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***EVALUATION OF IDB  
ACTION PLAN FOR  
PRIVATE SECTOR  
DEVELOPMENT IN C&D  
COUNTRIES***

***Office of Evaluation and Oversight, OVE***

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## ACRONYMS

<b>OVE</b>	Office of Evaluation and Oversight
<b>AP</b>	Action Plan for Private Sector Development in C&D Countries
<b>LAC</b>	Latin America and the Caribbean
<b>GDP</b>	Gross Domestic Product
<b>PPI</b>	Private Participation in Infrastructure
<b>PSC</b>	Private Sector Committee
<b>PSCC</b>	Private Sector Coordination Committee
<b>MDB</b>	Multilateral Development Banks
<b>MIF</b>	Multilateral Investment Fund
<b>IIC</b>	Inter-American Investment Corporation
<b>CPSD</b>	Country Private Sector Development Strategy
<b>ECLAC</b>	Economic Commission for Latin America and the Caribbean

## FOREWORD

1. As part of the Office of Evaluation and Oversight's (OVE) work plan for 2006, OVE conducted an evaluation of the Action Plan for Private Sector Development in C&D countries (AP).<sup>i</sup> The objective of the evaluation was to verify whether the AP achieved its objectives to enhance the quality, quantity, and coordination of the IDB Group's activities in support of private sector development in C&D countries.
2. The AP was created as a precondition to raise the ceiling on private sector loans and guarantees from 5% to 10%, which was established by the Bank's Assembly of Governors in 2001.<sup>ii</sup> This precondition revealed the Governors' concern about the lack of the Bank's private operations in C&D countries. **Indeed, until 2001, only 10 out of 56 projects (18% of the PRI portfolio) were implemented in C&D countries.**
3. Therefore, on January 2002, Management submitted to the Board an Action Plan – approved on November 13, 2002 – “in order to enhance the quality and quantity of the activities of the IDB Group in support of private sector development in C&D countries, identifying the priorities of each unit of the IDB Group, clarifying their contribution to the shared strategy, defining the modalities for their participation, defining the expected outputs and allocating the necessary resources to comply with the Plan.”<sup>iii</sup>
4. The AP defined the OVE mandate mentioning that, “in consultation with OVE the Bank will develop indicators and benchmarks to measure progress in increasing private sector development in C&D countries and reducing processing times.”<sup>iv</sup> Furthermore, as a result of the AP, the Programming Committee of the Board of Executive Directors asked OVE “to evaluate the strategies for Group C and D in 2005,”<sup>v</sup> two years after the first annual submission of an action plan for each Group C and D country set to begin in the first quarter of 2003.
5. In this context, considering that the strategies for private sector development in C&D countries have been recently implemented and only approved for three countries,<sup>vi</sup> this evaluation will focus on the AP's implementation, by verifying whether the AP achieved its objectives to enhance the quality, quantity and coordination of the activities of the IDB Group in support of private sector development in C&D countries.

## EXECUTIVE SUMMARY

The AP was Management's response to a request from the Board to increase the number of private operations in C&D countries - until 2001, only 10 of the 56 PRI projects (18% of the PRI portfolio) were implemented in these 19 countries - with the objective of enhancing the quality and quantity and of improving coordination of the IDB Group activities in support of private sector development in C&D countries.

However, the evaluation found a set of shortcomings in the preparation of the AP. *First*, the AP's lack of an adequate diagnosis, missing background information, and context analysis, led to a poorly developed plan. *Second*, the AP did not explain how it would handle a downturn in business activities. The AP was launched in a context when the opportunity cost of the private sector to invest was higher than in a normal business period. Because the AP did not acknowledge this context, its expected results to boost private sector development were jeopardized. *Third*, the AP was not based on country specific analysis for each C&D country. Given that the heterogeneity regarding private sector development within C&D countries is much greater than the heterogeneity between them and A&B countries, such relative heterogeneity obviated a C&D Plan. *Fourth*, the AP only partially addressed the problem of transaction costs of the IDB Group operations. The AP failed to focus on the IDB Group's due diligence costs which, associated with the small size of C&D markets, made it almost unfeasible to promote private sector operations in C&D countries. *Fifth*, the AP limited the scope of private operations, reducing the AP's relevance. Although determined by the IDB Group's mandate regarding operations to private sector, the authorized scope of operations prevented refinancing and referred exclusively to infrastructure and capital market sectors. Likewise, state-owned companies have been controlling many of these sectors and the PRI mandate did not authorize lending to government enterprises.

Despite the lack of evaluability that impeded the efforts to measure the achievement of AP's goals and purposes, this evaluation found that the AP generally did not meet its objectives to increase the quality, quantity and coordination of the IDB activities in the private sector in C&D countries. In particular, although the AP's accomplishment of activities was partial - about 50% of the AP's original activities were accomplished in 2002 and 2003 - the evaluation did not find evidence that the C&D private sector operations reduced either their preparation and execution times or increased the number of approvals as a consequence of the AP implementation. Likewise, the evaluation found a negative correlation between the number of AP's activities promoting competitiveness, institutional strengthening and macroeconomic environment in each country and the ranking of countries based on each of these indicators. This evidence reveals a lack of consistency in the AP to allocate their activities according to C&D country priorities. Finally, the evaluation found that the AP's activities did not lead to better coordination of activities in support of private sector development in C&D countries. The AP's activities lacked a management business plan clearly linked to a budget and personnel empowered to insure enforcement and monitoring of the AP activities.

Based on the analysis of the AP's experience, the evaluation recommends:

First, due to the heterogeneity within C&D countries regarding private sector development, **an AP aimed at increasing the number of private operations should be built on country-specific information. The AP's targets should be defined and implemented by country-specific strategies for private sector development (CPSD)**, which would also be inputs to the corresponding country strategies and programs. This will allow a better definition of country priorities and strategies by capturing the specificities of each C&D country.

Second, **the Bank should prepare an in-depth and specific diagnosis for each country before launching the CPSDs**, clearly identifying the determinants and targets to overcome the causes of market failures and risks related to private investments in each C&D country.

Third, **the Bank's country strategies and programs should contain result frameworks with baselines, milestones and measurable targets in order to address private sector development in each C&D country.** These result frameworks will allow the Bank to **generate an oversight information system of targets achieved** on the implementation of the specific CPSDs among the C&D countries **to be coordinated by the Private Sector Coordinator (PSC)**. These measures will also serve to enhance the institution's accountability.

Fourth, the CPSD should promote the coordination between the IDB's private and public branches, maximizing the synergy effects within the IDB Group. In order to be a useful instrument for the Management, **the CPSD should contain a business plan for each C&D country displaying how the Bank will address the country's private sector priorities, with a clear assignment of responsibilities, budget allocation and a timeline for its implementation.**

Finally, **the CPSD targets should also include the reduction of transaction costs of C&D private operations by putting in place mechanisms aimed at reducing and absorbing some of these costs.** On the one hand, the Bank should consider the possibility of hiring more lawyers to reduce external costs and enable the Bank to conduct more in-house legal due diligence and document preparation. On the other hand, the Bank should target technical cooperation (TC) funds for priority areas identified in CPSD to identify new private projects, similar to the Bank's creation of an Infrastructure Fund for infrