrepreneurial ability and the impact of having a loan.

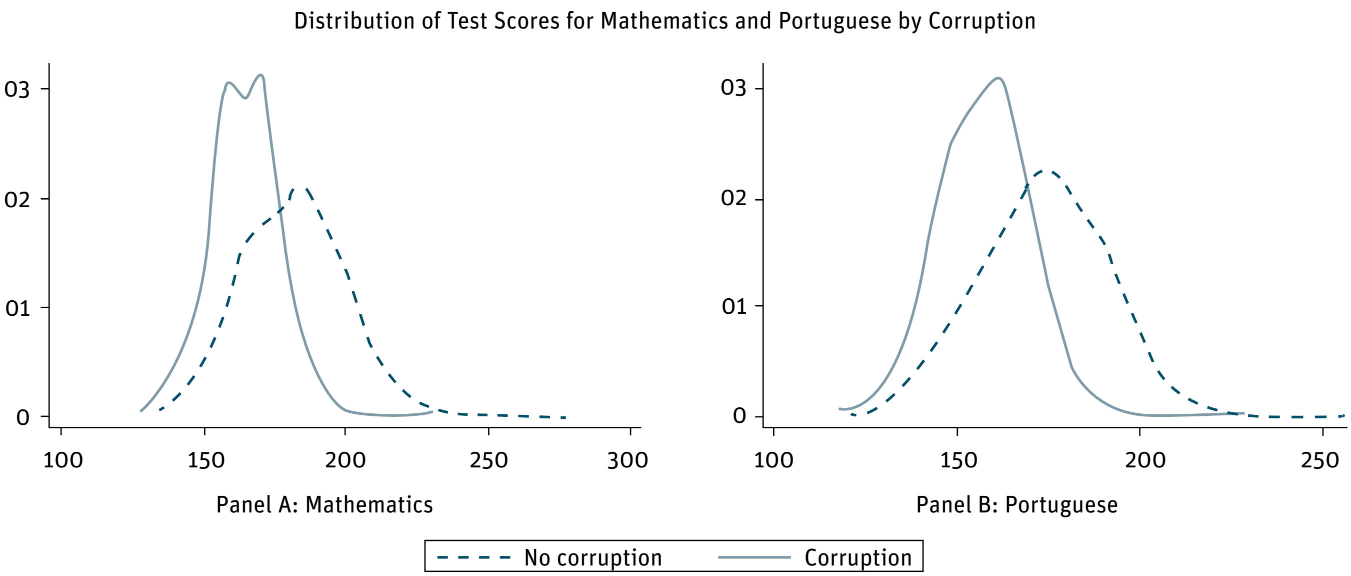
Available evidence in the literature offers mixed evidence of the impacts of microcredit. On one hand, a small number of studies suggest that microenterprises are indeed credit constrained, and that large marginal returns can be had by providing them with additional liquidity. This is the conclusion of the study by McKenzie and Woodruff in Mexico (2008), De Mel, McKenzie, and Woodruff in their study of microenterprises in Sri Lanka (2007), and Banerjee and Duflo (2008) in India. All are based on sound evaluation designs in which microenterprises experienced sudden increases in available liquidity, and all find marginal returns to capital well in excess of interest rates.

However, the evidence for positive direct effects of microcredit from rigorous impact evaluations is mixed. While there does not appear to be strong evidence that microcredit does harm, nor is there strong evidence that microcredit has positive effects on household welfare (Roodman and Morduch, 2009). It does appear, however, that individuals and household that have a business when receiving a loan are more likely to benefit in terms of improved business performance. For example, in Morocco, Crépon et al. (2011) find no evidence of average impacts on consumption or income, but do find significant positive impacts on business activities (sales, assets, etc.). In India, Banerjee et al. (2009) find no impact of microcredit on health, education, or women's decision-making in the household. But they do find significant increases in investment in durable goods among those who had businesses prior to the start of the program, as well as those who were judged to have a high probability of starting a business based on baseline characteristics. Karlan and Zinman (2009) find that profits for businesses with microcredit go up, but that they also appear to substitute new capital for labor, shedding some unproductive workers.

The evaluation of the GMSP will build on this evidence and further out knowledge of the effects of microcredit on small enterprises. The GMSP evaluation design will randomly pick borrowers from a pre-screened list of potential credit clients to receive the offer of a loan. By introducing random variation in the offer of credit, the evaluation design will make it possible to measure the average impact of having a loan on microenterprises that would take a loan were it offered to them. Distributional effects of credit, e.g. how credit impacts the poorest clients, can also be measured.

The list of individuals eligible for participation will consist of current EFP clients judged to be credit worthy but have yet to receive a loan from an EFP institution. In other words, individuals eligible for loans have received some other service such as using a savings account, but have never taken out a loan. Thus the GMSP will benefit microenterprises that have largely been excluded from the formal credit market in the past. In addition, the evaluation design will allow us to not only learn about the effects of the GMSP, but also performance of credit markets in Ecuador. Comparing the impact of GMSP loans on microenterprise profits to interest rates charged on loans to this class of businesses will make it possible to estimate just how much money is being left on the table by rationing small entrepreneurs out of the formal credit market.

Fig. 25
Impact of Corruption in Public Expenditures on Test Scores in Brazil



Source: Claudio Ferraz, Frederico Finan and Diana Moreira. "Corrupting Learning: Evidence from Missing Federal Education Funds in Brazil." *PUC Working Papers, 562.*

B. STRENGTHENING OF THE FEDERAL GOVERNMENT'S AUDIT AGENCY IN BRAZIL

The idea that corruption has negative effects on investment and growth has been in the development economics literature for quite a while (Bardhan, 1997; Mauro, 1995; Wei, 1999). In addition to ethical considerations, corruption introduces distortions that reduce private sector productivity and alters the public sector expenditure mix, reducing more productive uses of public capital and introducing incentives for rent seeking. Nevertheless, much of this literature is macro in nature and typically uses subjective perception corruption indices, such as the one produced by Transparency International.

From a more micro perspective, the empirical evidence also suggests that lack of transparency in public expenditures affects expenditure quality and its development impact. In the mid-70s, Becker and Stigler (1974) established that high public sector salaries paired with high audit probabilities could be effectively dissuasive instruments against corruption. Di Tella and Schargrodsky (2003) showed how, in the mid 90s, the local government in the city of Buenos Aires was able to decrease prices for mass purchased homogenized groups by as much as 15 percent, as a result of an audit crackdown on public hospitals purchases.

In 2003, the Brazilian government initiated random audits on municipal government use of federal funds, particularly in health and education. Three times a year, a lottery on which municipalities get an audit is publicly broadcasted and a few days later a group of auditors descends on the randomly chosen municipalities. Recent studies show that corruption affects the quality of education and significantly reduces the performance of primary school students. According to Ferraz, Finan and Moreira (2009), students residing in municipalities where corruption in education was detected, score lower on standardized tests, and have significantly higher dropout and failure rates (Figure 25).

More specifically, a threefold (5 to 17 percent) increase in the probability of an audit (Beylis, Finan and Mazzocco, 2011) under the municipal audit program that the Controladoria-Geral da União (CGU) has been undertaking since 2003, results in an eight fold reduction in municipal corruption. Using this same municipal audit program information, Ferraz, Finan and Moreira (2009) show that corruption significantly reduces educational outcomes in primary school children. Children that reside in municipalities where corruption is detected in CGU random audits, have lower scores—0.35 standard deviations—in national tests (Prova Brasil). And this effect is high when compared with other factors that might affect educational performance. For instance, Banerjee and Dulfo (2008) finds that remedial education programs increase scores by 0.28 standard deviations. Muralidharan and Sundararaman (2008) find a similar impact (0.28 standard deviations) associated with teacher incentives.

The impact of randomized audits is also consistent with the evidence found elsewhere. In Indonesia (Oiken, 2007) increasing technical audits on public works—checking on reported prices—results in an 8 percent reduction in prices. In Uganda (Reinikka and Svensson, 2005), providing information reduces private capture of public funds and has positive effects on enrollment and student learning.

The work that a public auditing agency such as CGU does is not only effective in terms of end outcomes, but also is a very efficient use of public funds. The project's economic analysis showed that the CGU—between 2008 and 2010—more than recovered its own budget by a factor as high as 3.6 times. Information from more developed countries shows that there is room for improvement. In the United Kingdom, the National Audit Office (NAO, 2011) reports a 13:1 in savings generated by their recommendations and a financial impact of £10 for every £1 it cost to run the NAO. In conclusion, CGU's work has very high social and financial returns, despite the fact that there is ample space for improvements.

The IDB support seeks to contribute in CGU's institutional capacity, in order to continue improving public sector integrity and efficiency. It is expected that the project will strengthen its technical capabilities, improve the interaction with the federal managers that are responsible for the execution of the Government's programs, strengthen civil society control and oversight on public funds, improve transparency at various levels of government and, very importantly, strengthen internal control capabilities at state and municipal levels. The program will provide training, access to new information technologies including a new transparency portal that will be interconnected with similar portals at the state and municipal levels. As a result of this support, it is expected that the implementation of CGU audit recommendations by federal and other agencies will increase, that the CGU itself will be more efficient, that agencies will develop and implement risk management models and that audit information will be more widely available in the web.

C. HONDURAS: SUPPORT PROGRAM FOR REFORM OF PENSION INSTITUTIONS AND THE HUMAN RESOURCES MANAGEMENT SYSTEM

The pension system in Honduras is complex, provides very different benefits to similar workers, and is financially unsustainable. It consists of the Honduran Social Security Institute (IHSS) and the four pension institutions corresponding to the largest trade unions: the National Pension Institute for Teachers (INPREMA), National Institute of Retirement and Pensions for Public Officials and Government Employees (INJUPEMP), Military Pension Institute (IPM), and the Pension Institute of the National Autonomous University of Honduras (INPREUNAH). Table 8 provides a detailed comparison of the main characteristics of the five pension institutions, reflecting the existing disparity in parameters relating to requirements, contributions, and benefits.

Among other things, INPREMA and INJUPEMP present a divergence in terms of the levels of inflows and outflows from the fund, especially when considering that participants have a short mandatory contribution period (10 years) and a young retirement age (50 years for INPREMA and 58 years for INJUPEMP). This situation,

Table 8
Main Characteristics of the Five Pension Institutions in Honduras

	IHSS	IMPREMA	INPREUNAH	INJUPEMP	IPM
Number of Contributors	496,000	70,906	6,519	51,663	20,745
Number of Retirees	22,000	13,987	589	9,617	2,710
Minimun retirement age (voluntary)	65m/65f	50	58	58	50/58
Maximum retirement age (voluntary)	N/A	60	70	65	N/A
Minimun contribution period	15 years	10 years	25 years	10 years	25 years
Contribution rate (% of base salary)	3.50%	19%	19%	18%	24%
Average monthly salary for calculating pension	Last 180 month's pay	Last 36 month's pay	Last 36 month's pay	Last 36 month's pay	Last 60 month's pay
Number of contribution year/benefits paid each year	12/14	12/14	13/14	12/14	13/14

combined with a rapid demographic transition, expansion of benefits without the corresponding financing, low returns on equity reserves, and high administrative costs, has resulted in the financial inability of the institutions to pay out benefits to all of their participants. In fact, if INPREMA face problems recovering its investments and the government would have to assume those obligations, contingent liabilities estimated at 27 percent of GDP would become real in 2013, such that the value of the public debt as a percentage of GDP would increase from 19 percent in 2011 to 44 percent in 2031. In the same way, the value of the public debt over revenue would increase from 85 percent to 195 percent, and debt service would increase from 14 to 37 percent of revenue.[24] Furthermore, actuarial studies indicate that in order to be able to keep delivering benefits and expand coverage in the IHSS, it is necessary to adjust—on a step basis over the long term—the current contribu-

[24] INJUPEMP's financial-actuarial problems are similar to those of INPREMA, but are more long term, given that contributions to be received in the short and medium terms are expected to generate temporary growth in equity reserves.

tion rate from three to eight percent, adopt a policy for increasing the salary ceiling for contributions, improve the real percentage return on investments, and introduce administrative improvements.[25]

The challenges imposed by these vulnerabilities required a comprehensive response. To that extent, in 2011 the Bank supported the Government of Honduras with a program that specifically aims to help contain the fiscal impacts of the actuarial and liquidity problems of INPREMA in the short term and of INJUPEMP in the medium term. At the same time, the program is geared toward protecting the financial position and improving operations management in the IHSS, as well as strengthening control over spending derived from the large central government payroll, particularly the teacher payroll.

Among the specific reforms to strengthen the actuarial financial position of INPREMA, INJUPEMP and IHSS that this program proposes and that can potentially have fiscal implications are: (i) changing the parametric variables that affect the calculation of benefits paid by the system (with the purpose of restoring the balance between income earned and benefits paid); (ii) fine-tuning of corporate governance policies and standards; (iii) granting of regulatory and supervisory authority to CNBS in its sphere of competence; (iv) for INPREMA, the reform would also include a rule to align the number of new retirees with the institution's financial capacity (with the purpose of maintaining constant net equity), and (v) for IHSS, the reform will support adoption of an adjustment to the salary ceiling for contributions, with a fixed base.

These measures are justified because the lack of sound corporate governance might lead to high administrative costs, poor financial decisions, lack of effective regulations and internal processes for proper payment of benefits and delivery of services to participants, low real return on equity reserves, high rates of default on its portfolio of personal loans, and the lack of effective accounting systems allowing the production of auditable reports and financial statements in accordance with international best practices.

[25] ILO. *Actuarial Valuation of IHSS as of December 2009* (2010).

When the first programmatic loan ends, it is expected that it will have contributed to the long term stability of the pension systems and to reduce the contingent fiscal liabilities. In the specific case of INPREMA, it is anticipated that approval of the draft legislation will result in a reduction in the actuarial deficit of 27.2 percent of GDP in 2010 to a range between 9 percent and 13 percent. With respect to the IHSS, an increase in revenues from contributions is expected of between 1.0 and 1.2 percent of GDP.

D. ECUADOR: STRENGTHENING POLICE EFFECTIVENESS THROUGH IMPROVEMENTS IN THE MANAGEMENT AND USE OF CRIMINOLOGICAL INFORMATION

Insecurity tops the list of citizen's concerns in many countries in Latin America and the Caribbean.[26] While the root causes of crime and violence are multiple and thus require several responses that range from social prevention to successful reinsertion of previous criminal offenders, the recent increase in crime rates calls for targeted evidence-based interventions.

In this context, the role of police effectiveness is crucial. According to the experts, "the value of policing focused on risk factors is the most powerful conclusion reached from three decades of research. Simply hiring more police does not prevent serious crime. Community policing without a clear focus on crime risk factors generally shows not effect on crime. But directed patrols, proactive arrests and problem solving at high-crime "hot spots" have shown substantial evidence of crime prevention" (Sherman and Eck, 2002).

Based on this evidence, the Government of Ecuador and the IDB partnered to design a comprehensive program that will generate and incorporate evidence into the design, implementation, and evaluation of policies to fight crime and violence.

Evidence plays a key role in the IDB's approach to promote citizen security in the region in three key stages: in the identification of the problem, in the drafting of the solution, and in the validation of the results. A key problem that policymakers face in the design of crime-prevention policies is the lack of adequate diagnosis. There are statistics about some of the major crimes, but not a proper analysis of their causes and determinants that could inform policymakers to design specific policies. Hence, the recent program in Ecuador has focused on strengthening the quality, reliability and opportunity of criminological information in order to have better evidence-based diagnosis. For this purpose, besides improving data gathering and information systems, the program entails training in the criminological analysis of the data.

Equipped with better diagnosis produced with the data and analyses supported by the program, the police will draft, implement, and assess evidence-based solutions. These solutions will consist of the design and implementation of policing protocols that will incorporate some of the most effective evidence-based interventions to address the specific crime and violence problems faced in Ecuador (in particular in Guayaquil and in Quito). Furthermore, the project design incorporates an innovative evaluation component that will determine whether the new protocols have the intended deterrence effects and, perhaps most importantly, will measure how well the protocols are implemented.

According to Sherman and Eck (2002), "the measurement of police activity remains the Achilles heel of police research." Not measuring police actions leads to the confusion of two different kinds of conclusions when

[26] See the 2011 *Latinobarometro Report*, in particular pp. 66-67: "Crime and unemployment have dominated the agenda in Latin American countries for the past decade but have changed places in importance. The importance of crime has shown a sustained increase, reaching its highest level in 2011 at 28 percent (one point up on 2010)", (http://www.latinobarometro.org/latino/LATContenidos.jsp).

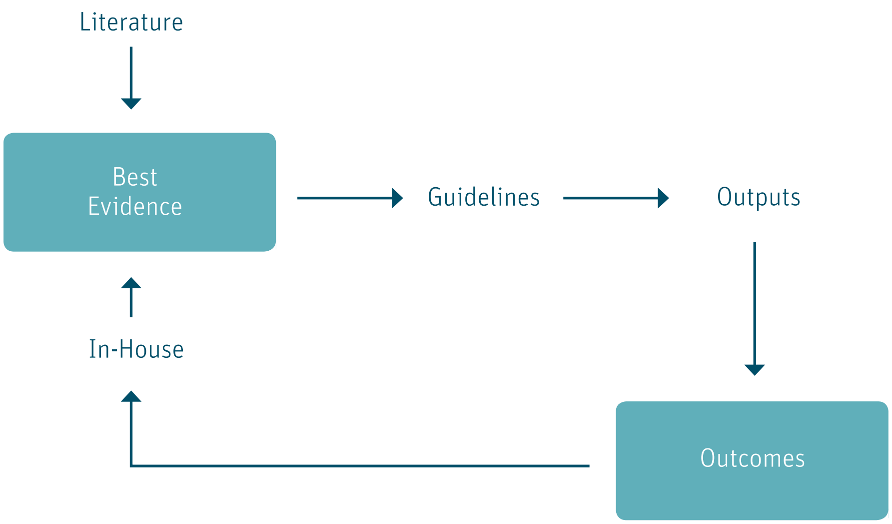
programs have no impact on crime: that the police activity does not affect crime, or that it was not implemented adequately. Through independent and systematic objective observation, the program in Ecuador will measure police activity that will inform on whether the protocols are properly implemented and on the results related to the crime-reduction objectives.

The approach that will be implemented by the Ecuadorian authorities in collaboration with the IDB is based on state-of-the-art knowledge in the realm of criminology, namely evidence-based policing (Sherman, 1998), problem oriented policing (Goldstein, 1979; Weisburd et al., 2008), and may be illustrated by the design, implementation and evaluation of hot spot policing operatives (Weisburd, 2008 and 2011).

According to Sherman, "evidence-based policing is the use of the best available research on the outcomes of police work to implement guidelines and evaluate agencies, units, and officers… evidence-based policing uses research to guide practice and evaluate practitioners. It uses the best evidence to shape the best practice. It is a systematic effort to parse out and codify unsystematic *experience* as the basis for police work, refining it by ongoing systematic testing of hypotheses."

While rigorous research on the effectiveness of police work in the region is scant, it is possible to adapt and adopt this approach starting with the production of evidence-based diagnoses, and with the review of what works in relatively similar contexts or of what could plausibly work based on relevant theoretical mecha-

Fig. 26
Evidence-based Policing



Source: Sherman, 1998

nisms. The approach to be implemented in Ecuador will use the available theoretical and empirical evidence (and will also enhance such evidence) in order to apply evidence-based policing principles (Figure 26).

In order to be a useful input for the fight against crime and violence, criminological information needs to be processed and used in day-to-day operations. One strategy to use the information for managerial purposes is problem-oriented policing (POP), which follows the SARA approach: screening of the crime situation, analysis of its determinants, response based on the available evidence, and assessment of the results in terms of deterrence.

The evidence on the effectiveness of this approach is consistently positive in terms of crime and disorder prevention (Weisburd, 2008). Thus, if properly adapted and implemented to the specific context of Ecuador, it is likely to contribute to the enhancement of citizen security.

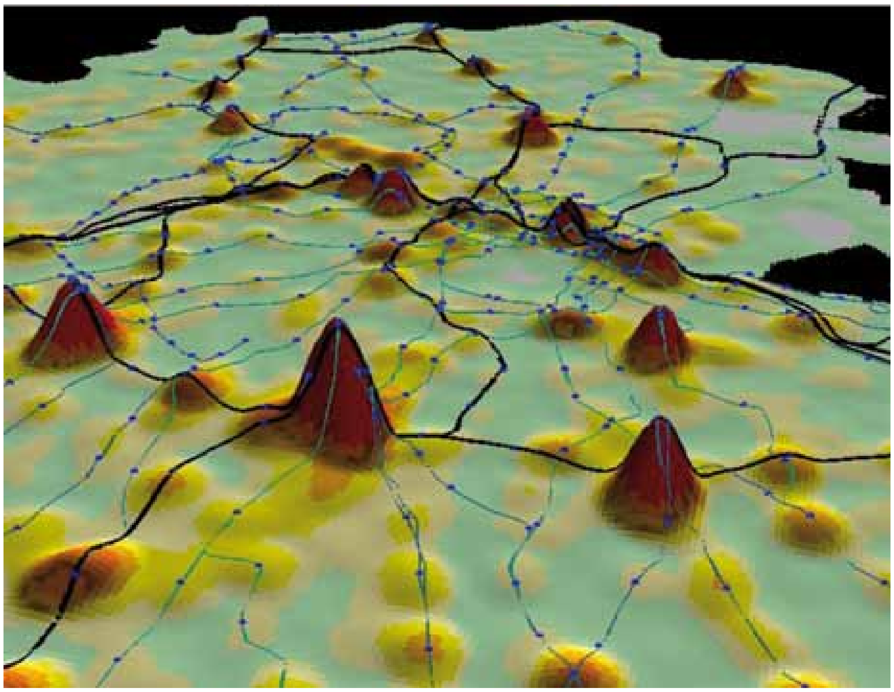
One of the best-known examples of problem-oriented policing is hot spot policing, which is based on the empirical fact that, even in high-crime areas, criminal activity is heavily concentrated geographically. This is complemented with the Routine Activity Theory that models when crime is more likely to occur, and provides insights as to why hot spots emerge (Cohen and Felson, 1979; Felson, 1994).

The advent of computerized mapping techniques has allowed police strategies that address specific areas to reduce crime, with a variety of specific interventions such as directed and aggressive patrol programs, police crackdowns and raids, and enforcement of problem oriented policing programs in the hot spots. There are competing criteria to define hot spots, but it is agreed that a hot spot is a geographic space in which there has been a concentration of crime relative to other space in the larger jurisdiction, and it is characterized by a high density of people, of risk factors and of crime targets (Sherman, 2011).

The figure 27 shows the peaks and valleys of violent offenses in Tokyo (Sherman, 2011), and illustrates the basic rationale for hot spot policing. When risks factors and the time dimension among other elements are overlapped to this map, models may be constructed and policing strategies designed in order to significantly reduce crime in the target areas.

The available evidence on hot spot policing (Braga, 2007; Braga and Weisburd, 2010; Sherman and Eck, 2002; Sherman, 2011) shows that these methods are largely successful in reducing criminal activity. Also, there is little evidence of

Fig. 27
Crime Hot Spots in Tokyo



Source: Sherman, 2011

crime displacement, thus suggesting reductions in total crime levels (which also confirm the Routine Activities Theory).

The project in Ecuador will generate criminological information and the capabilities to analyze and process the data in order to identify hot spots, and to design police operatives to reduce crime in such areas. An example of how data and analysis turn into policing strategies is provided by the Chilean think tank Center for Analysis and Modeling of Security, CEAMOS, that has developed space-time models for predictive policing that are currently used by the Chilean police in its fight against crime.[27]

It is important to mention that the literature on youth violence shows that problem oriented policing in general and hot spot programs in particular have a high potential to reduce youth violence and crime. Recent studies on these strategies applied to youth crime in Boston (Braga et al., 2001) and Seattle (Weisburd, 2011) show that these programs are effective for these groups. Given the relevance of youth crime in LAC, this is an area worth pursuing.

[27] See the interview to the Director of CEAMOS at www.isci.cl/isci/archivos/REVISTA.4c8e2d4cc1021.pdf (pg.11-13).

Chapter IV

Competitive Regional and Global International Integration

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 87 to 90

The benefits of integration and globalization are multiple and have been widely discussed in the empirical and theoretical literature in economics. It has been shown that international integration is strongly correlated with increased productivity and, therefore, with rapid and sustainable economic growth.

The extraordinary success of East Asia, particularly China, is a testament to the power of trade in general, and of exports in particular, to boost economic growth. In particular, while productivity leads to exports (as clearly established in the empirical literature) there are also important feedback effects driven by higher volumes through static and dynamic economies of scale. In this context, this chapter highlights the Bank's efforts to assist Uruguay in making these necessary adjustments to enhance its access to global export markets.

A. SUPPORT TO GLOBAL EXPORT SERVICES IN URUGUAY

Export of services has gained increasing relevance over time, attracting the attention of many policy makers. The sector has experienced dramatic expansion over the past decade, growing globally at a faster rate than exports of goods (UNCTAD, 2010). By 2013, the off-shoring of global services will total an estimated US$200 billion, creating tremendous opportunities for developing countries that can provide skilled human capital, relatively low costs, and a good business climate.

Uruguay has strong potential to successfully position itself in the global export services market: it has excellent infrastructure for developing this sector; its human capital is of renowned quality; and it has one of the best climates for business, security, and transparency in Latin America. Because of this, Uruguay has been chosen by several well known multinational corporations as a destination for operating global services. (Tholons, 2010).

Despite this potential, Uruguay faces a number of challenges that still hinder its development as a major location for investment in the global service sector. First, the "Uruguay option" is simply less well known than some regional alternatives (mainly Chile and Costa Rica). As a result, the country has been largely overlooked by key players in the services sector (international positioning problem). Second, Uruguay is a relatively small economy and is likely to face difficulties in undertaking large operations because of a scarcity of adequate human capital appropriate to the sector (scalability of operations). Third, the regulatory framework for Uruguay's foreign trade is mostly designed for physical goods, and it needs to be adapted to the specific needs of the service industry (adaptability of the regulatory framework). Fourth, the nation needs to reduce excessive bureaucracy in foreign trade and shorten the time it takes to process operations (Trade facilitation). Lastly, some bandwidth-intensive industries experience difficulties in connectivity and access to sufficient bandwidth (Connectivity).

The Program to Support Global Export Services is one of the first attempts to foster the development of global export services by systematically and simultaneously removing those obstacles that typically constrain investment, employment and export in this sector. Although broad in scope, the program is sharply focused in terms of the targeted industry.

A thorough analysis of the Uruguayan comparative advantage led to the identification of four specific target sectors: logistical services, services associated with the pharmaceutical industry, back-office and processing services, and services associated with information technologies. (Tucci, 2011).

The comprehensive approach of the program is structured in four pillars. The first component will support the national export promotion agency *(Uruguay XXI)* in introducing novel instruments to foster the export/investment cycle within the services sector. The second one will finance actions aimed at improving access to skilled labor and enhancing human capital relevant to the services sector, such as the creation of an online registry of individuals qualified to work in the services sector as well as training programs. The third will finance specific interventions to optimize the regulatory framework for trade in global services and to improve capacities for applying existing regulatory regimes.

Fig. 28
Uruguay's Strategy to Increase Global Export Services

The program will finance targeted forms of support for development of the logistics and pharmaceutical sectors, which are viewed as sectors with high growth potential (Figure 28).

Expected program impacts include increased exports, investment, and employment in the global export services sector. Expected outcomes upon program completion include Uruguay's improved international positioning in the global services industry, greater number of skilled workers in the sector and substantially improved times and costs associated with foreign trade processes. By the end of the program, exports in the sector are expected to have increased 55 percent, investment 66 percent and employment 28.4 percent.

The efficacy of trade promotion programs has been well documented in the Latin American context in general (e.g., IDB, 2010) and in Uruguay specifically. Volpe Martincus and Caraballo (2011) assess the impact of trade promotion activities on export outcomes using data on the entire population of Uruguayan exporters from 2000 through 2007. They find that trade promotion services have helped firms access new international markets and introduce new differentiated products. That being said, to our knowledge there are no rigorous impact evaluations of public programs for export of services. In this sense, the evaluation of this program will be the first of its kind.

The evaluation design will incorporate three different approaches to the measurement of impacts. To evaluate the effect of the program on service exports and employment for supported firms, a difference-in-difference matching approach will be used.

This method combines matching with difference-in-difference analysis, whereby the average treatment effect is computed by comparing the change in exports and employment for assisted firms between the year of assistance and the previous year to the change in exports and employment for non assisted firms that are comparable in their observable characteristics.

The main expected outcomes of this part of the intervention are an increase in exports, an increase in the number of export markets, and an increase in the level of employment among Uruguayan services companies.

A regression discontinuity design will be used to measure impacts of the creation of the registry of skilled

service sector workers. This method will exploit the fact that the chances of being listed in the registry may vary discontinuously with the numerical score on an exam required for inclusion in the registry, and it would identify the average effect of the being listed in the registry on the probability of employment for individuals near the minimum required exam score. This intervention is expected to increase the probability of employment in exportable services companies, in particular of people with low incomes and living in less developed regions, and the level of employment of those firms.

To evaluate the impact of actions designed to improve the efficiency of the logistics sectors, a difference-in-difference approach will be used. The main expected outcome is an increase in the value and volume of trade flows intermediated by Uruguay.

The evaluation will exploit the fact that not all trade flows will be affected by administrative and procedural improvements at the same time. Specifically, it will compare the change in the value and volume of trade flows that will benefit from administrative and procedural improvements with the change in the value and volume of trade flows for which there is already virtually no scope for such improvements.

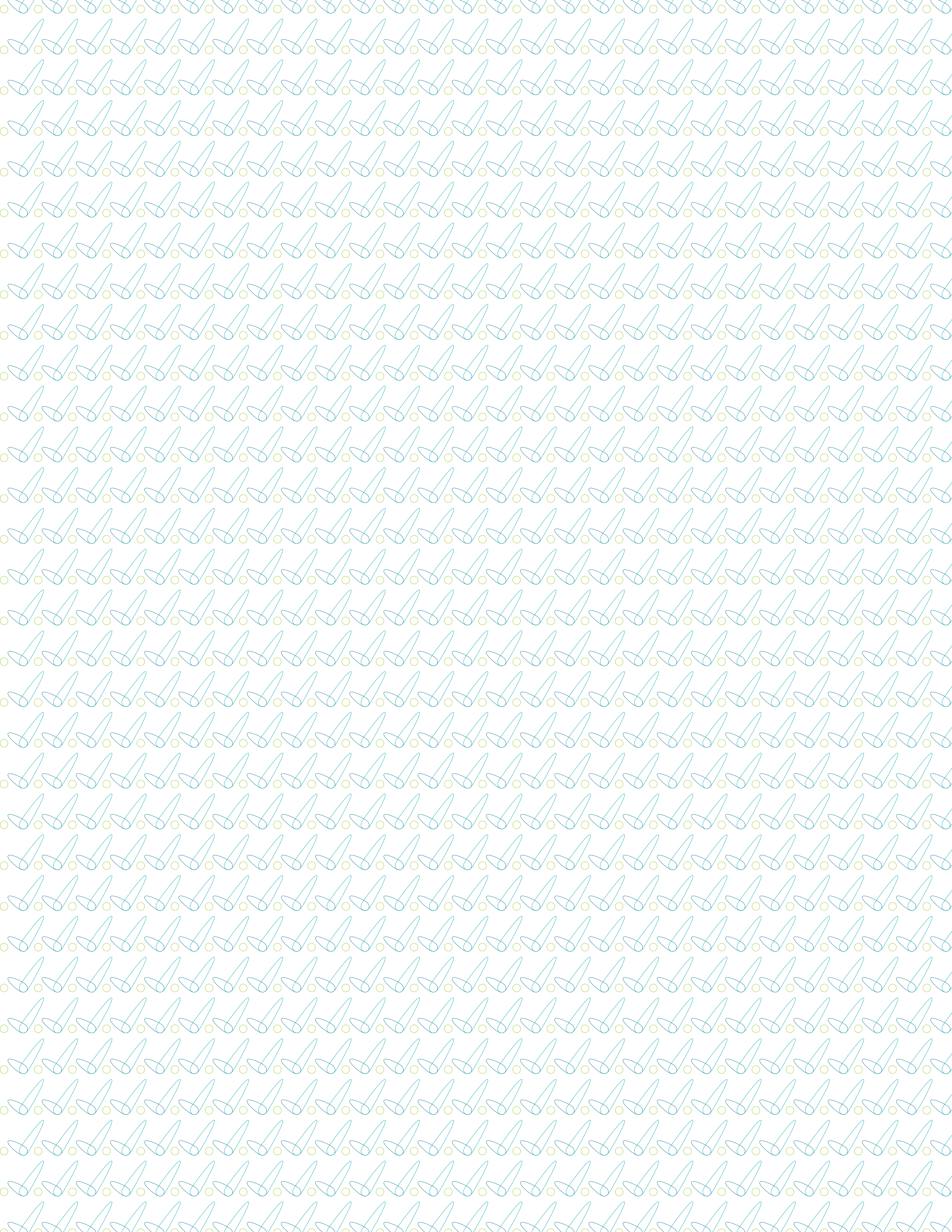
Will also control systematic differences between products and their origins and destinations. In addition, the analysis will explore potential heterogeneous responses of trade flows depending on how time sensitive are the goods involved.

In summary, this program will help position Uruguay to benefit from an increasingly interconnected global economy and a growing market for services, while program benefits will be measured through cutting edge empirical techniques.

A key feature of the evaluation is also the effective and creative use of existing data generated by the Uruguay's statistical systems. In order to evaluate the impact of export promotion, annual administrative records on the export of services maintained by the Directorate for Free Trade Zones and the Uruguayan National Statistical Institute will be combined with data on firm characteristics collected by the national tax authority (DGI) and the national social insurance program (BPS). The export data are disaggregated to the level of the firm, product sold, and destination market, and are available from 2000 onwards. The data on firm characteristics include sector, location, age of the firm, employment, revenues, and salaries.

These two data sources will be combined with a list of firms participating in the program administered by *Uruguay XXI,* making it possible to compare firms affected by the program with unaffected firms. In order to evaluate the worker registry component of the program, a list of all individuals who take the exam necessary for inclusion on the registry or will be created. The list will include data on individual characteristics as well as exam scores, making it possible to compare individuals on either side of the minimum score for inclusion in the registry while controlling for other individual characteristics.

To measure the effects of improved administrative processes for the logistics sector, data on trade flows collected by the Uruguayan customs authority (DNA) will be used. These data make it possible to identify the value, volume, origin, destination, mode of transport, and administrative processing time of all goods entering and exiting Uruguay.




Vestas

Chapter V

Protecting the Environment, Responding to Climate Change, Promoting Renewable Energy, and Ensuring Food Security

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 93 to 105

This chapter presents projects that stand out for proposing new approaches to key issues in the sector, such as food safety and land titling, that are of enormous importance to unlock the productivity potential of the agricultural sector. For example, the Agri-food Health and Safety Program in Dominican Republic is included for two reasons: first, it proposes a rather unique comprehensive approach to food health and safety addressing simultaneously problems and incentives at the producer, consumer and government level. Second, the program also comes with a strong evaluation design, which will allow filling some relevant knowledge gaps on the true effectiveness of public intervention in this key policy area.

Land titling in Paraguay has been supported by the Bank since 2004, and the project approved in 2011 represents one of the better projects in this area as it tackles both the need to be institutionally innovative and to go into the field to verify and expand property rights. Additionally, it includes a rigorous evaluation component to verify the hypothesis that formalization will unlock productive investments in the sector.

The potential of tourism as an engine for sustainable growth has been established,[28] and the Bank is supporting countries such as Uruguay in the development of comprehensive plans to exploit natural attractions and develop tourism poles. In the project described in this chapter, the potential of nautical tourism was identified from technical analysis using Tourism Satellite Accounts with the social accounting matrix.

Finally, the chapter illustrates how the Bank is backing help countries to face the challenges generated by climate change. Through policy-based loans that enabling regulatory schemes, the Bank is supporting Trinidad and Tobago in the development and implementation of a climate change agenda, and Panama in the reduction of vulnerability to climate change related natural disasters.

A. PROMOTING FOOD HEALTH AND SAFETY IN DOMINICAN REPUBLIC: A COMPREHENSIVE APPROACH

The improvement of food safety involves a variety of incentives that need to be addressed simultaneously. Producers must adopt new practices, with all problems related to uptake of new agricultural technologies. To benefit from changes in food safety, consumers should be aware of the advantages of safe and healthy food and incorporate this information into food purchase decisions. Government agencies have to set standards, define rules, regulate production and enforce standards when needed.

This scenario is rendered more complicated by the heterogeneity of the food industry. The management of animal health could be quite different from the management of plant health. In many cases, policy makers in emerging countries have approached food health and safety with specific interventions, but rarely have they systematically and simultaneously tackled the various elements of this fundamental development topic.

The uniqueness of this program comes precisely from its comprehensive approach to food health and safety as adopted by the Dominican Government with the IDB support. The program aims to strengthen all components of food health and safety system simultaneously, including the strengthening of the corresponding institutions. In addition, this initiative does not solely focus on export promotion, but it will also provide means for increasing domestic food safety through certification of good practices in all stages of production chain. This will result not only in an overall increase in the quality of the food supply, but also in incentives for an overall shift in agricultural practices. To further strengthen the incentives of producers to adopt new practices, the program will also act on the consumer side. For this purpose, specific actions will foster consumers' understanding of the value of domestic food certification.

[28] See the 2010 DEO for a lengthier discussion.

To implement this comprehensive approach, the operation includes four components. The first one is designed to reduce the presence of residues and contaminants in unprocessed agricultural products by strengthening agri-food safety services. It will include several actions, the most important of which is training of farmers in the use of "best practices" in crop and livestock production. The second and third will focus on animal and plant health services, respectively, and the fourth focuses on the strengthening and integration of the agri-food health and safety system.

The program is expected to have several beneficial impacts. Firstly, it will raise agricultural productivity thanks to the adoption of new practices in crop and livestock production. Second, improving sanitary and phytosanitary standards will increase access of agricultural products to exports markets and, in particular, reduce the share of export to the United States and the European Union rejected because of violation of safety standards, e.g., pesticide residues. Lastly, consumers within the Dominican Republic will benefit from lower pesticide residues on produce.

Evidence on the effectiveness of food health and safety programs is still very limited. The few studies that have addressed this topic have focused on the role of this intervention in promoting exports. The literature shows that sanitary and phytosanitary standards and measures are a major factor influencing the ability of developing countries to exploit export opportunities. In some cases, these standards and measures have been found to be the most important barrier for export toward the EU (Henson and Loader, 2001).

Similar findings are reported in studies recently carried out by the IDB, such as the ones on promotion of blueberry exports in Chile (Agosin and Bravo-Ortega, 2009) and pork exports in Brazil (Bonelli and Castelar Pinheiro, 2008). However, other studies found contrasting evidence on the actual effectiveness of public intervention in this area. For instance, Sánchez et al. (2008) describe how interviewees in Argentina and Peru stressed the deficiencies of government authority in charge of enforcing sanitary and phytosanitary standards.

The evaluation will significantly contribute to the literature and will help to help to close important knowledge gaps. The program evaluation plan will focus primarily on the adoption of best practices among agricultural producers and the concomitant effects of implementing best practices, as well as the effects of the livestock health component of the program. Impact indicators will include the share of farmers adopting best practices, changes in crop and livestock productivity, the share of marketed farm outputs with contaminant residues beyond acceptable levels, and farm-level pesticide costs per hectare, among others.

As with any program involving the voluntary adoption of new production techniques, impact evaluation is complicated by the fact that the decision to undertake a new practice may be correlated with unobserved factors that may also affect outcomes. For example, farmers who are willing to experiment with different production techniques may also be the most capable producers in general, and as a result tend to have higher productivity. As a result, a simple comparison of outcomes among farmers who utilize particular techniques and those who do not may generate misleading results. If productivity is higher among program participants, it may be because they were the best farmers to begin with.

The evaluation of this program will deal with this problem through the application of cutting edge experimental and quasi-experimental techniques. An experimental design will be used to evaluate the first component of the program, i.e. the reduction of contaminants in crops. The selection of participants will occur in two stages. First, farmer associations will be picked at random. Second, individual farmers within these selected associations will be selected at random and offered the chance to participate in a program of instruction in the application of best practices. This two-stage design will make it possible to measure both the direct effects (i.e., impacts of being in the program) and indirect effects (impacts of learning from other farmers who were in it).

The livestock health component of the program will be subjected to a rigorous quasi-experimental impact

evaluation, and will be implemented initially in only three provinces. The geographic nature of the program will be exploited in the evaluation by using a regression discontinuity (RD) approach. The RD method recognizes that there may be unobserved characteristics of farmers which drive some to participate in a program and others to not do so. However, it seems likely that farmers located on either side of a provincial border are likely very similar on average with respect to these unobserved characteristics, as long as we limit the comparison to a small geographic area. RD exploits the "discontinuity" offered by the provincial border to estimate the impact of the program, comparing farmers in the program on one side of the border with those outside of the program on the border's opposite side.

The system-wide effects of the program will also be evaluated, using observed levels of key aggregate indicators before and after program implementation. These include the proportion of crops and animal products sold for export that are rejected due to violations of sanitary and phytosanitary standards, the number of animal diseases which are eliminated from the Dominican livestock sector according to World Organization for Animal Health standards, reduction in the number of plant diseases subject to official control under the International Plant Protection Convention, and implementation of a new systems of regulation and enforcement for sanitary and phytosanitary standards. Combining these results with those of the farm-level impact evaluation will present a complete picture of program benefits.

B. LAND FORMALIZATION IN PARAGUAY

The formalization of rights over land continues to be an important issue in Latin America and the Caribbean. Land is a key asset for rural households and formalizing the rights over land has the potential to increase the value of that land by providing incentives to use it more productively. While a range of agricultural projects can improve productivity, establishing property rights is fundamental. Creating a system to formalize land and unleash its potential is complicated by the need to have a strong institutional foundation of property rights and a well organized information system to manage land registration and a cadastre of clear titles. Towards this end, in 2011 the Bank approved the Cadastre and Property Registry Program II (PROCAR II) to support efforts by the Government of Paraguay to formalize land rights.

According to the 2008 Agricultural Census, over half of Paraguayan farms lack formal land title or have incomplete property rights. For smallholders with less than 10 hectares of land nearly two-thirds of farms do not have formal titles. This situation, combined with overlapping ownership claims and associated conflicts, reduces the security farmers have over their land. That potentially limits incentives to invest in land, to shift land to more productive uses through renting or selling, or to use it as collateral for credit, thereby lowering the productivity of agriculture. Given that agriculture accounts for one-fifth of Paraguayan GDP, over half of exports, and nearly one-third of overall employment, and that over 80 percent of household income of the rural poor come from agriculture, creating the right incentives for the expansion of the sector is critical.

As a first step to address these issues, in 2004 the Government of Paraguay, with the Bank's support, initiated the implementation of the Cadastre and Property Registry Program (PROCAR) (i) to address barriers to the registration of property transactions; (ii) to improve the security of property rights over land, and (iii) to improve the land adjudication process. The program established the technical bases and developed the necessary legal provisions to meet its objectives by expanding the access to registry and cadastre services and by modernizing these services through the digitizing of information and provision of much of this information via the web. The focus, however, was largely on improving the management of the land registry and cadastre systems.

PROCAR II scales up the key components of PROCAR seeking to address outstanding issues relating to coverage, effectiveness and efficiency of registry and cadastre services. The first two components of the program seek

then to consolidate the gains in modernizing the cadastre (component 1) and the registry (component 2).

The program also includes two key innovations that build on lessons derived from PROCAR as well as an empirical analysis of current levels of land formalization. First, while progress has been made towards modernizing the management of the registry and cadastre, additional steps are necessary to expand land titling and formalization within rural areas of the country. Towards this end, the program has selected nine districts in which to pilot field verification and expansion of land titles (component 3). For each of the districts, not only will the registry and cadastre be reconciled and conflicts addressed, but outreach campaigns will be used to expand coverage of titled lands. This will help Paraguay take an important step towards formalizing land within the country. Lessons learned from this experience can be used in expanding formalization into other districts with the ultimate long term goal of formalizing land throughout the country.

Second, in line with international best practices, PROCAR II recognizes that the registry and cadastre agencies need to work in an integrated manner. A key component of the program (component 4) is then to establish and help strengthen a new institution the National Cadastre and Property Registry Directorate (DINACARE). DINACARE will be an autonomous, self-sufficient institution empowered to direct and coordinate SINACARE—the National Cadastre and Property Registry System—which is the new scheme that consists of the rules, procedures and institutions that regulate, execute and control all cadastral and registration activities.

Land formalization is not an objective in itself, but a means to provide greater land security to farmers, both in its use and in buying and selling property. With this security, the expectation is that farmers will invest more on their farms, sell or rent land that they cannot use as productively as others, and use land as collateral to secure access to credit they can invest. Through these actions, land formalization is anticipated to bring about increases in agricultural productivity. This should then improve the well being of rural households though increased income and greater land values (since land with more productive potential should be worth more).

Of course, these are hypotheses that can be tested and the piloting of the program in nine districts provides the opportunity to determine the degree to which the program has brought about changes consistent with improved agricultural productivity. Taking advantage of this opportunity, the program design includes an impact evaluation plan that uses an experimental approach to assess the effectiveness of the program in achieving its development objectives.

Specifically, four districts will be randomly selected to be included at the start of the program (treatment districts) and the remaining five districts will be incorporated two years later (control districts). Baseline information will be collected prior to any districts receiving program support and follow up data will be collected prior to the inclusion of the five control districts. Since all nine districts were selected based on strict eligibility criteria, so that they are similar, this approach allows a careful assessment of impact through a comparisons of the treatment and control districts. Although all districts ultimately receive the benefits of the program, by randomly phasing the inclusion of the districts a counterfactual is created during the interim period between the treatment and control districts which are receiving it.

PROCAR II then not only carefully builds on PROCAR and includes new innovative components; it also provides a carefully designed impact evaluation to determine if this approach is effective at reaching stated development objectives.

C. PROMOTING NAUTICAL TOURISM IN URUGUAY

Tourism is becoming an increasingly important sector in Uruguay. Recognizing this to be the case, the Bank recently approved the Program to Support the Tourism Sector (UR-L1066) to promote a general strategy of diversifying the sector and in particular to implement a nautical tourism master plan. The design and emphasis of the program was greatly enriched by the ex-ante analysis completed in its preparation, which was the results of a continuous collaboration between the IDB and the Uruguayan Ministry of Tourism and Sport over recent years. The support for nautical tourism differs from previous Bank-supported tourism projects and was largely justified based on an analysis showing greater benefits to the economy of this type of tourism as well as enhanced potential for poverty reduction.

Uruguay's inbound tourism revenues increased 329 percent and spending per tourist rose 169 percent between 2003 and 2010. By 2010, during their visits to Uruguay 2.4 million tourists spent US$1.5 billion making tourism the second largest earner of foreign exchange and a sector that provides for 8 percent of total employment in the country. Despite this favorable performance, the sector faces significant challenges if it is to become an engine of growth and source of poverty reduction.

First, an analysis of the sector shows that the tourism economy relies heavily on visitors from the region with 82 percent of visitors coming from neighboring countries. Most of these come for "sun and sand" tourism or to visit family and friends. While beneficial to the economy, this type of tourism provides limited levels of spending compared to other tourism types (US$578 spending per arrival for regional tourist versus US$1,049) and leaves the sector vulnerable to political and economic changes in the region. Second, the sector analysis also shows the spillover benefits to the rest of the economy are relatively small. The limited linkage to the economy means not only lower multiplier effects (only 1.32 per dollar spent), but also less potential for the sector to reduce poverty (only 0.19 per dollar spent). Third, the analysis indicates that the type of tourism has led to highly concentrated investments in the sector with three-quarters of all investment destined to two locations: Punta del Este and Montevideo. The limited investment leads to a 17 percentage drop in the multiplier effect (from, 1.32 to 1.09).

Given these challenges, the Government of Uruguay, with support from the Bank, initiated a strategy of strengthening and promoting alternative forms of tourism and destinations. A loan provided by the Bank in 2006 (loan 1826/OC-UR) provided support for specific investments to diversify supply and demand of the sector. In addition, the loan provided resources to conduct a market feasibility analysis and master plan for the develop-

ment of nautical tourism. The new program continues the strategy of diversifying the sector and supports the implementation of the nautical tourism master plan.

This program is unique in the manner in which it was designed, the focus of the investment, and for the strength of the planned impact evaluation. The 2006 Bank loan included support for Uruguay to develop a Tourism Satellite Account (TSA). Analyzing the role of tourism in an economy is challenging in most countries since it includes a number of industries.

To overcome this limitation the World Tourism Organization has developed an approach to create the TSA that aggregates the elements of the tourism sector into a single industry for analysis. Using this information, and combining it with a standard social accounting matrix (SAM), an ex-ante analysis of the tourism sector was conducted in preparation for the new program.

The analysis allowed for a clear understanding of the linkages—and limitations of these linkages—between tourism and the rest of the economy, and helped enrich the project design. Because the SAM includes household groups disaggregated by income class, it was possible to track the impact of tourism spending on the income of poor households. The disproportionally low benefits in terms of income generation justified designing specific investments to enhance the participation of these households in the sector.

Following this and other international benchmarking analysis, the new program focuses diversification on expanding nautical tourism, in a river environment; a new area of tourism focus both for Uruguay and the Bank. Nautical tourism has the potential to bring tourism benefits to areas where tourism is limited and to expand it beyond "sun and sand" tourism. It can be broken down into various tourism offerings that encompass both land and water and can capture a wide range of market niches (recreational sailing, ecotourism, culture, gastronomy, adventure, and sports). The geographic area chosen as the focus of the program has lower income per capita and a lower human capital index than the national average, raising the potential for greater poverty, reducing benefits of this form of tourism.

Of course, whether the focus on nautical tourism in an area of lower income per capita achieves the objective of improving the income of the local population and reducing poverty, is a hypothesis that should be tested. For this purpose, the new tourism program includes a carefully designed ex-post impact evaluation strategy that should shed some light on the multiplier effects of nautical tourism and its impact on poverty.

The collaboration between the Government of Uruguay and the Bank in recent years has led to a set of investments that help the sector move in new directions. Although the resources involved have been relatively small, the investment have included a careful analysis of the situation and an expanded data collection plan that will help the government continue to manage the growth of the sector.

D. CLIMATE CHANGE POLICY-BASED LOANS: PANAMA AND TRINIDAD AND TOBAGO

Policy-based loans focus on required changes in government policies, regulations and laws, as well as on institutional capacity building, to address development challenges. One of the most salient challenges faced by all countries is that of climate change, that will affect almost all sectors, and thus needs to be dealt with across many ministries in a consistent and coherent manner. In addition, because climate change science still entails uncertainty regarding likely impacts at the country level (Figure 29), the ability to calculate plausible estimates of future benefits will depend on the technical capacity to use available (uncertain) information to generate a reasonable range of scenarios.

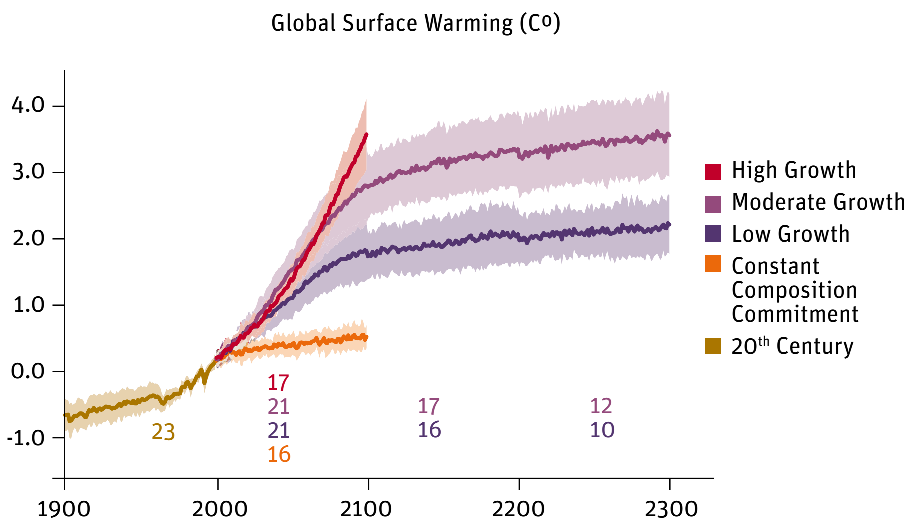
Climate change policy based loans include actions such as developing national policy frameworks, drawing up action plans for national and sub-national sector ministries, setting up coordination bodies and mechanisms, and building technical capacity in climate change science, data collection and analyses. The intended results of these projects are related to improved resilience to realized and potential climate change, as well as lowering carbon emissions. This mix of regulatory and policy measures and long term impacts that are not likely to be realized or measurable for many years after

the life of a project complicates the standard economic analyses that is included in IDB projects.

For example, the policy-based loan in Panama focuses on integrating climate change considerations into the country's disaster risk management framework, by developing strategies and designing the institutional structure to increase the country's capacity to identify, manage and finance those risks, with a particularly emphasis on water management. In Trinidad and Tobago, the main objective of the policy-based loan is to mainstream climate change into national development planning and sector policies to both adapt to climate change as well as to promote a low carbon emissions growth strategy.

One potential instrument for measuring changes in governance and institutional strength would be a slight adaptation of the Bank's Disaster Risk and Risk Management indixes to include a greater focus on climate change adaptation and mitigation. These indixes translate expert opinion on a very wide range of detailed institutional performance indicators into numerical scores; and, changes in these scores over time can be used to perform a cost-effectiveness analysis. However, while such an analysis is very important for assessing changes over time, a project would need to have a tight link between improvement on the indices and the hoped for long term impacts on climate change resilience and/or low

Fig. 29
Future Temperature Change



Source: IPCC, 2007

carbon emissions growth pathways.

Another potential outcomes of policy based loans are the public or private sector investments that may occur as a consequence of the policy changes. A conservative approach to estimate benefits of the reforms is to compute the benefits of the investments that may be undertaken when these policy based barriers and constraints are reduced or removed. In one sense, the value of the removal of a barrier is the value of investments that occur subsequent to this removal, to the extent that such investments would not be undertaken in the absence of the removal of that barrier. Thus, policy based loans that aim to reduce or remove barriers to investment can opt for a standard cost-benefit analysis for relevant investments that either increase resilience or lead to lower carbon emissions. Of course, this is probably a lower bound to the gains from removing a policy barrier, since benefits may extend beyond the identified investments.

In Panama, in order to highlight the potential benefits to invest in water management structures in the face of potential increases in torrential rainfall were evaluated. Existing information on Panama's exposure to extreme rainfall events is combined with possible changes in rainfall intensity and duration patterns to generate scenarios that capture likely damages in the future, if no investments were undertaken. In particular, disruption at potable water supply was identified as a key area of vulnerability,

mainly due to increased turbidity from torrential rainfall. A cost-benefit analysis was carried out on the returns from investing in public infrastructure to improve the main reservoir serving Panama City, and expanding capacity at the main water treatment plant. The cost-benefit analysis used conservative estimates for potential future climate change impacts on torrential rainfall, and shows that such investments are likely to have favorable net returns even with limited changes in the climate regime.

In the case of Trinidad and Tobago, the loan addresses both increased resilience to adapt to climate change and promotion of low carbon emissions growth strategies. The project identified two potential investments, one related to adaptation and the other to mitigation via carbon sequestration. The adaptation project considered the costs and benefits of different options to strengthen coastal zone defenses in an area that has important oil and gas infrastructure as well as urban land.

The evaluation of the adaptation investment has direct correlation with the current development of an Integrated Coastal Zone Management Policy, which is part of the policy based loan. The cost-benefit analysis highlighted the importance of the availability of information in quantifying both potential impacts and investment costs, particularly in the context of climate change adaptation where long term benefits are uncertain. In this case, a very detailed assessment of potential damages to land and infrastructure was already available, based on parameters from Canadian and British climate change models. The project team was then required to work with country stakeholders in order to value potential damages. At the end of the project, the team can evaluate whether changes in government policies and regulations did lead to the improvement of coastal defenses.

Trinidad and Tobago is also committed to a low carbon emissions growth strategy, in order to fulfill a universal but differentiated responsibility to reduce carbon emissions, given that it is in a unique situation of being a highly vulnerable small island state with significant oil and natural gas resources. To this end, accessing international financing for carbon emissions reductions is an important objective for the country.

One option available to help realize this objective was to apply a cost-benefit analysis to a carbon sequestration project based on afforestation and reforestation on coastal wetlands. Results showed negative returns when based solely on the value of carbon being sequestered for a range of prices, and also clarified the importance of large operational costs in the early years of the project against payments that are not received until the end of the 20 year project period.

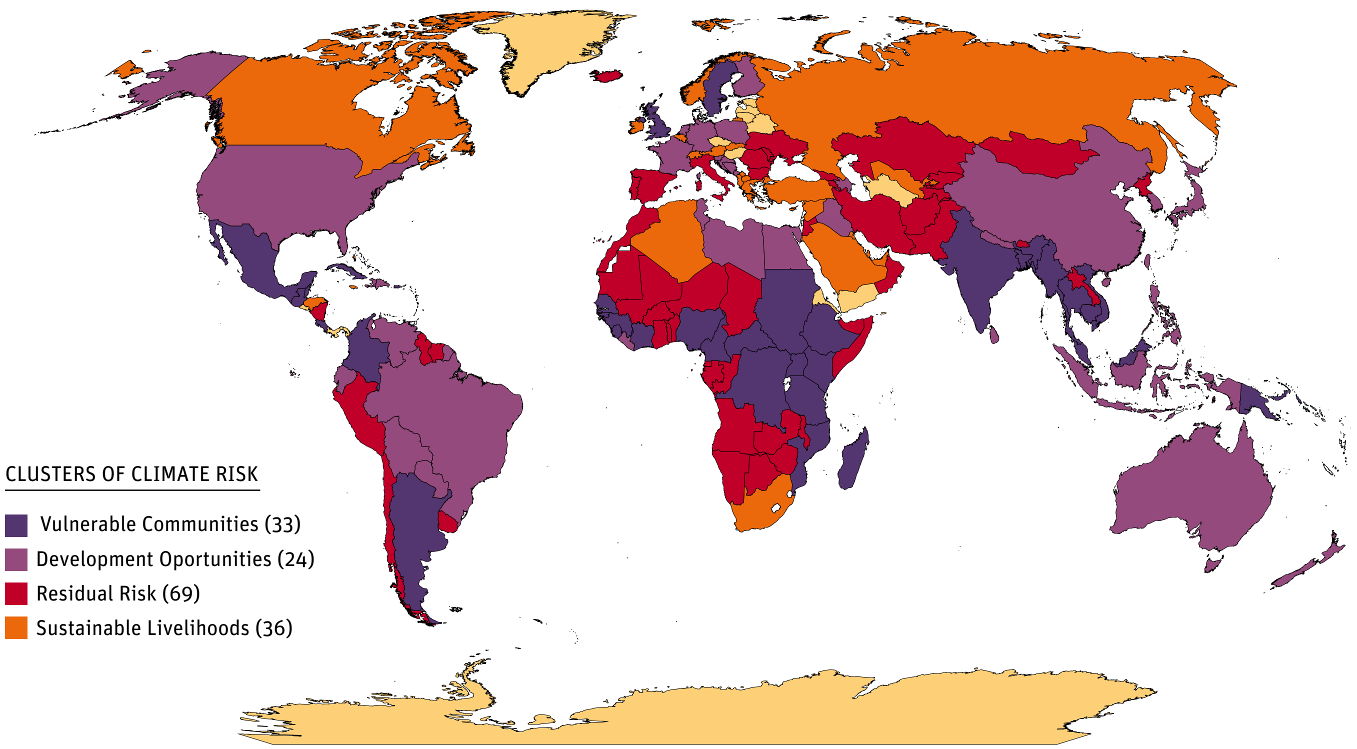
This indicates that, in order to prioritize investments to take advantage of carbon mitigation financing sources, the ability to value benefits additional to the sale of carbon credits is critical. In this case, afforestation and reforestation are expected to generate large benefits in terms of reduced damage and land loss due to strong winds and storm surges, together with the maintenance of biodiversity. However, at present there is simply not enough information to value these benefits. The analysis thus highlights informational needs for the future cost-benefit analysis which assess the impact of policy and regulatory reforms that expand opportunities for accessing international climate financing.

E. PERU: STRATEGY TO REDUCE THE VULNERABILITY OF THE STATE TO DISASTERS PROGRAM

The Latin America and the Caribbean region is one of the most prone to be affected by natural disasters, that represent a major threat to economic development by increasing vulnerability of the poorest, reducing food security and threatening livelihoods' resilience.

To manage the risks associated with natural disasters, the Bank has developed a systematic strategy that allows countries to identify, prevent and reduce the risk to natural hazards, increasing their resilience and reducing vulnerability. The strategy has four pillars: (i) increasing governance and financial protection; (ii) improving collective risk identification; (iii) enhancing disaster risk

Fig. 30
Capability of Countries to Respond to Climate Change



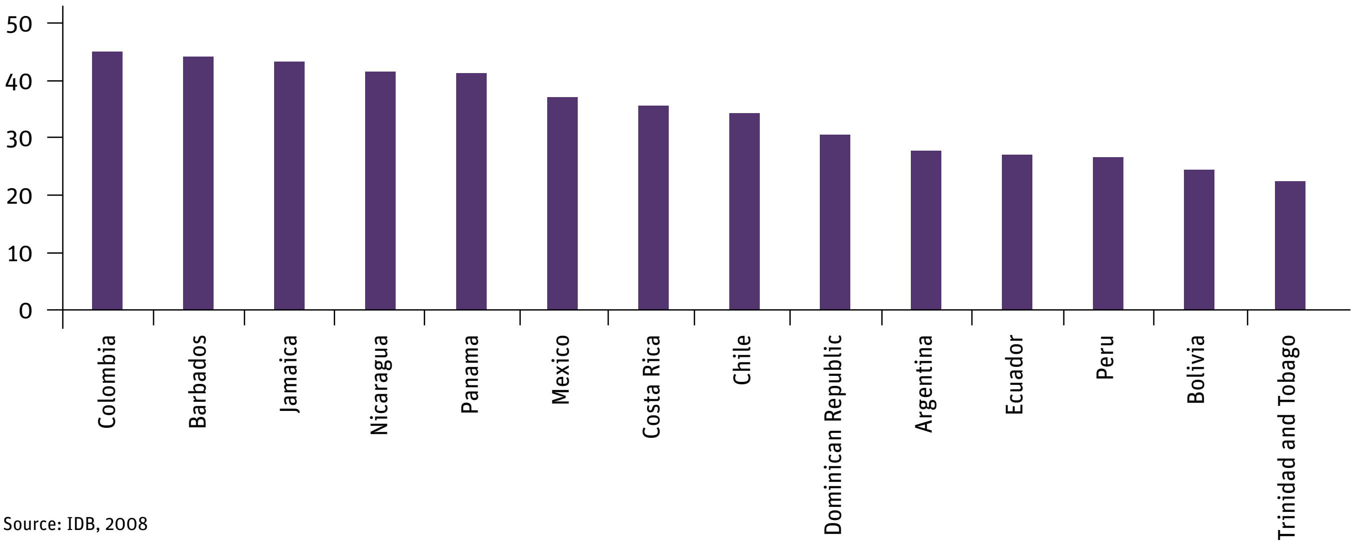
Source: Tol et al., 2004.

reduction, and (iv) boosting disaster risk management capacity. The Bank has also financed the development of complementary instruments which include a system of risk management indicators and catastrophe risk profiles (Figure 30).

Using the information gathered through the different instruments developed by the Bank as well as the evidence from similar interventions in other countries, the Peruvian Government and the IDB worked together to design the Strategy to Reduce the Vulnerability of the State to Disasters Program. In the case of Peru, the System of Indicators of Disaster Risk and Risk Management indicated that performance in the four pillars of risk management (i.e., governance and financial protection, risk identification, risk reduction, and disaster management) measured by the Risk Management Index (RMI), was weak compared to other countries in the region (Figure 31).

Besides, Peru is one of the most vulnerable countries to natural hazards in the Hemisphere. Between 1970 and 2010, Peruvian faced 109 disasters that caused over 74,000 deaths and affected 18 million people (EM-DAT, 2010). Also during this period, Peru was the Latin American country with the highest number of deaths related to natural disasters. According to the country risk profile (IDB, 2009a), an earthquake similar to Chile's in 2010 could cause an economic loss of over US$43 billion. For all these reasons, a structural reform was needed in order to shape a comprehensive policy, modernize the regulatory and institutional framework, and transform the per-

Fig. 31
Risk Management Index for 2008



Source: IDB, 2008

ception of governmental organizations on disaster risk management, which was mainly focused on humanitarian response without considering key dimensions such as risk prevention or mitigation.

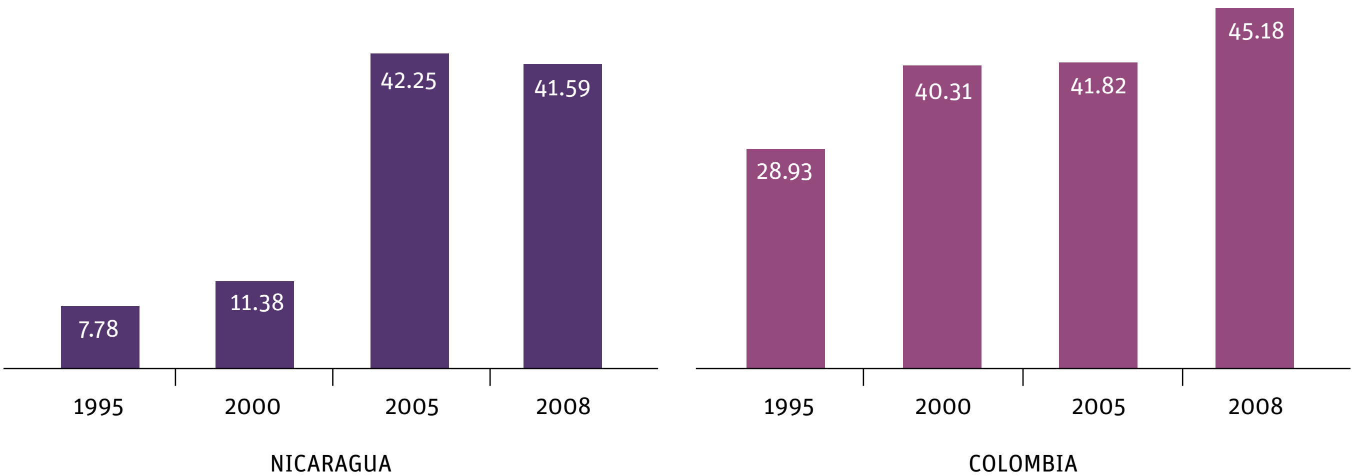
The structural transformation was put in place through the execution of two programmatic policy based loans in 2010 and 2011. The set of reforms included, among others, developing and implementing the legal and regulatory framework for integrated disaster risk; introducing disaster risk management in the national budget; and developing tools to improve monitoring of climate, hydro-meteorological, and geological phenomena. However, the major accomplishment was the establishment, by law, of the new National Disaster Risk Management System (SINAGERD) which represents an *avantgarde* institutional and legal reform.

The creation of the SINAGERD is crucial as it raises the importance of disaster risk management to a prime ministerial level and guarantees that all public investment projects consider a risk management dimension before approval.

During the process of project design, different strategic alliances were created among the various institutions that influence the disaster risk management at the national level which contributed to boost knowledge creation and facilitated technical support. This collaborative process included public entities such as the Ministries of Economy and Finance, Agriculture, Environment, Housing, Construction and Sanitation, the National Meteorology and Hydrology Service (SENAMHI), the Sea Institute (IMARPE) among others. The government's commitment with this legal and institutional reform process was reassured with their interest to implement a third programmatic loan in 2014 and an investment loan aimed at reducing the vulnerability of disaster-prone areas in 2013.

The System of Indicators of Disaster Risk and Risk Management are also used to evaluate the project's impact and results. In particular, the RMI is used to capture the project's impact and the indicators that encompass it are used to assess the project's results. Four different indicators are part of the RMI and each one of them captures an aspect of the disaster risk management performance including governance and fiscal protection, risk identi-

Fig. 32
Risk Management Index for Nicaragua and Colombia



fication, risk reduction and disaster management. For every indicator, there are six specific targets or benchmarks that a country must achieve in order to increase its rating, which ranges from 0 to 100. The average rating of all indicators provides the RMI score, that cannot be influenced by other type of actions which are not part of the benchmark list.

In terms of evaluation, the only feasible strategy is to implement a reflexive or before/after methodology, which implies comparing the indicators before and after the project is in place. In this particular case, that entails reforms that have a national scope and where it is impossible to create a counterfactual, and where the outcome is not affected by other factors besides those controlled by within the project (no other institutions besides the national government could affect the indicators considered). The strategy of comparing before and after the RMI indicators could provide a valid interpretation of the project's effects.

Assessments conducted in other countries confirm the effectiveness of this type of interventions. For instance, in Nicaragua, the National Assembly approved a law to create the National System for Prevention, Mitigation and Disaster Management (SINAPRED) and the National Program for Risk Reduction in 2000. In Colombia, the National Government approved by law the implementation of the National System for Disaster Prevention and Management in 1989 and the National Plan for Prevention and Disaster Management in 1998.

Both interventions were structural reforms that aimed at strengthening the regulatory, legal and institutional framework to enhance risk management performance at the national level. Studies conducted by the IDB (2010a and 2010b) show that both countries had a significant increase in their RMI scores before and after the interventions were in place, which suggests an improvement in their risk management performance (Figure 32).

F. SUPPORTING A NASCENT RENEWABLE ENERGY: SOLAR ENERGY, PV PLANTS IN CHILE

In 2011, the IDB, through its NSG loan, supported *Subsole,* a vertically integrated agribusiness company that grows processes and commercializes table fruit. It is the largest Chilean-owned exporter of table fruit and the country's third largest exporter of grapes that benefits 275 of its table fruit suppliers located in six geographical areas. *Subsole's* main products include table grapes, avocados, kiwis, citrus, cherries and pomegranates.

The IDB funds will be used to support *Subsole's* capital expenditure program for 2011-14 whose investments will represent the cutting-edge in sustainability in Chile's table fruit industry with regard to increased capacity, energy usage, irrigation, and water storage methods. It will also refinance its debt previously borrowed from several local banks in order to achieve a capital structure in line with recent revenue growth and productive investments.

The *Subsole* project is unique through its innovative use of proceeds. Specifically, the project will develop one of the first photovoltaic (PV) plants and the first to be used in the agribusiness sector. The plant's capacity is 307kWp (kilowatt-peak, during the first phase) and is located in the Atacama Desert, an area with the best solar resources of the country.

The plant's entire solar energy production will be dedicated to power fruit irrigation. It is worth noting that power derived from the *Subsole* PV plant is on par with grid energy in terms of price and does not rely on government incentives, feed-in tariffs, as is the usual practice when developing a power plant from renewable or conventional energy sources. As such, *Subsole* proved that even small solar PV plants can compete with grid energy in terms of price (grid parity) even in the absence of government incentives. Given the region's extensive solar resources, the demonstration effect regarding the use of clean (solar) energy, its efficiency, and irrigation and water storage methods in the agribusiness sector, are significant.

Subsole also improved the chances that the lessons learned associated with PV plants would be replicated through an innovative use of technology. As part of the project, the RedLAC network, a knowledge-sharing platform, was created to induce a spill-over effect by providing a tool to communicate lessons learned about PV technology among interested parties. In fact, the technology has proven so successful that both the IDB Team and *Subsole* have been contacted by international and local parties interested in learning about the technology and financing potential PV projects. The solar energy resources in the Atacama Desert are so plentiful that it is expected that PV can serve as a viable renewable energy source for a variety of industries including mining and agribusiness as well as an alternative to grid energy.

The Bank mobilized resources to ensure that the innovative aspects of this project came to fruition. Technical Cooperation (TC) funds make transactions more appealing to potential clients. In the case of *Subsole,* SECCI funds were used to support a feasibility study for the PV plant and to define opportunities for energy efficiency. The feasibility study determined that the PV plant has a capacity of 307kWp during the first phase.

Should *Subsole* decide to make further investments, the capacity would reach approximately 2MW. SECCI funds can facilitate the replicability of PV plants in places with similar solar resources by providing tailored studies showing the feasibility of this type of technology.


2
3
4
5
6
7
8
9
10
11
12

Annex I

Annual Business Review 2011

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages107 to 140

Abbreviations

AFS	Audited Financial Statements
BDA	Budget and Administrative Services Department
C&D	Countries from Group C & Group D
CAN	Country Department Andean Group (Colombia, Peru, Venezuela, Bolivia and Ecuador)
CCB	Country Department Caribbean Group (Jamaica, Trinidad and Tobago, Suriname, Guyana, Barbados and Bahamas)
CCLIP	Conditional Credit Line for Investment Projects
CID	Country Department Central America (Guatemala, Belize, El Salvador, Honduras, Nicaragua, Costa Rica, Mexico, Panama and Dominican Republic)
COF	Country Office
CPD	Country Programming Document
CSC	Country Department Southern Cone (Argentina, Brazil, Chile, Uruguay and Paraguay)
DTF	Donor Trust Funds
DEM	Development Effectiveness Matrix
EDU	Education Division
EME	Emergency Operations
FSO	Fund for Special Operations
FTE	Full Time Equivalents
FMM	Fiscal and Municipal Management Division
GCM	Grants and Co-financing Management Unit
GEF	Global Environment Facility
HQ	Headquarters
HRD	Human Resources Department
HRG	Haiti Response Group
ICF	Institutional Capacity and Finance Sector
IDB-8	Eighth General Capital Increase in the Resources of the Inter-American Development Bank
IDB-9	Ninth General Capital Increase in the Resources of the Inter-American Development Bank
INE	Infrastructure and Environment Sector
INT	Integration and Trade Sector
INV	Investment Operations

KCP	Knowledge and Capacity Building Products
NFP	Non Financial Products
LPGS	Liquidity Program for Growth Sustainability
NPC	Non-personnel Costs
NSG	Non-sovereign Guaranteed
OC	Ordinary Capital
OMJ	Opportunities for the Majority Sector
OPUS	Operations Update System
PBL	Policy-based Lending
PC	Personnel Cost
PCR	Project Completion Report
PDP	Operations Procurement Office
PFM	Portfolio Monitoring Unit
PMR	Progress Monitoring Report
PRG	Programming Product
REG	Regional
RES	Department of Research and Chief Economist
RND	Environment, Rural Development, Disaster Risk Management Division
SCF	Structured and Corporate Financing Department
SCL	Social Sector
SECCI	Sustainable Energy and Climate Change Initiative
SG	Sovereign Guaranteed
SMO	Strategic Monitoring Division
SPD	Office of Strategic Planning and Development Effectiveness
SPH	Social Protection and Health Division
T&L	Time and Labor System
TC	Technical Cooperation
TFFP	Regional Trade Finance Facilitation Program
VPC	Vice President for Countries
VPF	Vice President for Finance and Administration
VPP	Vice President for Private Sector and Non-sovereign Guaranteed Operations
VPS	Vice President for Sectors and Knowledge
WSA	Water and Sanitation Division

This document provides an analysis of the 2011 operational results for discussion and decision making purposes. This data was collected from a number of sources and is subject to adjustments and analysis as deemed appropriate by the corresponding business units sponsoring the information.

Special acknowledgement to VPC, VPS, VPF, and VPP for their support in the preparation of this report.

Project Approvals

• Lending approvals reached $10.9b, a 14% decrease from $12.7b in 2010. Number of operations reached 167, a 2% decrease from 170 approved in 2010.

* SG approvals with Ordinary Capital (OC) reached $8.9b a 21% decrease from $11.3b in 2010.

* NSG approvals reached $1.5b, a 68% increase from $0.9b in 2010.

* Investment approvals reached $9.2b in 2011, a 2% decrease from $9b in 2010.

* Policy-based lending approvals reached $1.7b, a 54% decrease from $3.7b in 2010.

* Fund for Special Operations (FSO) approvals reached $181m, a 39% decrease from the $297m approved in 2010.

* Grant Facility approvals reached $241m, a 4% decrease from $251m in 2010.

• The share of operations that scored "evaluable" or above in the Development Effectiveness Matrix (DEM) evaluability dimensions reached 98%, a 26 percentage points increase from 72% projects in 2010.

• Operations for Small and Vulnerable countries reached $3.9b, a 7% decrease from $4.2b in 2010. Number of operations reached 97, a 4% increase from 93 in 2010.

Project Disbursements

• Total disbursements reached $8.4b, a 23% decrease from $10.9b in 2010.

• Investment loan disbursements reached $6.1b, a 17% decrease from $7.4b in 2010.

• Loan disbursements from FSO and Grants amounted to $543m, a 2% increase from $532m in 2010.

• Disbursements for Small and Vulnerable countries reached $3.4b, a decrease of 1% from $3.4b in 2010.

Portfolio Management

• There are 591 Sovereign Guaranteed operations in the Bank's portfolio, an increase of 2% from 580 in 2010 and there are 78 Non-sovereign Guaranteed operations, an increase of 18% from 66 in 2010.

• The time elapsed from legal effectiveness to first disbursement for projects is 7.1 months, a 4% increase from 6.8 months in 2010. The time elapsed from legal effectiveness to last disbursement for a project is 6.8 years, a 7% decrease from 7.4 years in 2010.

VPS Economic Sector Work (ESW)

• VPS worked on 86 ESW products, an 11% decrease from 97 ESW products in 2010.

• VPS completed 469 deliverables (81% of the 580 planned), a 13% decrease from 537 deliverables (86% of the 622 planned) in 2010.

• Non personnel expenditures for Economic and Sector Work reached $14.9m, a 2% increase from $14.6m spent in 2010.

• Staff time reported to Economic and Sector Work in 2011 reached 74.4 FTEs, less than 1% increase from 74.2 reported in 2010.

Country Strategies

• Nine country strategies (CS) were approved by the Board during 2011: Bolivia, Chile, Costa Rica, Haiti, Honduras, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

Technical Cooperation

• TC approvals reached $164m, a 17% decrease from the $198m approved in 2010. Number of operations reached 355, a 14% decrease from 411 in 2010.

• TC Disbursements reached $162m, an increase of 22% from $133m in 2010.

Operational Efficiency

• Staff time reported per approved project reached 0.86 FTEs, a 3% decrease from 0.88 in 2010.

• Time elapsed to prepare an SG project (from Profile to Approval) reached 5.1 months, a 5% increase from 4.9 months in 2010.

• Staff time reported to project execution per $million disbursed reached 5.8 days, a 50% increase from 3.8 days in 2010.

Operational Staffing and Culture

• There were 246 positions filled in 2011 out of which 184 (75%) were operational. In 2010, of 180 positions filled 125 (69%) were operational.

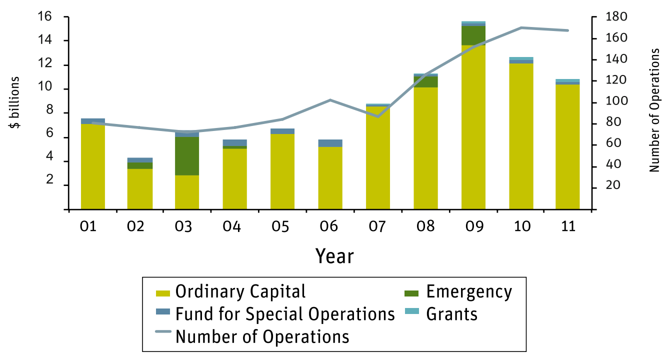
• In 2011, women accounted for 25 (34%) of the 74 hires in Country Offices (COFs), and they provided 57 (54%) of the 105 hires at headquarters. In 2010, women represented 26 (43%) of the 60 hires in COFs, and 41 (46%) of 90 positions filled in Headquarters.

• Number of SG operations prepared by Team Leaders in COFs as a percent of total number or SG approvals reached 67%, a 23 percentage points increase from 44% in 2010.

• The percentage of projects in execution with Team Leaders in COFs increased from 84% in 2010 to 87% in 2010.

This section presents indicators for the utilization of Bank's financial resources through different instruments as well as their allocation to country groups and priority sectors. Also presents information regarding the completion of Departmental Business Plans.

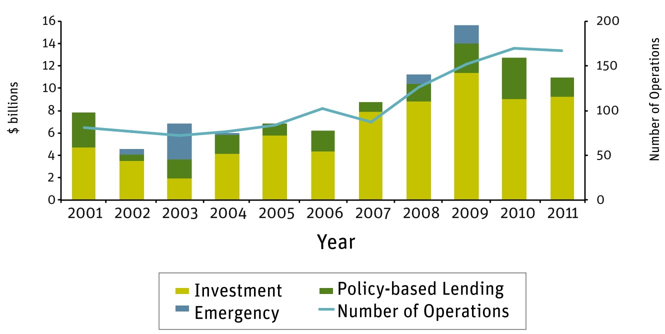
1.1 LENDING BY FUND



• Lending approvals reached $10.9b, a 14% decrease from $12.7b in 2010. The number of operations reached 167, a 2% decrease from 170 approved in 2010.

• Fund for Special Operations (FSO) approvals reached $181m, a 39% decrease from the $297m approved in 2010. Grant approvals reached $241m, a 4% decrease from the $251m approved in 2010.

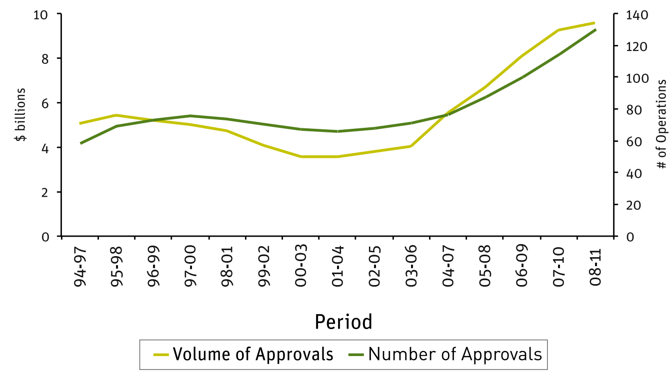
1.2 LENDING BY INSTRUMENT



• Investment approvals reached $9.2b in 2011, a 2% increase from $9.0b in 2010. Policy-based lending approvals reached $1.7b, a 54% decrease from $3.7b in 2010. There were no Emergency loan approvals.

• Sovereign Guaranteed investment operations account for $7.8b of investment approvals, a 5% decrease from $8.2b in 2010.

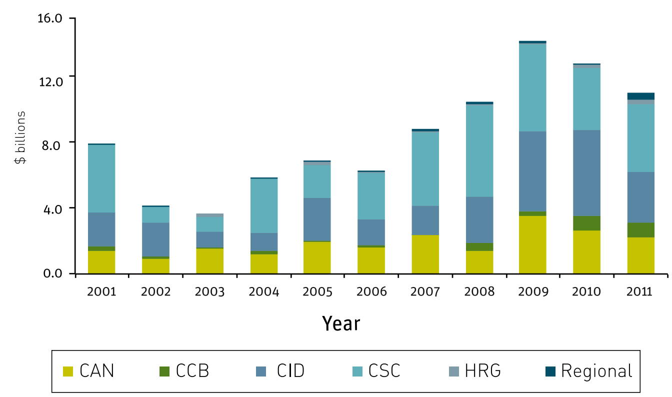
1.3 INVESTMENT LENDING GROWTH – 4 YR MOVING AVERAGE



• The 4 year Average Investment Lending approvals reached $9.6b in the 2008-11 periods, a 4% increase from $9.2b in 2007-10.

• The 4 year Average Investment Lending approvals reached 131 operations in the 2008-11 periods, a 14% increase from 115 in 2007-10.

1.4 LENDING BY COUNTRY DEPARTMENT (EXCLUDES EMERGENCY LENDING)



• Approvals for CAN countries reached $2.2b, a 17% decrease from $2.6b in 2010. The number of operations reached 37, a 3% decrease from 38 in 2010.

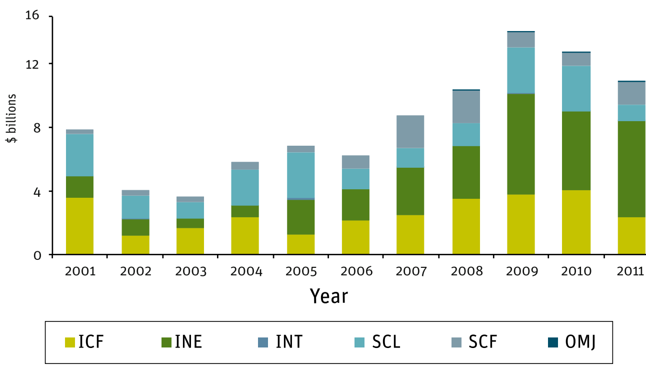
• Approvals for CCB countries reached $0.9b, a 1% increase from $0.9b in 2010. Number of operations reached 19, a 12% increase from 17 in 2010.

• Approvals for CID countries reached $3.0b, a 40% decrease from $5.1b in 2010. Number of operations reached 50, a 7% decrease from 54 in 2010.

• Approvals for CSC countries reached $4.0b, a 9% increase from $3.7b in 2010. Number of operations reached 47, a 6% decrease from 50 in 2010.

• Approvals for HRG reached $0.2b, a 4% decrease from $0.3b in 2010. Number of operations reached 7, a 30% decrease from 10 in 2010.

1.5 LENDING BY SECTOR (EXCLUDES EMERGENCY LENDING)



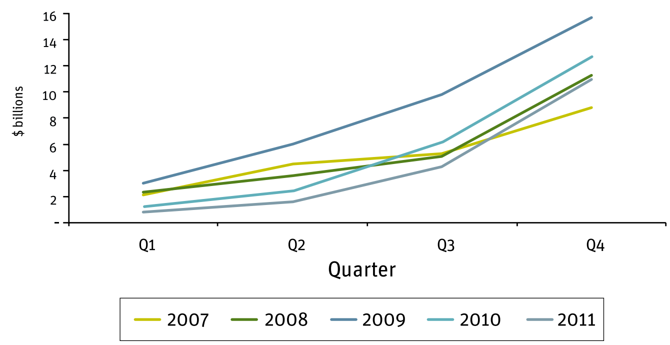
• ICF approvals reached $2.4b, a 42% decrease from $4.0b approved in 2010. The number of operations reached 39, a 13% decrease from 45 in 2010.

• INE approvals reached $6.0b, a 21% increase from the $5.0b approved in 2010. The number of operations reached 58, an 11% decrease from 65 operations in 2010.

• SCF approvals reached $1.4b, a 71% increase from the $0.8b in 2010. Number of operations reached 35, a 67% increase from 21 in 2010.

• SCL approvals reached $1.0b, a 63% decrease from $2.8b in 2010. Number of operations reached 21, a 25% increase from 28 in 2010.

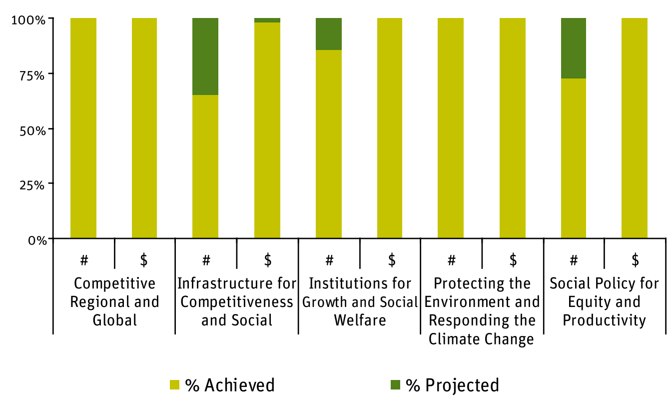
1.6 CUMULATIVE LENDING APPROVALS BY QUARTER



• Volume of lending approved in the last quarter of 2011 reached $6.6b, a 3% increase from $6.4b in 2010. As a percentage of total lending, approvals in the last quarter reached 61%, a 10 percentage points increase from 51% in 2010.

• The number of loan approvals in the last quarter of 2011 reached 92, a 14% increase from 81 in 2010. As a percentage of total number of operations, approvals in the last quarter reached 55%, a 7 percentage point increase from 48% in 2010.

1.7 APPROVALS IN SECTOR PRIORITY AREAS



• Approvals for Competitive Regional and Global International Integration reached $94.5m in 13 operations, almost double the volume ($52m) projected for 2011.

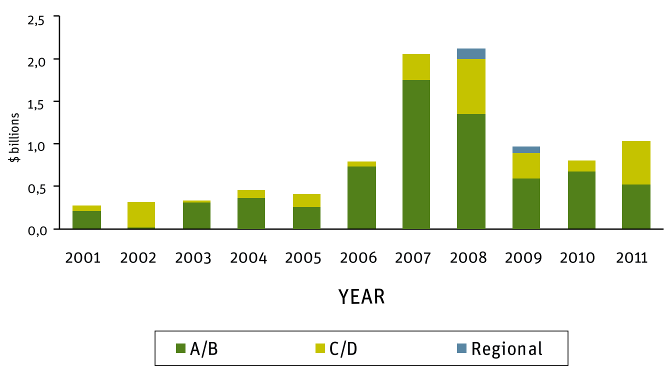
• Approvals for Infrastructure for Competitiveness and Social Welfare reached $4.5b in 47 operations, 2% under the volume ($4.6b) projected for 2011.

• Approvals for Institutions for Growth and Social Welfare reached $2.3b in 54 operations, 2% above the volume ($2.2b) projected for 2011.

• Approvals for Protecting the Environment and Responding the Climate Change priority reached $410m in eight operations, 15% above the volume ($355m) projected for 2011.

• Approvals for Social Policy for Equity and Productivity reached $3.6b in 46 operations, in line with the volume ($3.6b) projected for 2011.

1.8 NSG LENDING TO GROUPS C&D



• In 2011, NSG approvals for C&D countries represented 36% of total NSG volume ($1.4b) and 43% of number of operations (46). In 2010, 16% of total NSG volume ($0.8b) and 32% of the number of operations (31) were for C&D countries.

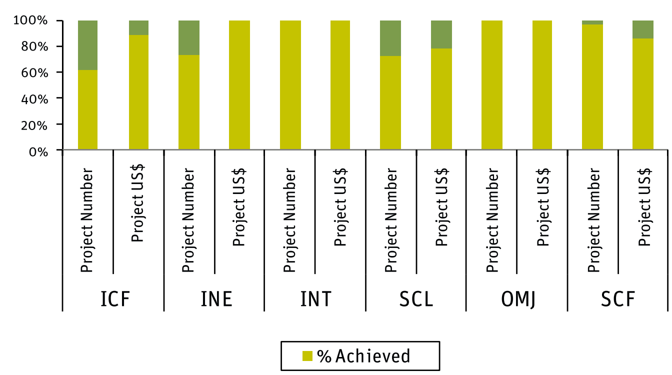
1.9 LENDING TARGETS OF IDB-9

	BASELINE 2006-09	PROGRESS 2011	TARGET 2015
Lending for:			
- Small and Vulnerable Countries	27%	36%	35%
- Poverty Reduction and Equity Enhancement:	40%	49%	50%
- Climate change intiatives, sustainable energy (including renewable) and environmental sustainability	5%	33%	25%
- Regional Cooperation and Integration	10%	12%	15%

• The lending targets in IDB-9 are set forth to be achieved in 2015. The results from the 2011 approvals reveal significant progress with respect to the baselines and towards the targets.[1]

BUSINESS PLANS EXECUTION

1.10 BUSINESS PLANS FROM COUNTRY DEPARTMENTS



• Based on estimates prepared for the Business Plans[2] for 2011, CAN reached 93% of estimated disbursements, 89% of approvals volume, and 79% in number of projects

[1] Lending can account for more than one of the indicators.

[2] Business Plans are the original estimates of outputs proposed by Bank's Units in the Program and budget document (GA-245-19) for the year. Country Departments and Sectors prepared estimates for disbursements and approvals (number and volume) among other indicators.

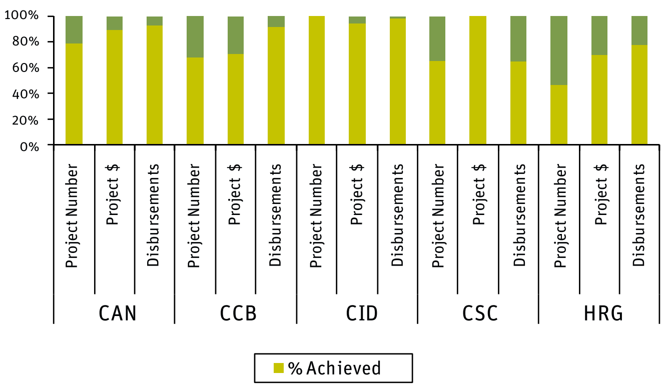
• CCB reached 92% in disbursements, 71%, in approvals volume, and 68% in number of approvals;

• CID reached 98% in disbursements, 95% in approvals volume, and 100% in number of approvals;

• CSC reached 65% of disbursements, 100% of approvals volume, and 65% in number of approvals;

• HRG reached 78% in disbursements, 70% of approvals volume, and 47% in number of approvals.

1.11 BUSINESS PLANS FROM SECTOR DEPARTMENTS



• Based on estimates prepared for the Business Plans[3] for 2011, ICF reached 89% of approvals estimated volume and 62% in number of approvals.

• INE reached 100% in approvals volume, and 73% in number of approvals;

• INT reached 100% in approvals volume, and 100% in number of approvals;

• SCL reached 78% of approvals volume, and 72% in number of approvals;

• OMJ reached 100% of approvals volume, and 100% in number of approvals;

• SCF reached 86% of approvals volume and 97% in number of approvals.

[3] Business Plans are the original estimates of outputs proposed by Bank's Units in the Program and budget document (GA-245-19) for the year. Sectors prepared estimates for approvals (number and volume) among other indicators.

The following section presents indicators that assess Country Strategies and programming as well as Knowledge and Capacity Building Products. There are indicators about financial and human resources devoted in these activities. This section also includes Technical Cooperation program and execution indicators.

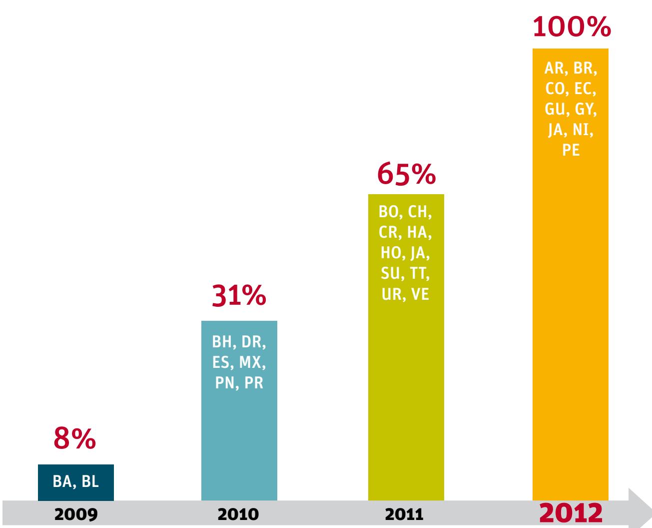
COUNTRY STRATEGIES AND DIALOGUE EFFECTIVENESS

• Nine country strategies (CS) were approved by the Board during 2011: Bolivia, Chile, Costa Rica, Haiti, Honduras, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

• For relevance, the link between diagnostics and strategic objectives was clearly expressed in all country strategies and consistent with each country's development challenges and priorities (ownership and alignment).

• All country strategies were selective and focused and provided a suitable mix of Bank instruments to achieve strategic priorities (coherence).

2.1 RESULTS-BASED COUNTRY STRATEGIES

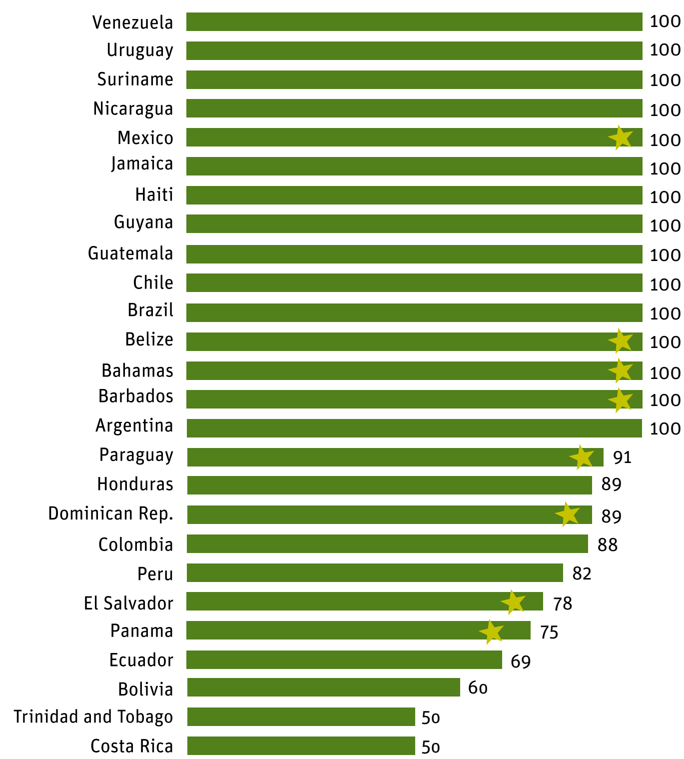


AR Argentina · **BA** Barbados · **BH** Bahamas · **BL** Belize · **BO** Bolivia · **BR** Brazil · **CH** Chile · **CO** Colombia · **CR** Costa Rica · **DR** Dominican Republic · **EC** Ecuador · **ES** El Salvador · **GU** Guatemala · **GY** Guyana · **HA** Haiti · **HO** Honduras · **JA** Jamaica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

• For effectiveness, all nine country strategies were based on high quality country diagnostics. Almost all of the sector diagnostics could identify problems and their determinants based on empirical evidence. The sector diagnostics could also characterize the population affected by such problems, as well as define the possible types of interventions. The objectives defined in the country strategies have a direct correspondence with the sector diagnostic.

• The quality of the country strategies results frameworks was also high, including a clear and specific identification of objectives, and expected results and indicators.

2.2 COUNTRY PROGRAM DOCUMENTS. COUNTRY STRATEGY ALIGNMENT[4]

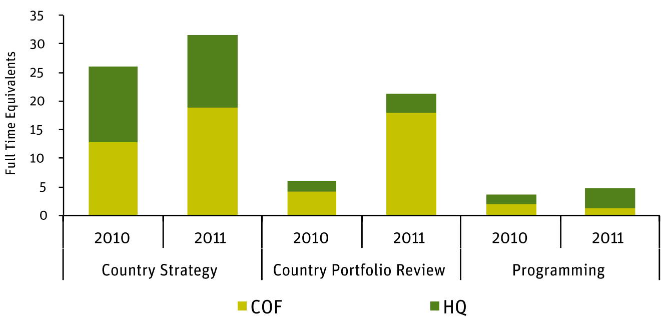


• Country Program Documents (CPDs) were prepared for all 26 countries of which 22 were highly aligned with Country Strategy objectives. In the cases were there was partial alignment, a sound justification was provided in order to support the relevance of the operations included in the work plan.

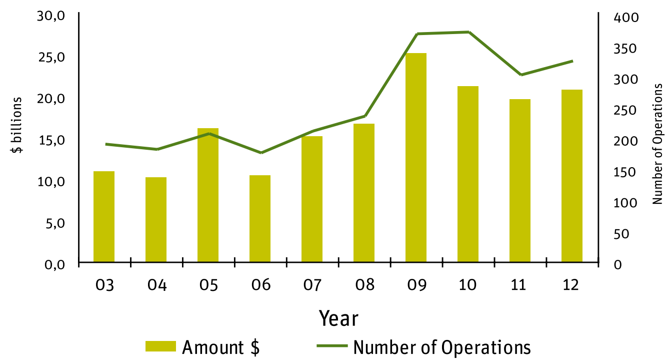
• The majority of interventions included in previous CPDs were approved as expected. Particularly, 23 percent of CPDs reported full approval of loans planned, while 55% of CPDs reported that over 70% of operations programmed were approved.

[4] A star in the graph denotes that a Result-based Country Strategy has been approved for that country prior to the programming exercise.

2.3 FTEs REPORTED TO PROGRAMMING PRODUCTS



2.4 PROJECT PIPELINE DEVELOPMENT



• Staff time reported to strategy, programming and portfolio management activities reached 57.5 FTEs,[5] a 61% increase from 35.8 FTEs reported in 2010. Country Strategies accounted for 55% (31.5 FTEs) of the total reported to these activities.

• The 26 FTEs reported to programming and portfolio management activities are distributed as: CAN 18%, CCB 23%, CID 34%, CSC 16%, HRG 5% and Regional 1%.

• Staff time reported to strategy, programming and portfolio management activities by COF reached 66% of FTEs reported to these activities, a 13 percentage point increase from 53% in 2010.

• Staff time reported to Customer Relationship Management[6] activities reached 9.4 FTEs, more than double relative to 4 FTEs in 2010.

• As of January 1st 2012, the pipeline[7] had 323 loan operations for $20.8b, a 7% increase from 301 operations and a 6% increase from $19.6b in 2011.

• The pipeline at the beginning of 2012 included $2.5b in Policy-based Lending (PBL), a 22% decrease from $3.2b in 2011; and $18.2b in SG and NSG investment, an 11% increase from $16.4b at the beginning of 2011.

• The 2012 category "A" pipeline has 209 operations for $12.1, a 19% decrease from 257 operations and a 19% decrease from $15b in 2011.

• The 2012 A pipeline includes $1.1b in Policy-based Lending (PBL), and $11b in SG and NSG investment, which represents almost twice the level of 2010 for PBL and a 15% decrease from $12.9b for SG and NSG investment in 2011.

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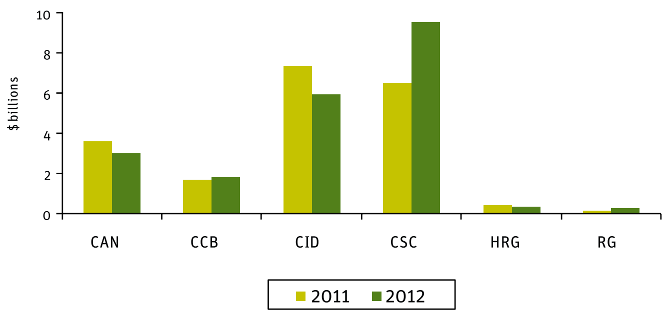
[5] FTE – Full Time Equivalent Staff Years

[6] Customer Relationship Management refers to the provision of timely, high quality services to borrowing countries, donors and other key constituencies. Manage clients' expectations under a scenario of scarcity of resources.

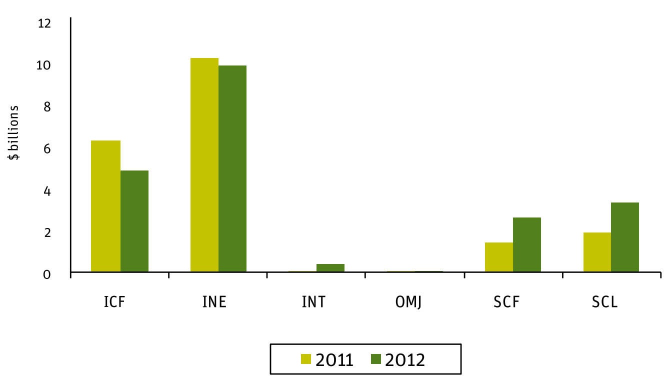
[7] Project pipeline includes projects for 2012 and 2013 categorized as A and B unless specifically noted.

2.5 PROJECT PIPELINE BY COUNTRY DEPARTMENT



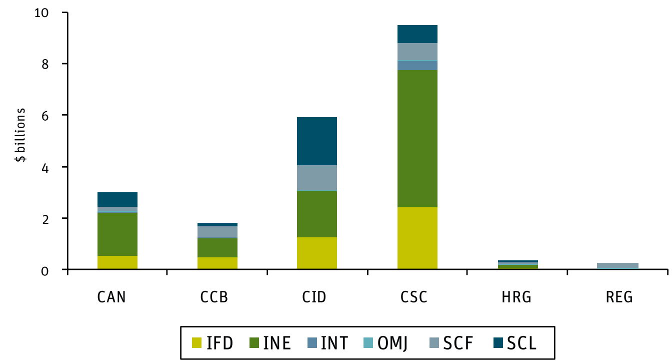
• Project pipeline as of January 1st 2012 for CAN amounts to $3.0b, a 17% decrease from $3.6b in 2011; for CCB amounts to $1.8b, a 7% increase from $1.7b in 2011; for CID amounts to $6.0b, a 19% decrease from $7.3b in 2011; for CSC amounts to $9.5b, a 47% increase from $6.5 in 2011, and for HRG amounts to $0.34b, a 12% decrease from $0.39b in 2011.

2.6 PROJECT PIPELINE BY SECTOR



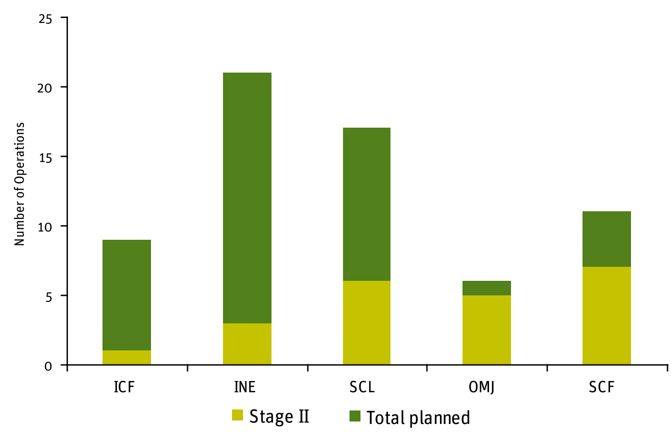
• Project pipeline as of January 1st 2012 for ICF amounts to $4.8b, a 23% decrease from $6.2b in 2011; for INE amounts to $9.7b, a 3% decrease from $10.1b in 2011; for INT amounts to $366m, a six fold increase from $50m in 2011, for OMJ amounts to $52m, a twofold increase from $17m, for SCF amounts to $2.6b, an 86% increase from $1.4b in 2011; for SCL amounts to $3.3b, a 77% increase from $1.8b in 2011.

2.7 PROJECT PIPELINE BY COUNTRY DEPARTMENT AND SECTOR



• Project pipeline based on volume, is distributed in CSC and CID (79%), 9% for CCB, 15% for CAN, 2% for HRG and 1% Regional. For Sectors, ICF and INE account for 74% of pipeline while SCL accounts for 17% and SCF for 13%.

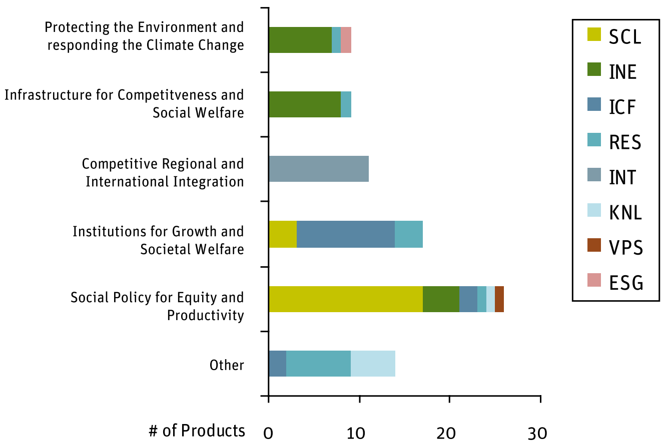
2.8 PIPELINE READINESS



• By the end of 2011 a set of 64 operations was planned for approval during the first semester of 2012. Out of the 64 operations, 22 have already executed stage II.[8]

[8] Stage II executed means that the operations have a Proposal for Operation Development (POD) approved or a Mandate Letter for NSG operations.

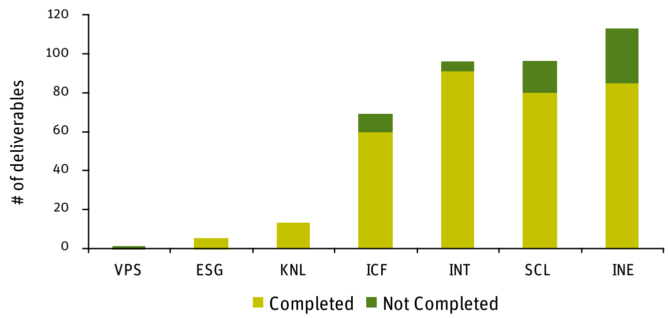
2.9 ECONOMIC AND SECTOR WORK (ESW) PRODUCTS BY SECTOR AND PRIORITY AREAS[9]



• The ESW Plan[10] at the end of 2011 contained 86 products with 580 deliverables projected for the year of which 469 (81%) were completed. In 2010 the ESW Plan contained 97 products with 622 deliverables of which 537 (86%) were completed.

• The Corporate Input Products (CIP) program for VPS at the end of 2011 contained 42 products concentrated mainly in KNL (17), six in ICF, nine in INE, seven in SCL and three in the VPS office (which includes ESG products). In the same period in 2010, the CIP program contained 24 products.

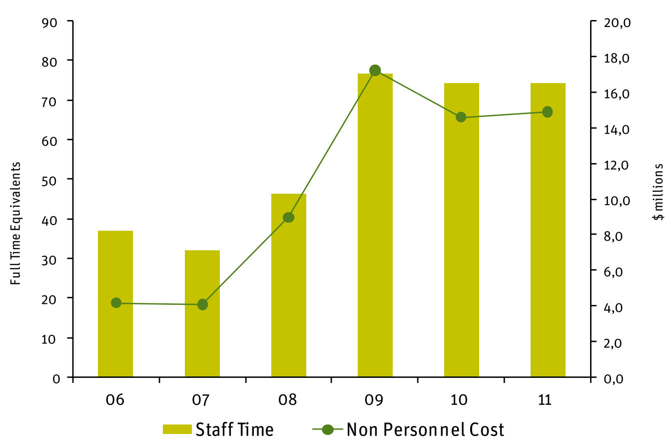
2.10 ESW DELIVERABLES[11] BY SECTOR



• Sectors worked on 82 ESW products as of December 2011. ICF was responsible for 15 (17%), INE for 19 (22%), SCL for 20 (23%), RES for 13 (15%), INT for 11 (13%), and ESG and VPS for 2 (2%).

• RES and INT completed 227 (80%) deliverables of 284 planned, ICF, INE and SCL completed 225 (81%) of 278 deliverables estimated.

2.11 RESOURCES TO ECONOMIC AND SECTOR WORK PRODUCTS



[9] In previous years, Economic and Sector Work was generated mainly through independent research papers, studies, notes and seminars. 2009 was the first year of implementation of Knowledge and Capacity Building Products through a programmatic approach.

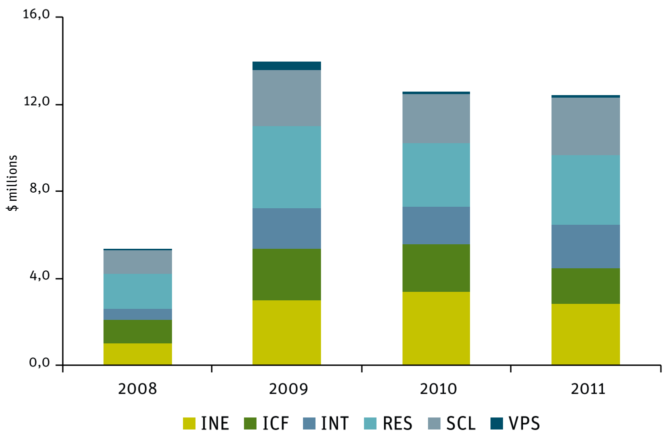
[10] The ESW Plan refers only to products financed by the administrative budget.

[11] Economic and Sector Work deliverables are intermediate outputs such as sector studies and notes, seminars, technical networks, and databases, among others.

• Non personnel expenditures for ESW products reached $14.9m, a 2% increase from $14.6m spent in 2010.

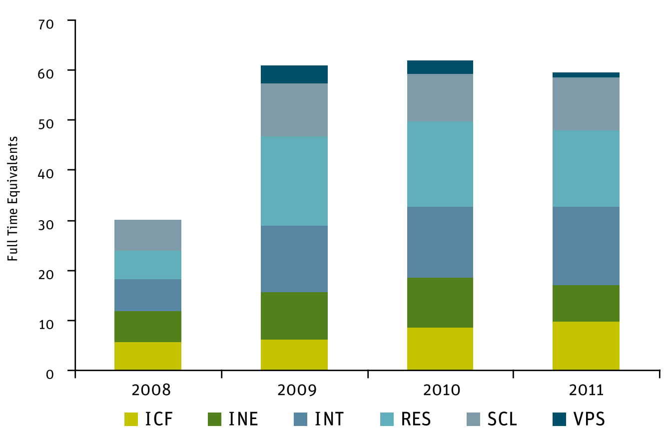
• Staff time reported to ESW products in 2011 reached 74.4 FTEs, a less than 1% increase from 74.2 reported in 2010.

2.12 NON PERSONNEL COSTS TO ECONOMIC AND SECTOR WORK PRODUCTS FROM SECTORS



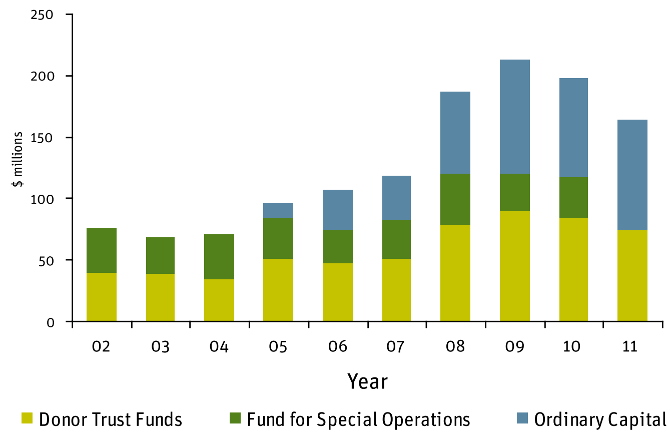
• Execution of Non personnel resources (consultants and travel) by VPS to the ESW program in 2011 reached $12.4m, a 1% decrease from $12.6m in 2010. By sector, RES reached $3.2m, INE $2.8m, SCL $2.7m, INT $2.0m and ICF $1.7m.

2.13 STAFF TIME REPORTS TO ECONOMIC AND SECTOR WORK PRODUCTS FROM SECTORS



• Staff time reported by VPS to the KCP program in 2011 reached 59.6 FTEs, a 4% decrease from 61.8 FTEs in 2010. By sector, INT reached 15.5 FTEs, RES 15.2 FTEs, SCL 10.6 FTEs, ICF 9.7 FTEs and INE 7.5 FTEs.

2.14 TECHNICAL COOPERATION PROGRAM BY FUND

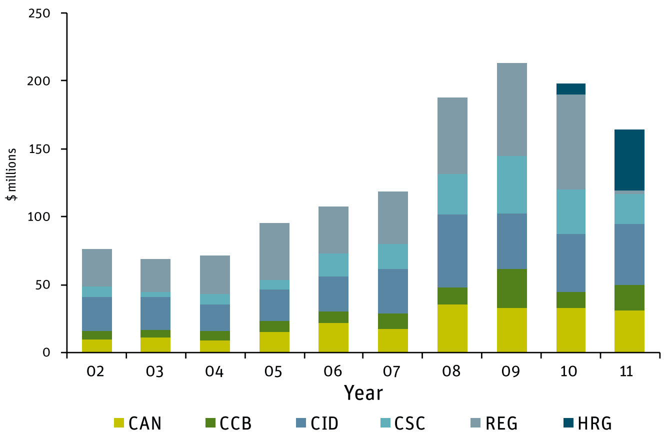


• TC approvals reached $164m, a 17% decrease from the $198m approved in 2010. Number of operations reached 355, a 14% decrease from 411 in 2010. Average size of TCs approved reached $462K, a 3% decrease from $482K in 2010.

• TC financed Donor Trust Funds (DTF) approvals reached $74.7m, a 7% decrease from $83.9m in 2010. Number of operations reached 171, a 6% decrease from 181 in 2010. Average size of DTF TCs was $437K, a 1% decrease from $443K in 2010.

• Special programs financed with Ordinary Capital (OC) approvals reached $89.4m, a 7% increase from $83.9m in 2010. Number of operations reached 184, a 29% increase from 143 in 2010. Average size of OC TCs was $486k, a 17% decrease from $587k in 2010.

2.15 TECHNICAL COOPERATION PROGRAM BY COUNTRY DEPARTMENT

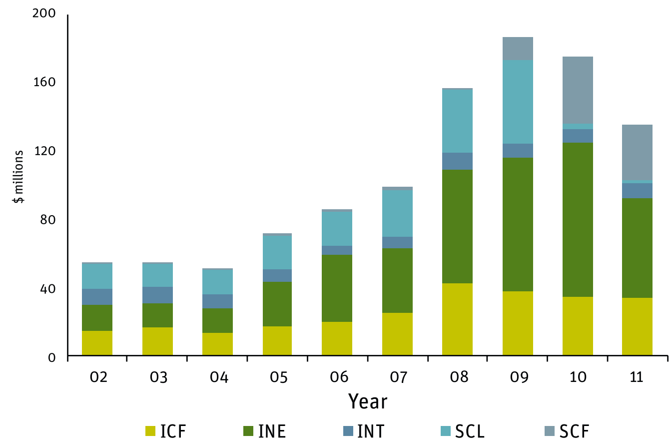


• TC approvals for CAN countries reached $31.8 m, a 0.3% decrease from $32.9m in 2010; for CCB countries, approvals reached $18.1m, a 47% increase from $12.3m in 2010; for CID countries, approvals reached $44.7m, a 6% increase from $42m in 2010; for CSC countries, approvals reached $22.2m, a 34% decrease from $33.5m in 2010, and HRG approvals reached $44.6m, a fourfold increase from $8.4m in 2010.

• TC Regional approvals reached $2.7m, a 96% decrease from $69m in 2010.

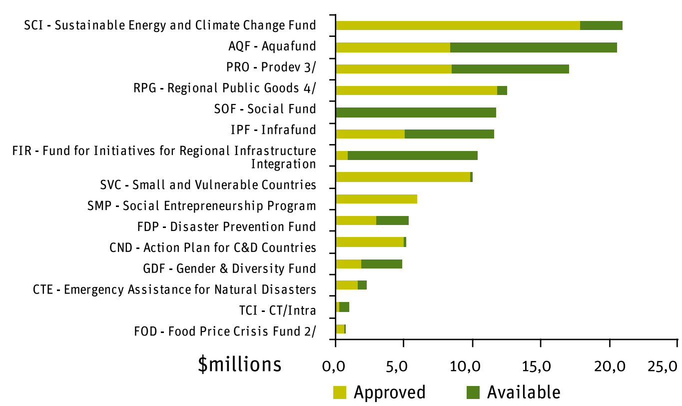
• CAN countries account for 19% of approvals in 2011; CCB countries for 11%; CID countries for 27%; CSC countries for 14%, HRG for 27%, and Regional for 2%.

2.16 TECHNICAL COOPERATION PROGRAM BY SECTOR DEPARTMENT



• Approvals in 2011 for ICF reached $33.6m, a 3% decrease from $34.6m in 2010; for INE, approvals reached $58.7m, a 35% decrease from $90.1m in 2010; for INT, approvals reached $8.4m, a 3% increase from $8.2m in 2010; for SCL approvals reached $2.1m, a 42% decrease from $3.5m in 2010; and for SCF, approvals reached $32.6m, a 16% decrease from $38.9m in 2010.

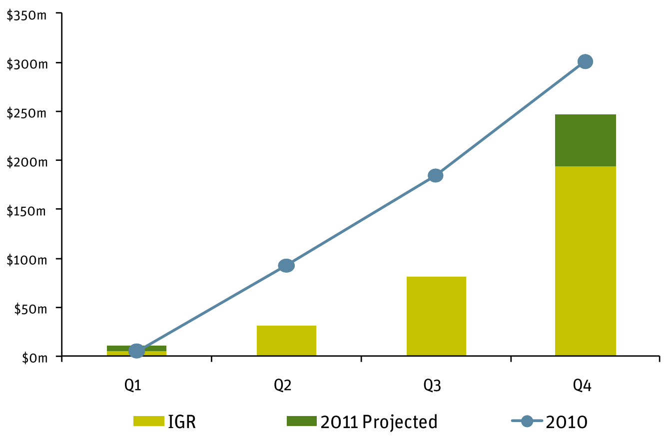
2.17 OC SPECIAL PROGRAMS UTILIZATION



• Approvals under special programs[12] financed with Ordinary Capital (OC) reached $92.5m, 66% of the $140m available in 2011.

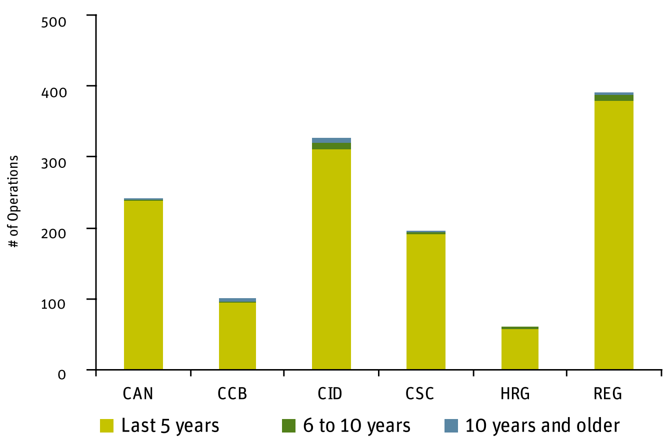
[12] Includes approvals and increases for Account C ADM/OC-9177-RS. As of Jan 1st, 2012, Account C had $1,350,000 in uncommitted resources

2.18 INVESTMENT GRANTS[13] (IGR)



• Investment grants approvals reached $194m in 15 operations, 78% of the volume ($246.8m) and 75% of the 20 operations projected for 2012. Approvals in the same period in 2010 were for $300.1m in 20 operations.

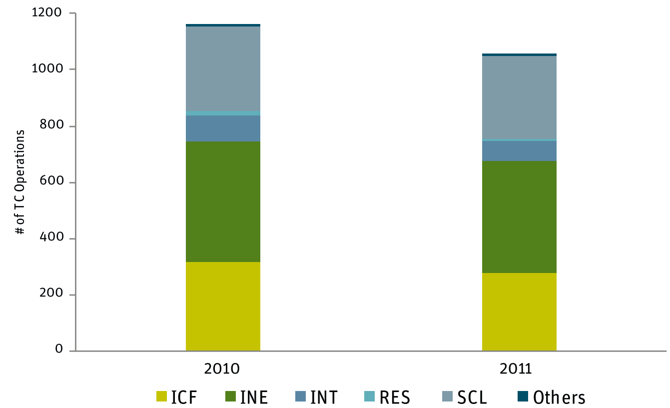
2.19 TECHNICAL COOPERATION PORTFOLIO BY COUNTRY DEPARTMENT AND APPROVAL YEAR



• There are 1,319 TC operations in portfolio ($743m in volume) of which 28 operations were approved between 2001 and 2005 representing $27m, and 1,271 operations between 2006 and 2012 representing $687m. Of these 1.319 TC operations, REG and CID countries account for 718 (54%).

[13] Investment Grant Operations are those that finance investments on a non reimbursable basis, either complementary to technical cooperation or as stand-alone contributions, consistent with the objective of the DTF. The eligible investment activities may include works, goods, equipment, and related services (transportation, insurance, etc.) and pilot projects in areas contemplated by the DTF instrument, as well as consulting services required for such investments.

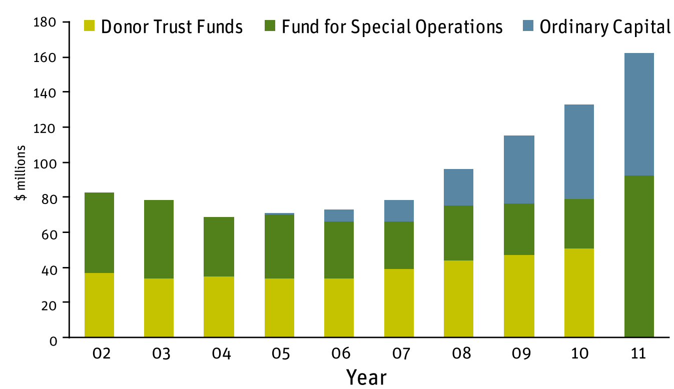
2.20 TECHNICAL COOPERATION IN EXECUTION UNDER VPS BY SECTOR



• TC portfolio under responsibility of VPS reached 1,060 operations, a 9% decrease from 1,161 in 2010.

• The ICF TC portfolio reached 279 operations, a 13% decrease from 319 in 2010; INE reached 399 operations, a 7% decrease from 427 in 2010; and SCL reached 294 operations, a 2% decrease from 300 in 2010.

2.21 TECHNICAL COOPERATION DISBURSEMENTS



• Disbursements of TCs financed with Fund for Special Operations (FSO) reached $32.1m, a 16% increase from $27.8m in 2010.

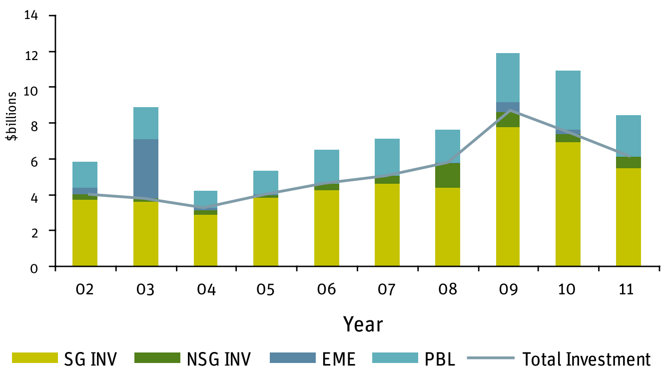
• Disbursements of TCs financed with Donor Trust Funds (DTF) reached $60.5m, a 19% increase from $51.0m in 2010.

• Disbursements of TCs financed through Special Programs of Ordinary Capital (OC) reached $69.7m, a 29% increase from $54.1m in 2010.

III. Program Delivery

The following set of indicators measure portfolio distribution among the different units as well as the overall status of the operations. There are indicators for Portfolio management and Disbursements.

3.1 DISBURSEMENTS



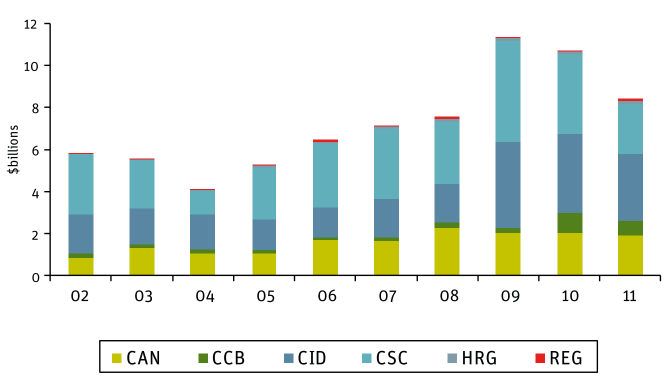
• Total disbursements[14] reached $8.4b, a 23% decrease from $10.9b in 2010.

• Investment loan disbursements reached $6.1b, a 17% decrease from $7.4b in 2010.

• Policy-based loans disbursements reached $2.3b, a 29% decrease from $3.3b in 2010.

• There were no Emergency Loan disbursements compared to $0.2b in 2010.

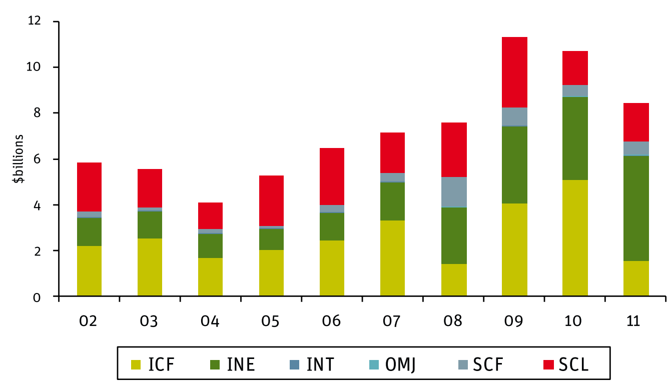
3.2 DISBURSEMENTS BY COUNTRY DEPARTMENT



[14] Included Emergency loans disbursements (LPGS and Fiscal) for $37m in 2008 and $548m in 2009.

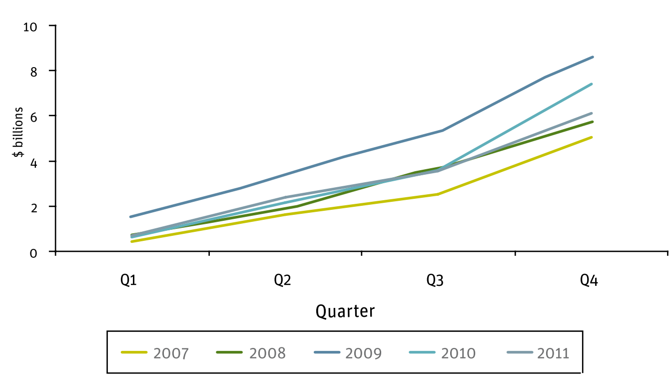
• Disbursements to CAN countries reached $1.9b, a 4% decrease from $2.0b in 2010; to CCB countries reached $0.6b, a 32% decrease from $0.9b in 2010; to CID countries reached $3.2b, a 14% decrease from $3.8b in 2010; and to CSC countries reached $2.3b, a 38% decrease from $3.8b in 2010.

3.3 DISBURSEMENTS BY SECTOR



• ICF disbursements reached $1.5b, a 70% decrease from $5.1b in 2010; INE disbursements reached $4.6b, a 26% increase from $3.7b in 2010; INT disbursements reached $10.3m, a 2% increase from $10.0m in 2010, OMJ disbursements reached $21.0m, a 22% increase from $17.3m in 2010; SCF disbursements reached $0.6b, a 23% increase from $0.5b in 2010; and SCL disbursements reached $1.7b, a 14% increase from $1.5b in 2010.

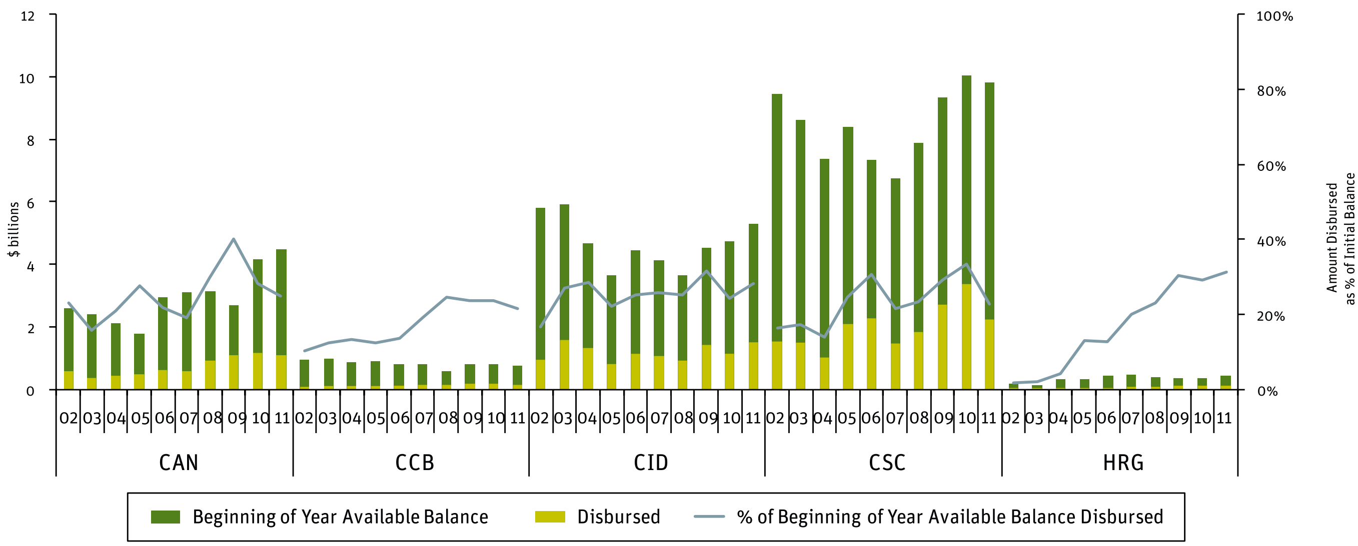
3.4 CUMULATIVE INVESTMENT DISBURSEMENTS BY QUARTER



• Investment loan disbursements in the last quarter reached $2.6b, a 33% decrease from $3.8 in 2010.

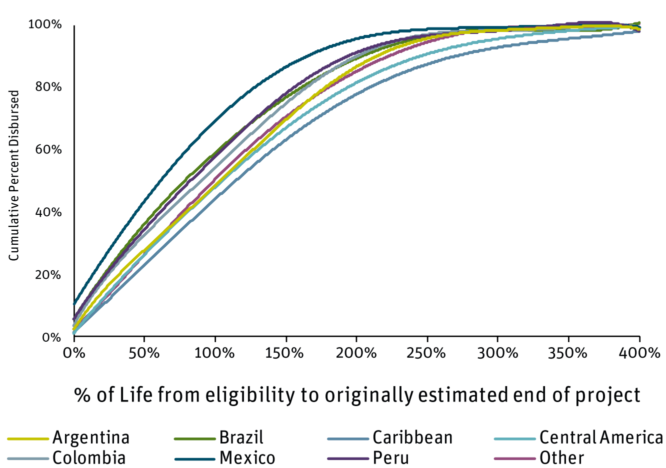
• Investment loan disbursements in the last quarter represented 42% of total investment disbursements. In 2010, disbursement concentration for this type of loans in the last quarter was 52%.

3.5 SG DISBURSEMENTS VERSUS BEGINNING OF YEAR AVAILABLE BALANCE



• Disbursements trends, as a percentage of beginning of year balance for eligible investment projects, are similar among country departments in the last 5 years, with CSC reaching a 6% year-on-year average increase, CID 9%, CAN 14%, CCB 10% and Haiti 21%

3.6 CUMULATIVE SG INVESTMENT DISBURSEMENTS BY COUNTRY



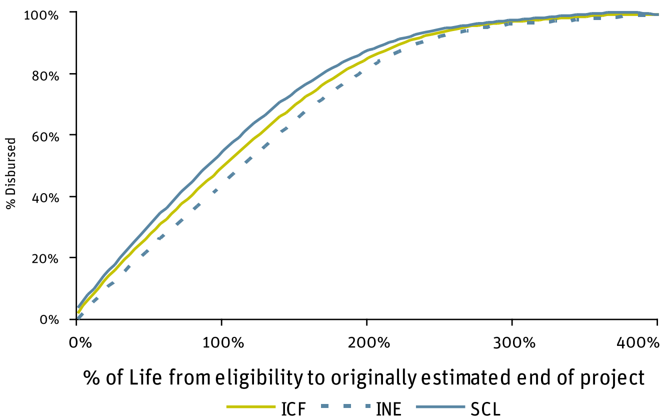
• Country disbursement profiles[15] show that it took more than double the original estimated disbursement period to disburse an operation.

• For the operations in Mexico that completed disbursements in recent years, the trend reveals that it took twice the estimated original time to disburse 98% of the SG investment operations volume, Colombia reached 93%, Peru and Brazil reached 90%.

• As for the rest of the countries, it took twice the estimated original disbursement period to disburse an average of 83% of the SG investment operations volume.

[15] Disbursement Profile of a Country is based on the average of the amount disbursed per project in the portfolio. The number of months is calculated from date of approval. The universe of projects for the profile shown, are the investment operations with Sovereign Guarantee that have closed between 1996 and 2011.

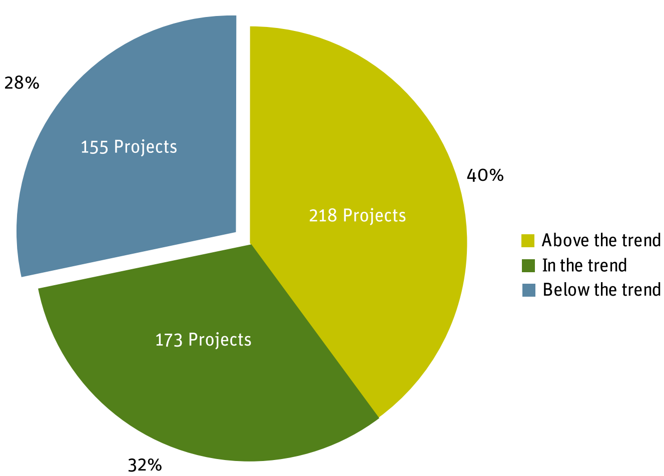
3.7 CUMULATIVE SG INVESTMENT DISBURSEMENTS BY SECTOR



• Sector disbursement profiles[16] also show that it took more than double the original estimated disbursement period to disburse an operation.

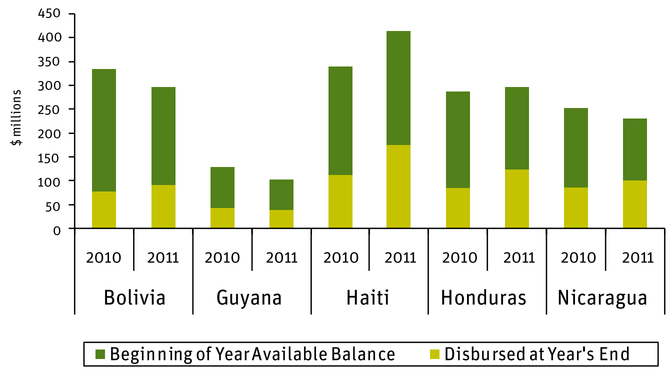
• For the operations in SCL that completed disbursements in recent years, the trend reveals that it took twice the estimated original time to disburse 88% of its operations volume, ICF disbursed 85% and INE disbursed 81% of its operations volume.

3.8 COMPARISON OF DISBURSEMENTS VS. COUNTRY AND SECTOR TRENDS



• In 2011, 391 operations currently disbursing are above or within historical trends.[17]

3.9 FSO AND GRANTS DISBURSEMENTS COMPARED TO BEGINNING OF YEAR AVAILABLE BALANCE



• The 2011 beginning of year available balance for investment operations financed by FSO and the Grant Facility (Haiti) for eligible countries amounted to $1.3b, the same as the $1.3b at the beginning of 2010.

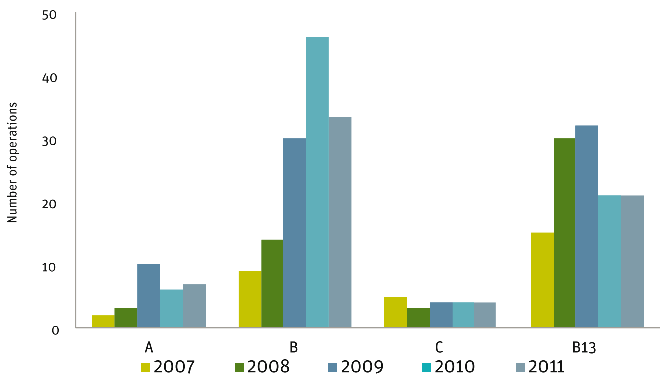
• FSO and Grants investment disbursements reached $528m representing 39% of initial balance, compared to $403m in 2011 which represented 30% of the initial 2010 balance.

• The projected FSO and Grants disbursements for investment operations for 2011 represent 74% or the initial balance compared to 60% in 2010.

[16] Disbursement Profile of a Sector is based on the average of the amount disbursed per project in the portfolio. The number of months is calculated from date of approval. The universe of projects for the profile shown, are the investment operations with Sovereign Guarantee that have closed between 1996 and 2011.

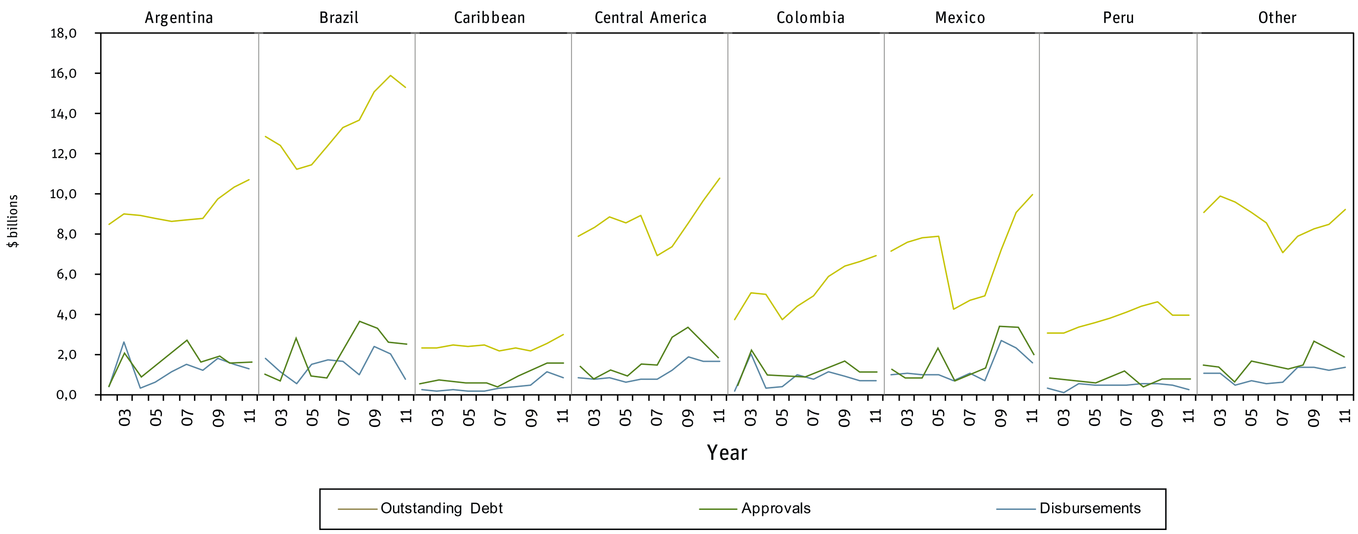
[17] The disbursements rate of operations included in this group falls above or within the expected rate of disbursement based on half-a-standard deviation of its corresponding country and sector.

3.10 ENVIRONMENTAL AND SOCIAL SAFEGUARDS' PARTICIPATION IN APPROVED OPERATIONS PER CATEGORY



• The number of loan operations that had assistance from an Environmental and Social Safeguards specialist from ESG reached 68 in 2011, a 12% decrease from 77 in 2010. Category A operations reached 7, an increase of 17% from 6 in 2010; B operations reached 33, a decrease of 28% from 46 in 2010; C operations reached 4, the same level, and B 13 operations reached 24, an increase of 14% from 21 in 2010.

3.11 IDB'S OUTSTANDING DEBT, APPROVALS AND DISBURSEMENTS BY COUNTRY



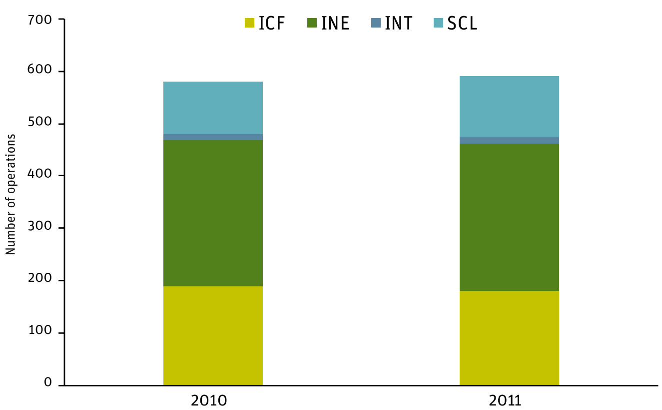
• Outstanding balances in Bank's borrowing countries show an increasing trend, particularly since 2006, with the exception of the Caribbean that remains steady.

• Mexico has recovered its outstanding portfolio and approvals after repayments made in 2006. In 2011, Argentina, Brazil, Colombia and Central America reached their highest levels of outstanding balances in recent years.

PORTFOLIO MANAGEMENT

The following paragraphs assess the distribution of the portfolio among the different Sector Departments and selected measures so assess the time elapsed from approval to First and last Disbursements. Indicators below also address portfolio management instruments such as the Audited Financial Statements (AFS) and the Project Completion Reports (PCR).

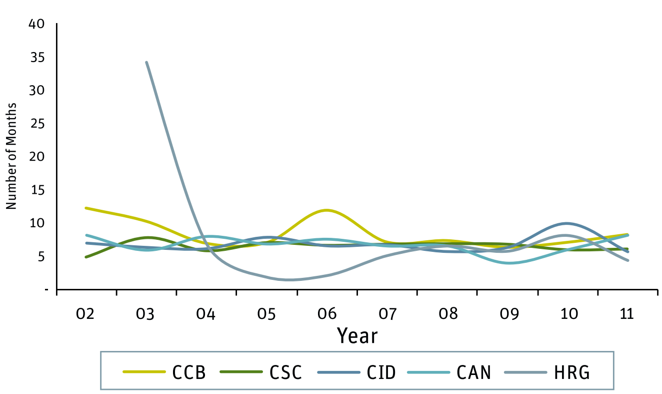
3.12 PORTFOLIO DISTRIBUTION BY SECTOR



• The number of operations in the SG portfolio under responsibility of VPS reached 591 projects, a 2% increase from 580 in 2010.

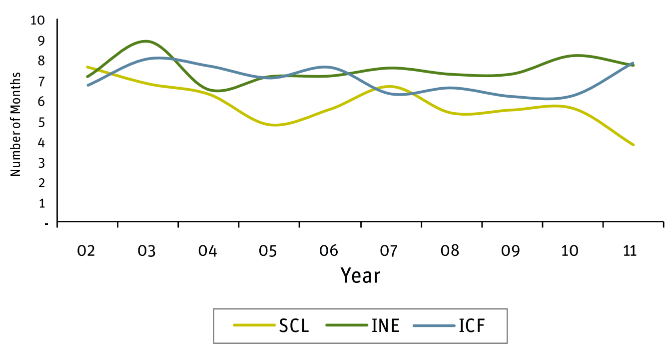
• The ICF portfolio reached 181 operations, a 5% decrease from 190 in 2010; INE reached 281 operations, a 1% increase from 278 in 2010; and SCL reached 116 operations, a 16% increase from 100 in 2010.

3.13 TIME ELAPSED FROM LEGAL EFFECTIVENESS TO FIRST DISBURSEMENT BY COUNTRY DEPARTMENT



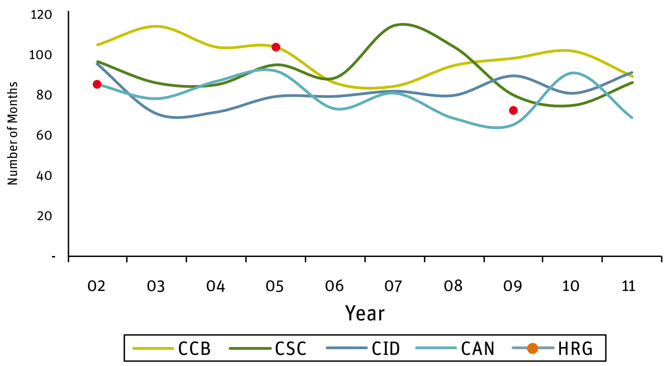
• Time elapsed from legal effectiveness to first disbursement for investment operations with sovereign guarantee which performed a first disbursement in 2011 for CAN countries reached 8.2 months, a 36% increase from 6.0 months in 2010; for CCB countries, time elapsed reached 8.4 months, a 16% increase from 7.2 months in 2010; for CID countries, time elapsed reached 5.8 months, a 42% decrease from 10.0 months in 2010; for CSC countries, time elapsed reached 6.1 months, a 2% increase from 6.0 months in 2010; in Haiti, time elapsed reached 4.4 months, a 46% decrease from 8.2 months in 2010.

3.14 TIME ELAPSED FROM LEGAL EFFECTIVENESS TO FIRST DISBURSEMENT BY SECTOR DEPARTMENT



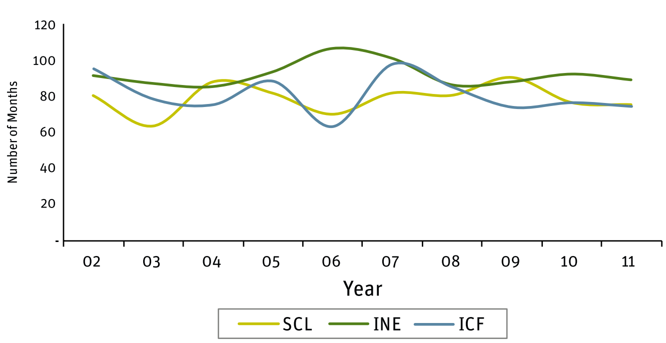
• Time elapsed from legal effectiveness to first disbursement for operations which performed a first disbursement in 2011 for ICF operations reached 7.8 months, a 26% increase from 6.2 months in 2010; for INE operations, time elapsed reached 7.7 months, a 6% decrease from 8.2 months in 2010; for SCL operations, time elapsed reached 3.8 months, a 32% decrease from 5.6 months in 2010; for INT operations, time elapsed reached 3.8 months a 49% decrease from 7.3 months in 2010.

3.15 TIME ELAPSED FROM LEGAL EFFECTIVENESS TO LAST DISBURSEMENT BY COUNTRY DEPARTMENT



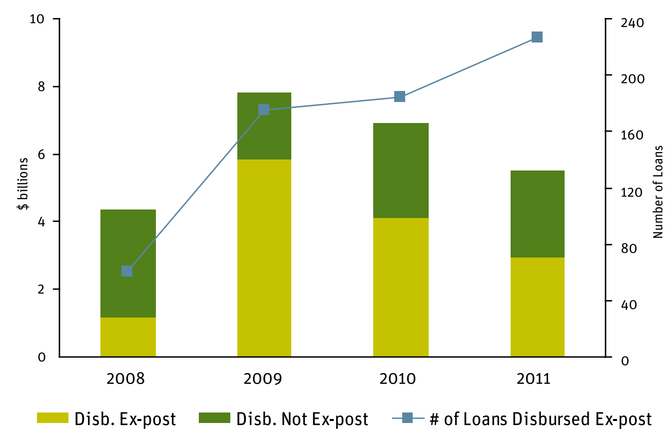
• Time elapsed from legal effectiveness to last disbursement for operations which completed disbursements in 2011 for CAN countries reached 5.7 years, a 24% decrease from 7.5 years in 2010; for CCB countries, time elapsed reached 7.3 years, a 12% decrease from 8.4 years in 2010; for CID countries, time elapsed reached 7.5 years, a 13% increase from 6.6 years in 2010; for CSC countries, time elapsed reached 7.1 years, a 15% increase from 6.2 years in 2010; in Haiti, there were no operations closing in 2011.

3.16 TIME ELAPSED FROM LEGAL EFFECTIVENESS TO LAST DISBURSEMENT BY SECTOR DEPARTMENT



• Time elapsed from legal effectiveness to last disbursement for operations which completed disbursements in 2011 for ICF operations reached 6.2 years, a 3% decrease from 6.4 years in 2010; for INE operations, time elapsed reached 7.4 years, a 3% decrease from 7.7 years in 2010; for SCL operations, time elapsed reached 6.3 years, an 2% decrease from 6.4 years in 2010; for INT, time elapsed reached 5.9 years and there were no operations closing in 2010.

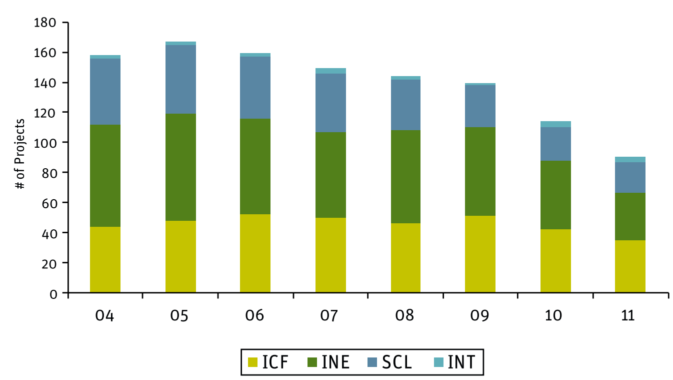
3.17 EX-POST REVIEW OF DISBURSEMENTS



• The amount of disbursements reviewed ex-post from investment SG operations reached $2.9b, a 29% decrease from $4.1b in 2010.

• The number of loans disbursed with ex-post review reached 227 in 2011, a 23% increase from 184 in 2010.

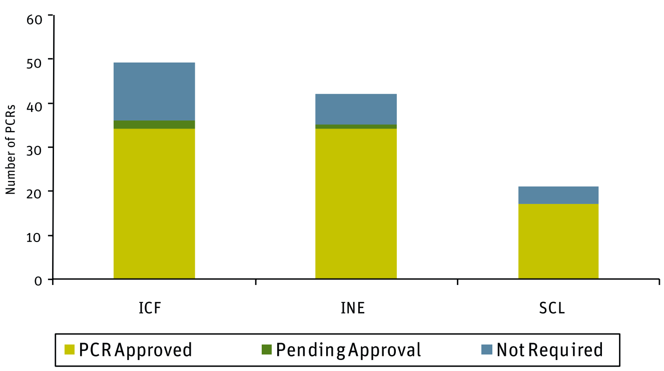
3.18 LAST DISBURSEMENTS EXTENSIONS – SG INVESTMENT PROJECTS EXTENDED 24+ MONTHS



• The number of SG investment projects with extensions of 24 months or more from its original last disbursement date reached 90, a 21% decrease from 114 in 2010.

• The $0.6b available balance of these 90 operations represents 2% of the portfolio's total available balance. In 2010 the reported available balance was $1.1b representing 4% of the portfolio's total available balance.

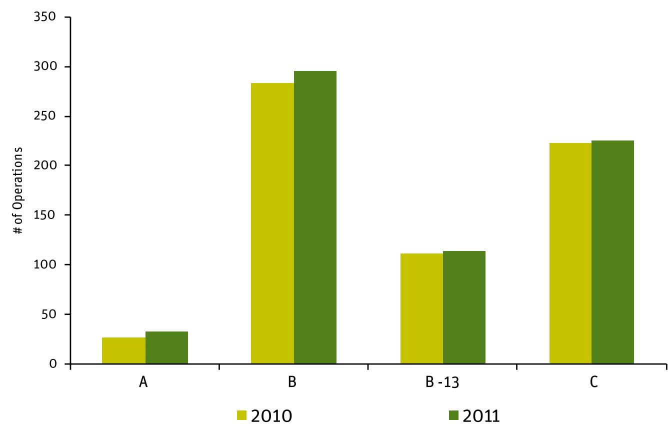
3.19 PROJECT COMPLETION REPORT (PCR) STATUS



• There are 88 projects that required the preparation and approval of a PCR before June 30th 2011;[1] of these 81 were approved achieving a 92% completion rate. In addition, 4 additional PCRs were prepared and approved during the second semester of 2011 increasing the completion rate to 97%.

[1] The PCR completion cycle reports at the end of year's first half, on operations completed the year before.

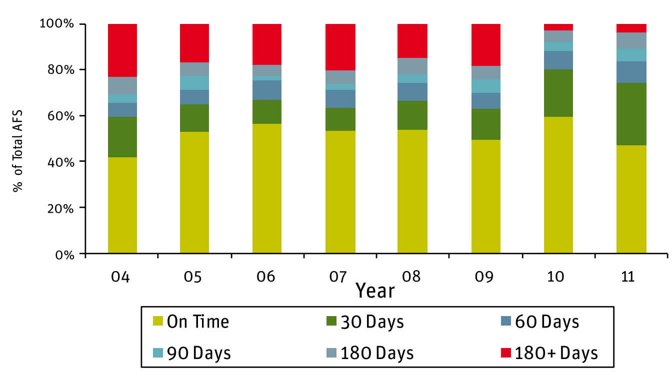
3.20 PORTFOLIO BY RISK CLASSIFICATION



• 32 operations in execution for $6.6b have been assigned the "A" Environmental and Social Impact risk classification. 27 operations in execution for $4.7b in 2010 were assigned the same rating.

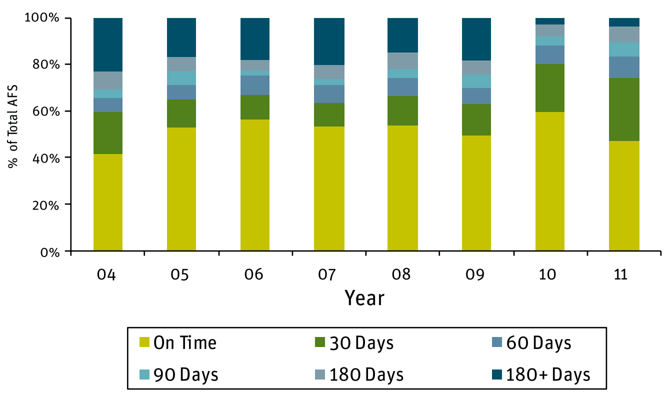
• 295 operations in execution for $22.5b have been assigned the "B" Environmental and Social Impact risk classification. 283 operations in execution for $20.4b in 2010 were assigned the same rating.

3.21 AUDITED FINANCIAL STATEMENTS COMPLIANCE



• AFS delivered on time as a percentage of AFS required reached 47%, a decrease from 60% in 2010.

3.22 ANALYSIS STATUS OF AUDITED FINANCIAL STATEMENTS

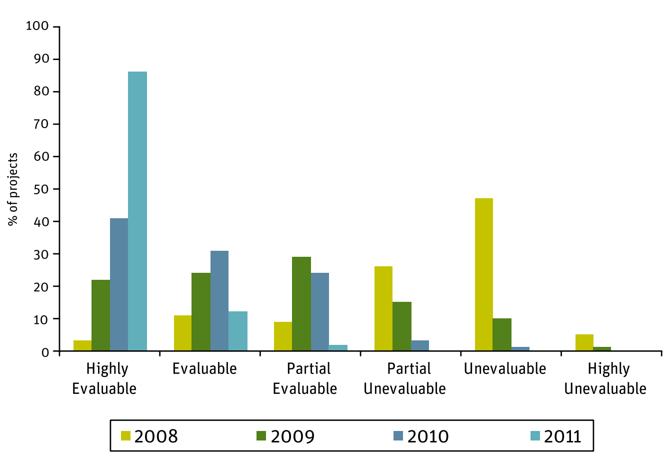


• In 2011, 748 (83%) of the 903 AFS expected were analyzed by auditors. This analysis resulted in 600 (80%) AFS with no issues, a decrease from 84% in 2010.

DEVELOPMENT EFFECTIVENESS - DEM

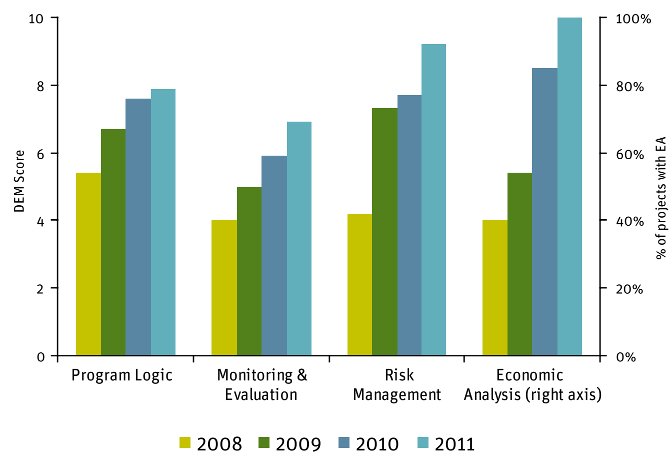
This section presents indicators from Development Effectiveness Matrix (DEM) and the implementation of the Progress Monitoring Report (PMR).

3.23 DEVELOPMENT EFFECTIVENESS MATRIX EVALUABILITY LEVELS



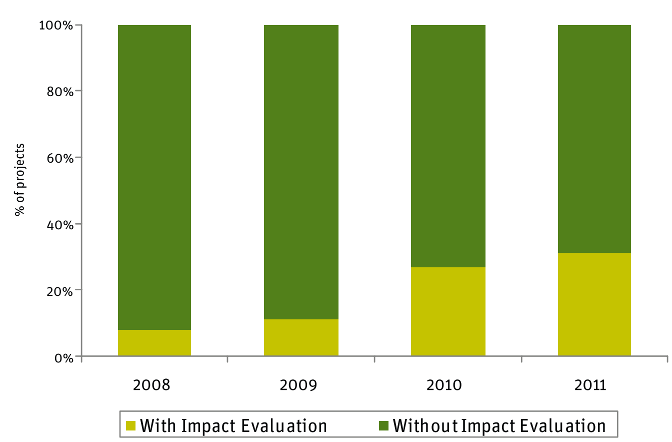
• The share of operations that scored "evaluable" or above in the evaluability dimensions reached 98%, a 26 percentage points increase from 72% projects in 2010.

3.24 DEVELOPMENT EFFECTIVENESS MATRIX RATINGS



• Average DEM ratings at entry improved in all dimensions from 2010 to 2011. Program Logic scored 7.9, a 4% improvement from 7.6 in 2010; Evaluation and Monitoring scored 6.9, a 17% improvement from 5.9 in 2010; Risk Management scored 9.2, a 19% improvement from 7.7 and operations with Economic Analysis reached 100%, a 15 percentage point from 85% in 2010.

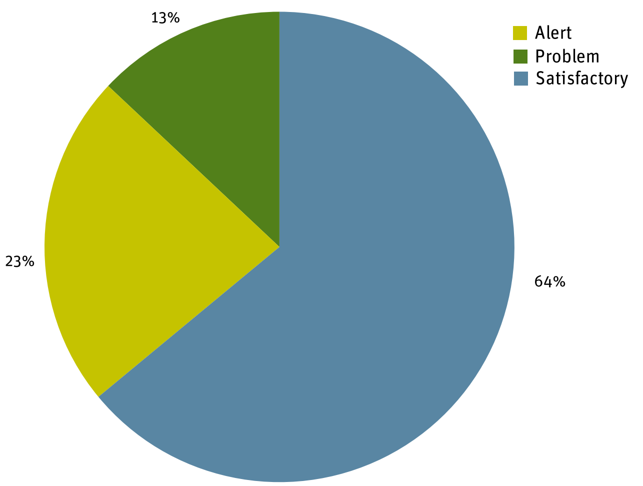
3.25 EX-ANTE IMPACT EVALUATION



• The operations with an assessment of Impact Evaluation in 2011 reached 31%, a 4 pps increase from 27% in 2010.

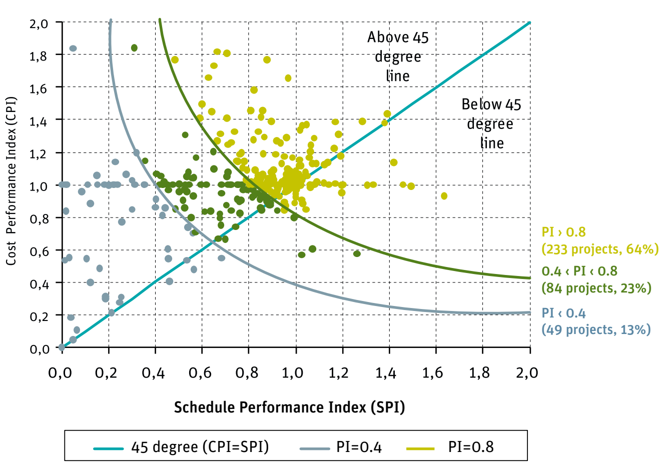
DEVELOPMENT EFFECTIVENESS – PROGRESS MONITORING REPORT (PMR)

3.26 STATUS OF PORTFOLIO[18]



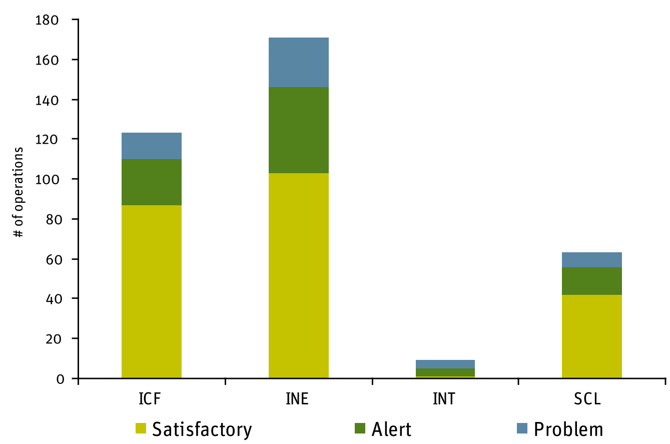
• In 2011, the Performance Index classified 64% of the SG portfolio operations as "Satisfactory", 23% as "Alert", and 13% as "Problem".

3.27 COST PERFORMANCE INDEX (CPI) VS. SCHEDULE PERFORMANCE INDEX (SPI)



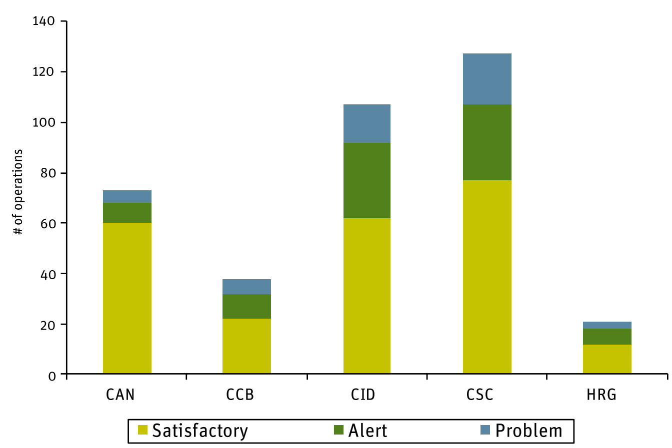
• For SG projects that were part of the PMR eligible portfolio review,[19] 233 projects were classified as "Satisfactory" (with a Performance Index above 0.8); 84 projects were classified as "Alert" (with Performance Index between 0.4 and 0.8),and 49 were classified as "Problem" (under the blue line with a Performance Index below 0.4).

3.28 PERFORMANCE INDEX CLASSIFICATION BY SECTOR DEPARTMENT



• In 2011, the PMR identified as Satisfactory: 71% (87 of 123) of ICF projects; 67% (42 of 63) of SCL projects; 60% (103 of 171) of INE, and 11% (1 of 9) of INT.

3.29 PERFORMANCE INDEX CLASSIFICATION BY COUNTRY DEPARTMENT



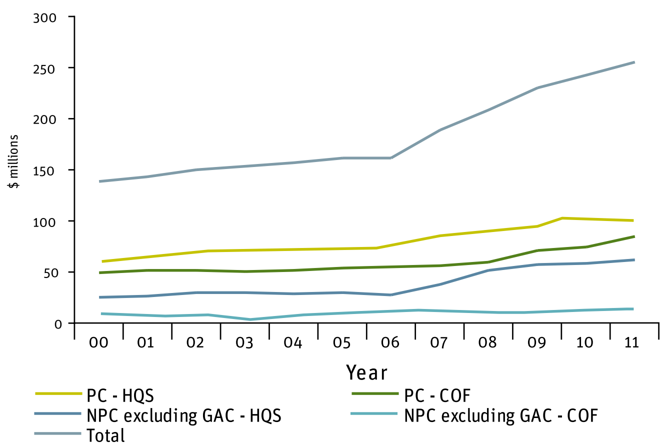
• In 2011, the PMR identified as Satisfactory: 82% (60 of 73) of CAN projects; 61% (77 of 127) of CSC projects; 58% (62 of 107) of CID; 58% (22 of 38) of CCB, and 57% (12 of 21) of HRG.

[18] The analysis was based on the Performance Index (PI) calculated in March 2011 for 366 operations, representing the eligible portfolio. Policy-based programs, closed operations and outliers (those with a PI greater than 2) were excluded.

[19] Independently of their global performance, most projects tend to have a higher Cost Performance Index (CPI) than Schedule Performance Index (SPI), therefore in order to improve performance; projects need to increase on time achievement of targets, which requires both more accurate planning and better implementation capacity.

The following indicators measure operational budget execution as well as how resources are allocated and used in operational activities, in particular loan project preparation and execution.

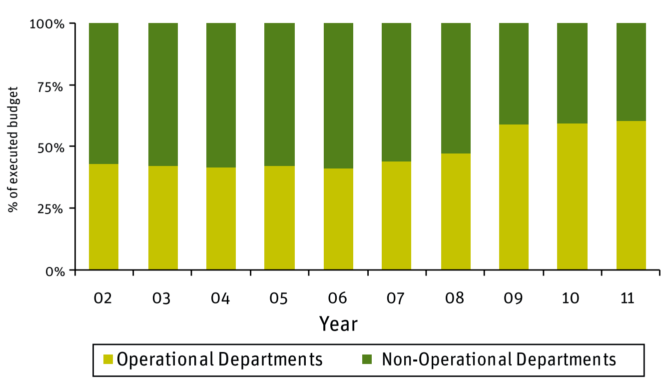
4.1 OPERATIONAL DEPARTMENTS BUDGET EXECUTION PC & NPC 2002-11



• Personnel Costs expenses for operational departments reached \$181.8m, a 4% increase from \$174.5m in 2010.

• Non Personnel Cost[20] (NPC) expenses for operational departments reached \$73.1m, a 6% increase from \$68.8m in 2010.

4.2 OPERATIONAL VS. NON-OPERATIONAL DEPARTMENTS BUDGET EXECUTION 2002-11

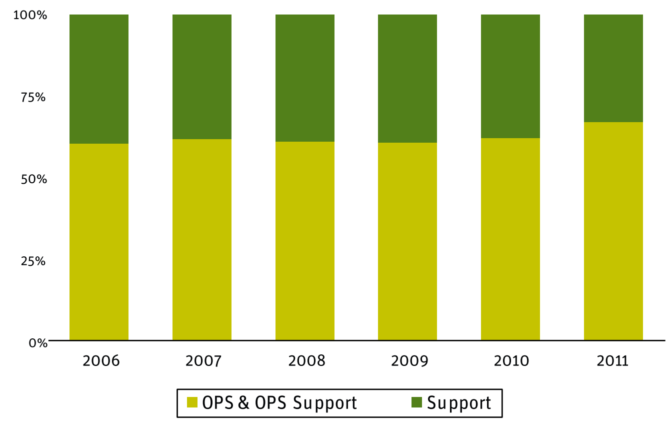


• Operational department's executed budget reached \$275.0m, a 6% increase from \$258.7m in 2010.

[20] Excludes general administrative costs.

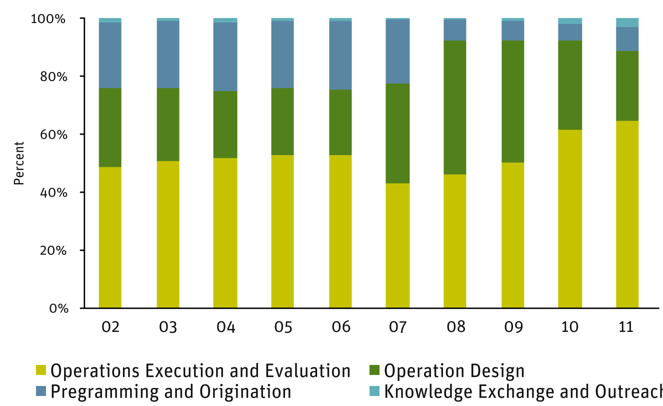
• Operational department's executed budget as a percentage of total administrative budget was 60%, one percentage point above the levels of 2009 and 2010.

4.3 BUDGET EXECUTION BY PROGRAM



• The operations and operational support program reached 67% of budget execution, a 5 percentage point increase from 62% in 2010.

4.4 DISTRIBUTION OF STAFF TIME REPORTED TO OPERATIONAL PROGRAMS



• Staff time reported[21] to operational programs[22] reached 1,108 FTEs, a 24% increase from 894 in 2010.

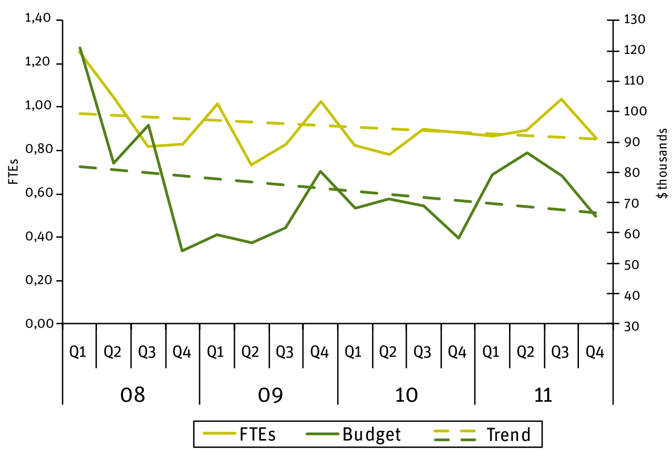
[21] Staff time reported excludes leave, bank closures, holidays, compensatory time and training.

[22] Programming and Origination, Operations Design, Execution and Evaluation and Operational Knowledge Exchange and Outreach.

• Staff time reported to execution and evaluation[23] of operations reached 566 FTEs, a 32% increase from 428 in 2010.

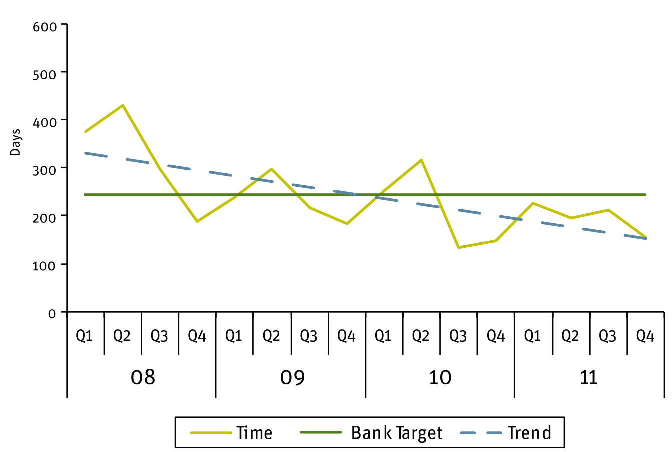
• Staff time reported to operation's design and Programming and Origination reached 369 FTEs, an 11% increase from 333 in 2010.

4.5 PROJECT EFFICIENCY



• Staff time reported to project preparation reached 0.86, a 3% decrease from 0.88 in 2010. NPC reached an average of $65K, a 12% increase from $58K in 2010.

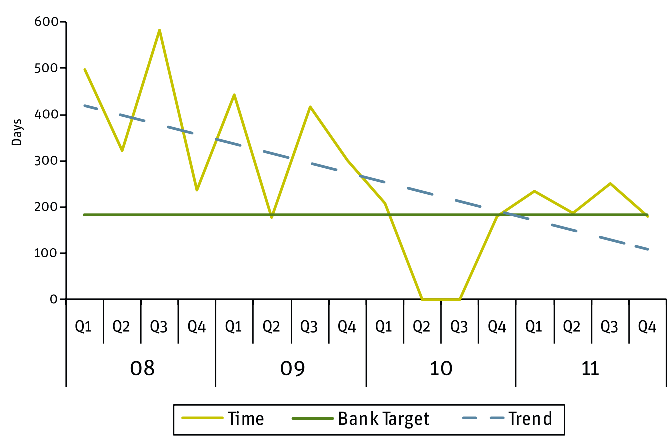
4.6 TIME ELAPSED FROM PROJECT PROFILE TO APPROVAL FOR SG OPERATIONS



[23] Excludes time reported by the Office of Evaluation and Oversight (OVE).

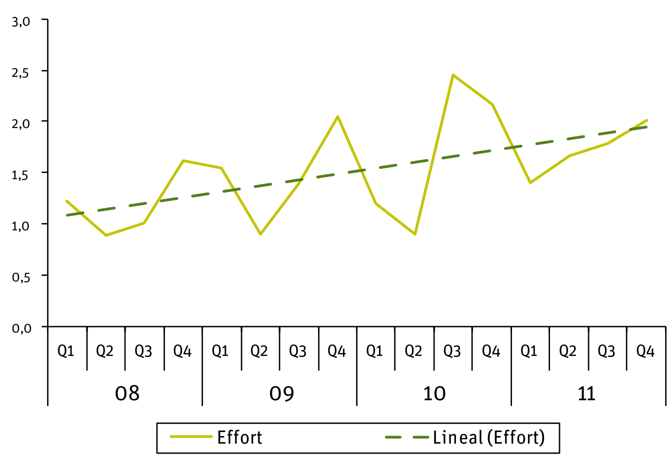
• Time elapsed to prepare a project (from Profile to Approval) reached 5.1 months, a 5% increase from 4.9 months in 2010.

4.7 TIME ELAPSED FROM PROJECT PROFILE TO APPROVAL FOR NSG OPERATIONS



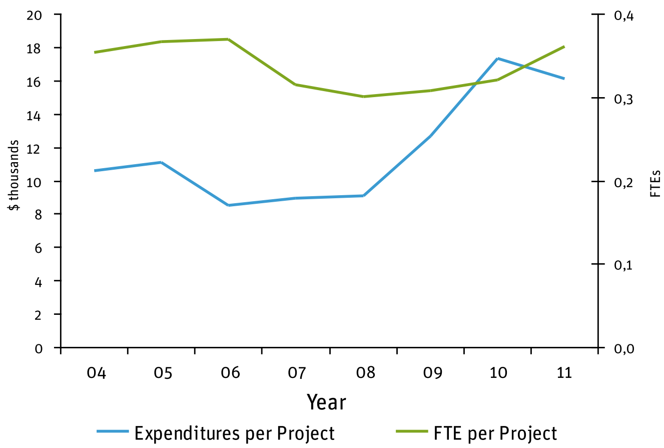
• Time elapsed to prepare a project (from Profile to Approval) for NSG operations reached 5.9 months, a 1% decrease from 6 months in 2010.

4.8 EFFORT (FTES / ELAPSED TIME)



• The ratio between staff time reported and preparation elapsed time (effort), reached 2.0 in 2011, a 7% decrease from 2.2 in 2010.

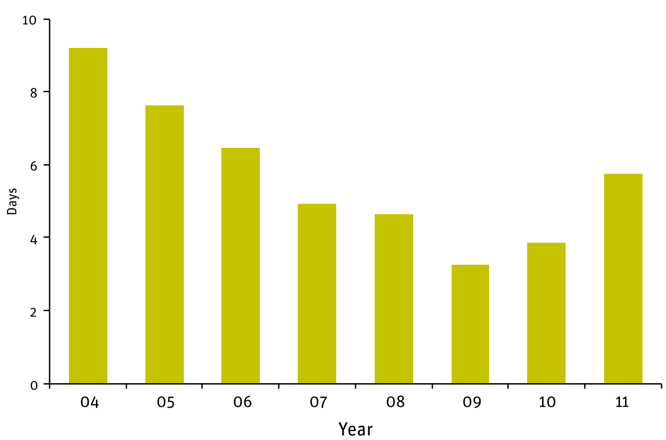
4.9 RESOURCES (EXPENDITURES AND STAFF TIME) PER PROJECT AND PORTFOLIO



• Staff time reported per project in the portfolio in execution reached 0.36 FTEs, a 12% increase from 0.32 in 2010.

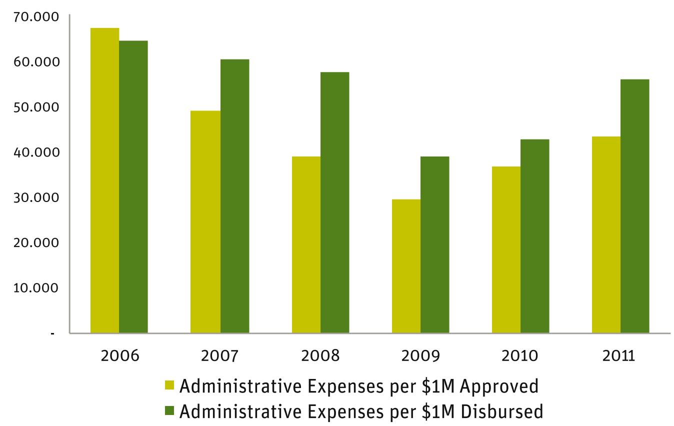
• Expenditures per project in the portfolio in execution reached $16.1k, a 7% decrease from $17.3k in 2010.

4.10 STAFF TIME REPORTED TO PROJECT EXECUTION PER US$ MILLION DISBURSED



• Staff time reported to project execution per $ million disbursed reached 5.8 days, a 50% increase from 3.8 days in 2010.

4.11 ADMINISTRATIVE EXPENSES PER $1M APPROVED & DISBURSED



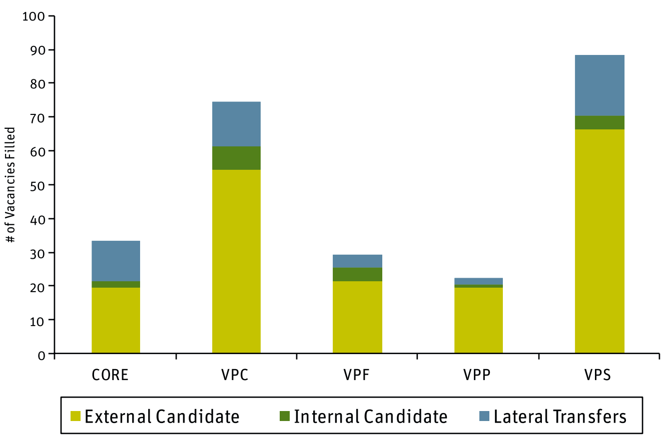
• Administrative expenses per $1m approved reached $39k, an 18% increase from $33k in 2010.

• Administrative expenses per $1m disbursed reached $51k, a 31% increase from $39k in 2010.

V. Staffing and Culture

Indicators in the following section assess the staff hiring process, Country Offices strengthening, cross sector collaboration within VPS and learning activities.

5.1 VACANCIES AND NEW HIRES



• Operational Positions (VPS, VPC, and VPP) filled reached 184 out of 246 (75%). In 2010, 180 positions were filled out of which 125 (69%) were operational.

• Positions filled with external candidates reached 179 (73%) out of which 82 (46%) were female. In 2010, 150 (76%) positions were filled with external candidates of which 67 (45%) were female.

• The remaining 67 positions (27%) were filled internally, 49 of them through lateral transfer. In 2010, 48 positions (24%) were internally provided, out of which 24 through lateral transfer.

• In 2011, women accounted for 25 (34%) of the 74 hires in Country Offices, and they provided 57 (54%) of the 105 hires at headquarters. In 2010, women represented 26 (43%) of the 60 hires in Country Offices, and 41 (46%) of 90 positions filled in Headquarters.

5.2 COF STRENGTHENING

Flow of COF Professional Staff

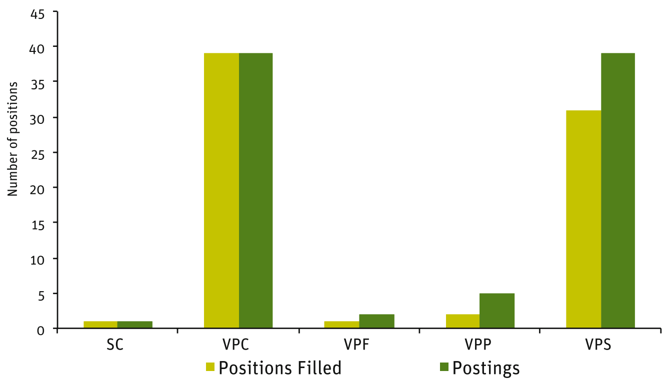
On Board 9/30/11	**479**
Terminations	-11
Net Transfers	1
External Hires	19
Promotions from Adm to Pro	1
On Board 12/21/11	**489**
Net Change	**10**
Vacancies	**44**

• Net change of professional staff in COFs by December 31st, 2011 was an increase of 10 (2% from the beginning of the year). In 2010, net change was an increase of 31 (8% from beginning of year).

• Of the 179 external professional staff hires, 70 (44%) were for COFs of which 45 (64%) were national professionals and 25 (36%) internationals. In 2010, of the 150 external professional staff hires, 60 (40%) were for COFs of which 40 (67%) were national professionals and 20 (33%) internationals.

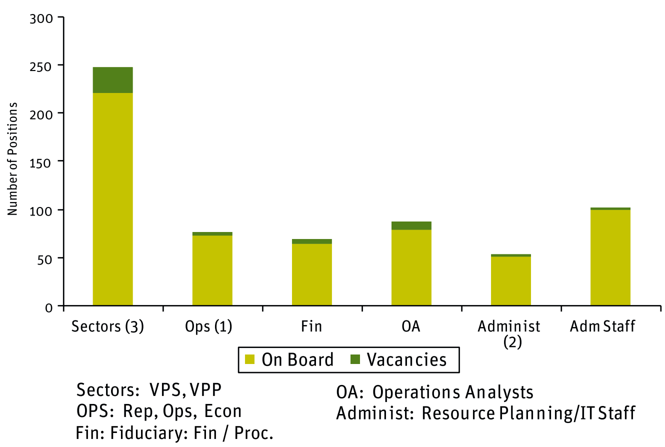
• By year's end 2011, VPC professional staff on board in COF with respect to 2010 increased by 9, VPS increased by 2, VPF decreased by one and VPP maintained the same. By year's end 2010, VPC professional staff on board in COF increased with respect to 2009 by 5, VPS by 7.

5.3 STATUS POSITIONS AND FILLED COF



• 74 (41%) of the vacancies filled were in COFs.

5.4 COUNTRY OFFICE STAFF COMPOSITION

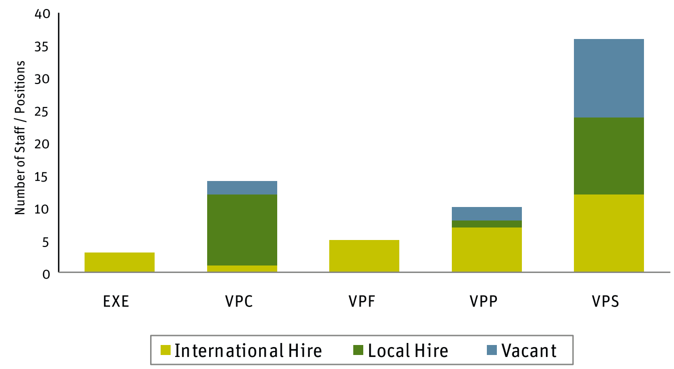


• 23 (35.38%) VPS professional vacancies as of December 31st, are assigned to COFs.

• 39.03% of professional staff on-board in VPS is in COFs. 33.5% of VPS professional staff on-board in COFs is local.

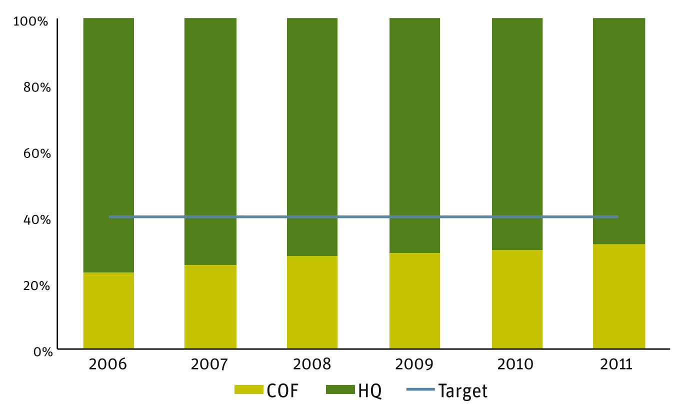
• 8 of 17, representing 47.1% of vacant positions in VPC/COF are for Operations Analysts (local professionals), while 9 vacancies are for professional staff.

5.5 IDB-9 POSITIONS VS. PLANNED



• 52 of the 68 (76%) GCI positions have been filled. Of the 52 staff hired, 24 are local staff in COF and 28 are international staff (21 in HQ and 7 in COF).

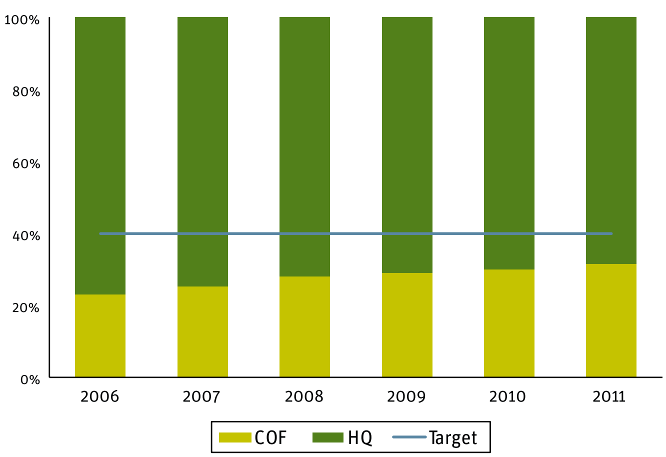
5.6 STAFFING - PROFESSIONAL AND EXECUTIVE STAFF WHO ARE WOMEN, GRADE FOUR AND ABOVE



• Women in grades four and above reached 33%, one percentage point increase from 2010.

• Women in executive and representative positions reached 28%, six percentage points increase from 2010.

5.7 PROFESSIONAL STAFF BASED IN COF



• Professional staff in COF reached 32%, two percentage points increase from 30% in 2010.

• Female professional staff in COF reached 38%, six percentage points increase since 2006 and remains the same since 2010.

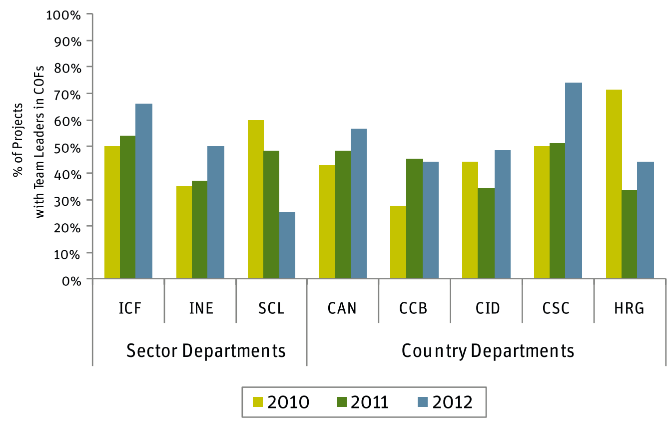
• Staff from borrowing countries account for 68% of total staff, stable since 2009.

• Staff from C&D countries account for 41% of staff from all borrowing countries, stable since Q4 2008.

• Staff[24] with a Doctorate degree accounted for 21% of the Executive level, 19.2% of the Management level and 14% of the Technical level. Of these staff holding a PhD, 65.6% have an academic background from the US and Canada, 33.5 % from borrowing countries and 1% from Non regional countries.

• The average years of service at the Bank for staff reached 9.7 years. Staff with 0 to ≤ 3 years accounted for 25% of all staff; 3 to ≤ 10 years 36%; 10 to ≤ 20 years 26%; and 20 years or more 14%.

5.8 PROJECTS IN PREPARATION WITH TEAM LEADERS IN COFS

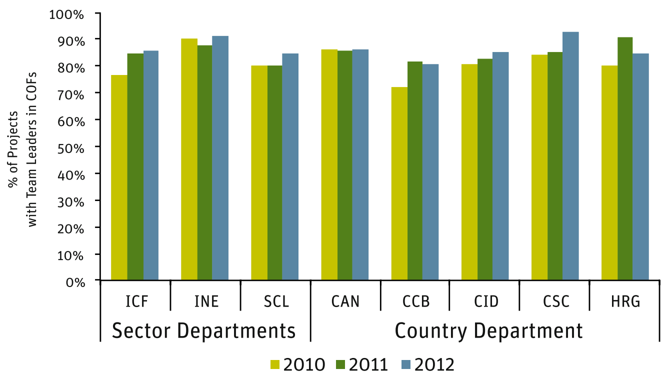


• Number of SG operations lead by Team Leaders in COF reached 96 at the beginning of 2012, a 19% increase from 81 at the beginning of 2011.

• Number of SG operations prepared by Team Leaders in COF as a percent of total number or SG approvals reached 67% at the beginning of 2012, a 23 percentage points increase from 44% at the beginning of 2011.

[24] These represent current budgeted positions.

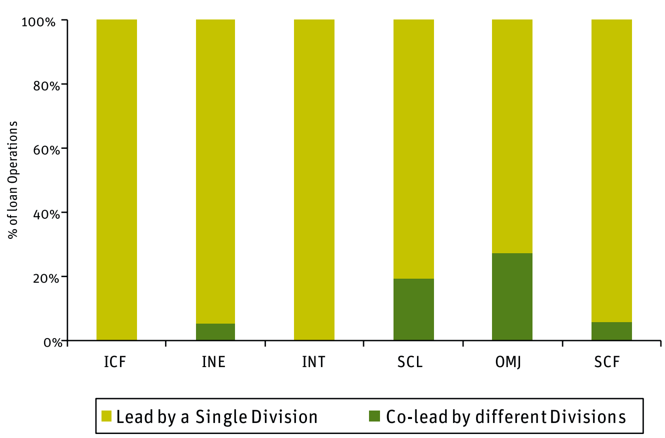
5.9 PROJECTS IN PORTFOLIO WITH TEAM LEADERS IN COFS



• The percentage of projects in execution with Team Leaders in COFs increased from 84% at the beginning of 2011 to 87% at the beginning of 2012.

• The percentage of total staff time reported by COFs in operation's execution related activities reached 72% in 2011, a 4 percentage point increase from 68% in 2010.

5.10 PROJECTS APPROVED WITH CO LEADERSHIP FROM DIFFERENT DIVISIONS



• The percentage of operations with Team Leaders that belong to different divisions reached 7.2%, a decrease from 8% in 2010.

KNOWLEDGE AND LEARNING

• Staff received an average of 8.8 days of K&L activities per FTE reported in 2011, a 7% increase from 8.2 days in 2010. Time to these activities represented 4.1% of Bank's total reported time.

• Learning activities were offered to 15,885 participants, a 36% increase from the 11,683 registered in 2010. Time reported to these activities reach 94.6 FTEs, a 26% increase from 74.6 FTEs in 2010.

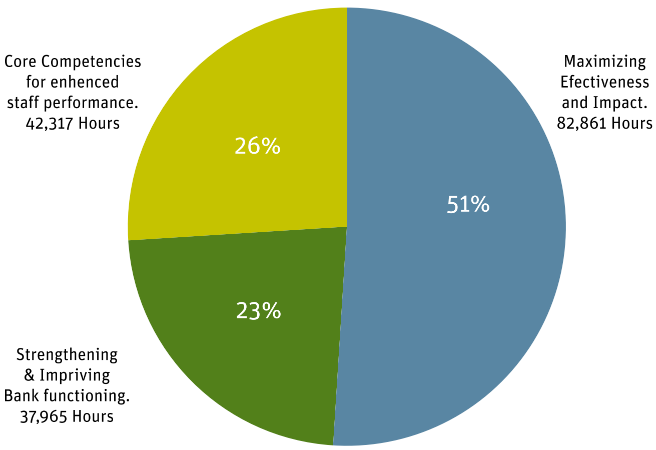
• In 2011, 69% of the participants were professionals, the same level as in 2010. 36% of the participants were from Country Offices, an increase of 10 percentage points from 26% in 2010.

• In 2011, 1,646 professional staff, 242 administrative staff and 1,084 consultants or research assistants participated in at least one K&L activity.[25]

• On average, a professional staff member participated in 6.3 K&L activities, administrative staff in 4.8 and consultants or research assistants in 3.5.

[25] For these activities, 86% of internal participants who responded to KNL surveys indicated that the knowledge and skills attained would enhance their performance and productivity. Participants rated quality of learning activities with an average of 4.3 on a five-point scale.

5.11 STAFF K & L HOURS DELIVERED



• In 2011, 3,327 external participants from the region participated in learning activities for a total of 132,265 hours.[26] 57% in face-to-face and 43% in e-learning activities.

• By year end 2011, there were 48 active communities of practice, facilitating knowledge sharing among 3,166 persons. Eight knowledge portals (excluding visits to intranet site http://knl and http://lib) were visited by 14,093 persons, who made a total of 68,985 visits.

• Technical services delivered by the Felipe Herrera Library amounted to: 766 personalized subject alerts and 23 specialized information portals (InfoGuides). 1,702 Selective Dissemination Information Alerts; and the Felipe Herrera Library website accounted for 888,970 visits, with 16,390 searches applied to the Library's physical and electronic collections, generating a total of 46,491 full texts downloads from the electronic subscriptions and 8,360 physical collection's transactions.

[26] For these activities, 97% of participants who responded to the evaluation survey indicated that the knowledge and skills attained would enhance their productivity and rated the quality of the course with an average 4.3 on a five-point scale.

Annex II

Paris Declaration

Development Effectiveness Overview 2011
Inter-American Development Bank
Washington, D.C.
Pages 143 to 145

INTRODUCTION

The Paris Declaration on Aid Effectiveness was agreed upon by donors and partner countries in 2005.[1] The five principles of the Paris Declaration (Ownership, Alignment, Harmonization, Results, and Mutual Accountability) are monitored using a survey of 15 indicators, of which 9 apply to MDBs. In 2011 the OECD-DAC released the *Aid Effectiveness 2005-2010: Progress in Implementing the Paris Declaration Report*.

The OECD—led survey reports on Official Development Assistance (ODA)—aid which is concessional in character. The IDB's mission "to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively"[2] concurs in spirit with the definition of ODA. As such, the Bank values presented here are calculated based on sovereign-guaranteed investments and policy-based loans. Reporting to the survey is voluntary and only 10 IDB borrowing member countries reported to the 2010 survey.

The Bank's values are calculated for all 26 IDB borrowers. In survey, some indicators are calculated using government data that is unavailable for this exercise; any methodological adjustments are explained in the methodological notes column.

The findings for donors and partner countries for the 2011 survey results showed progress but also indicate that significant work remains to be done. The report describes the global survey results as "sobering" and as having considerable variation in performance across donors and partner countries. Those findings serve to identify areas where more work is needed to support achievement of the MDGs, and were also a basis for commitments by participants in the Fourth High Level Forum in Busan, in November 2011. As discussions around the possible redefinition of indicators are ongoing, the IDB continues reporting on its progress towards its Paris Declaration commitments.

PERFORMANCE

In this last survey, the IDB performed satisfactorily. It was the only MDB to achieve 4 of its 8 targets. The Bank also showed improvement over time on 6 out of the 9 indicators. Its general upward trend was also confirmed by independent and more exhaustive assessments of the Bank, such as MOPAN 2011.

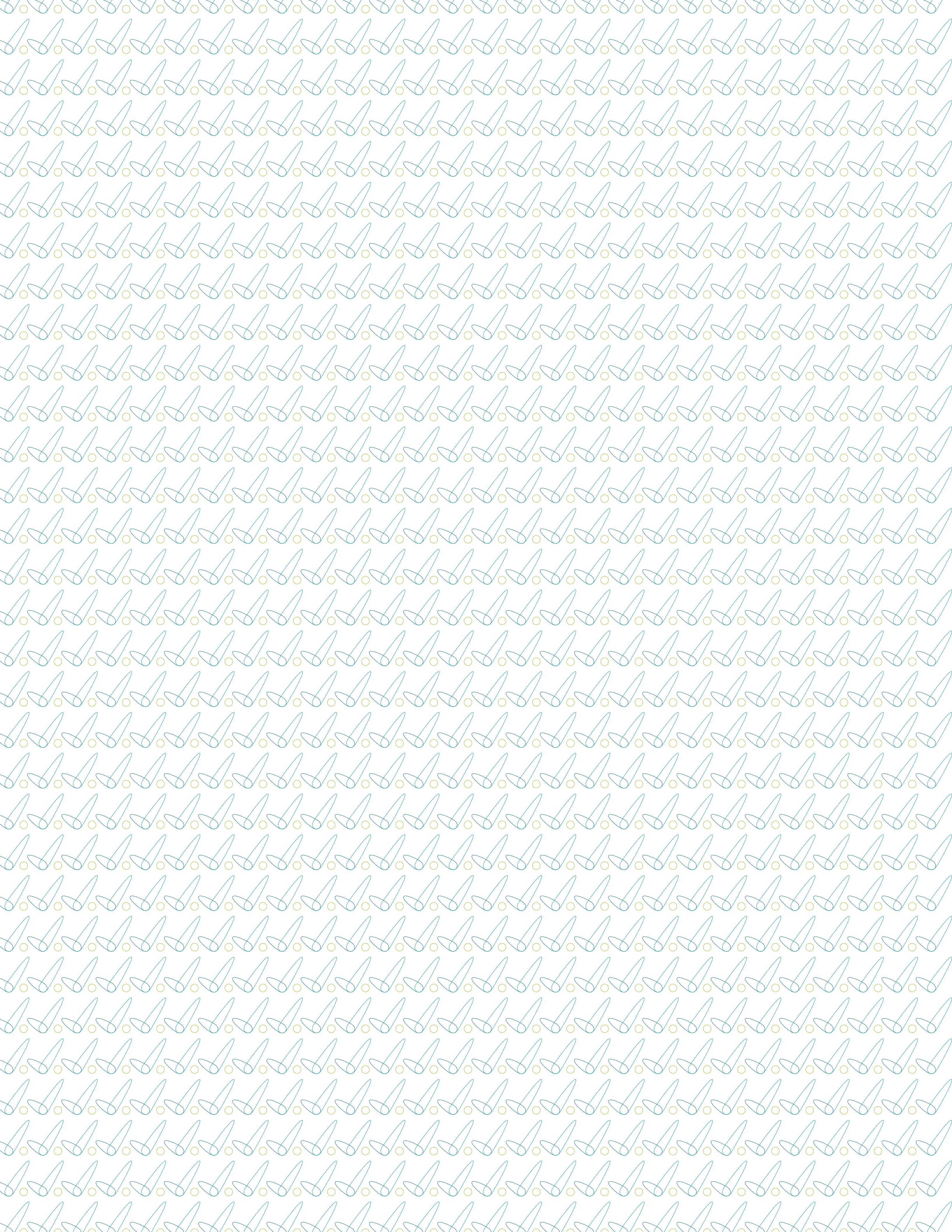
In 2011, the IDB showed improvement on 4 indicators: strengthening capacity by coordinated support, using public financial management systems, reducing the number of parallel implementation units, and using common arrangements or procedures.

[1] To date, Brazil has not endorsed the Paris Declaration.

[2] Agreement Establishing the Inter-American Development Bank.

INDICATORS

Indicators	2010 (26 Countries)	2011 (26 Countries)	Methodological Notes
1. Operational Development Strategies	--	--	This indicator does not apply to MDBs
2. Reliable Public Financial Management (PFM) Systems	--	--	This indicator does not apply to MDBs
3. Aid Flows are Aligned on National Priorities	n/a	n/a	This indicator requires government budget data not available to IDB
4. Strengthen Capacity by Coordinated Support	46%	52%	Based on OECD methodology
5a. Use of Country Public Financial Management Systems	46%	57%	Based on OECD methodology
5b. Use of Country Procurement Systems	59%	57%	These percentages are based on the methodology used to report to the Paris Declaration. A new methodology as defined in the Strategy for Strengthening and Use of Country Systems (GN-2538) is being applied moving forward, which would yield a much lower percentage since to date only Chile's country systems have been approved for use
6. Avoid Parallel Implementation Structures	4.1/country	2.8/country	The average number of PIUs per country is presented to allow comparison notwithstanding the number of reporting countries. The OECD counts total number of PIUs
7. Aid is More Predictable	95%	84%	IDB disbursements projections are used in lieu of government budget data
8. Aid is Untied	--	--	This indicator does not apply to MDBs
9. Use of Common Arrangements or Procedures	33%	50%	Based on OECD methodology
10a. Joint Missions	49%	45%	Based on OECD methodology
10b. Joint Country Analytic Work	56% (14 countries)	Data pending	Based on OECD methodology
11. Results-oriented Frameworks	--	--	This indicator does not apply to MDBs
12. Mutual Accountability	--	--	This indicator does not apply to MDBs
Disbursements base (US$million)	**US$10,200**	**US$8,431**	



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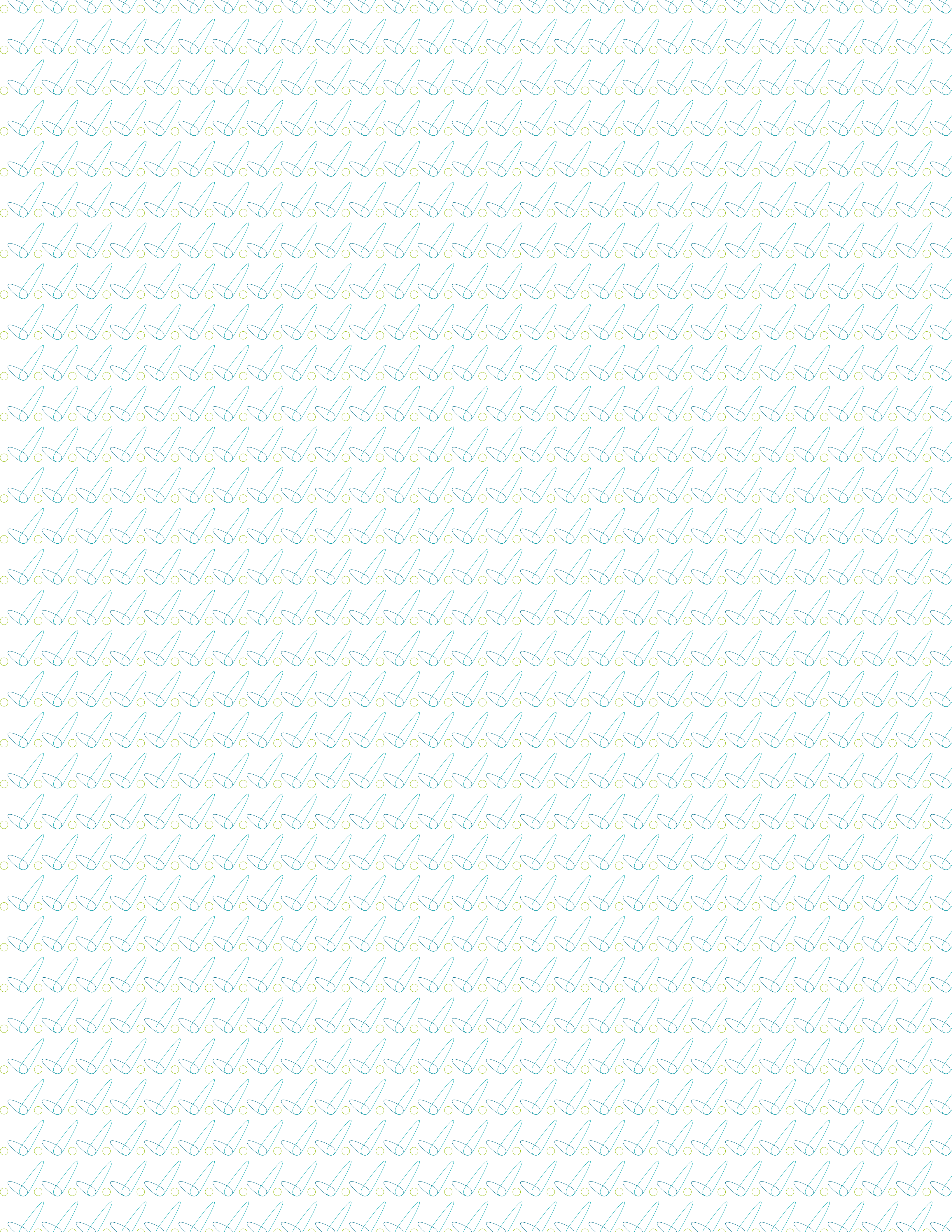

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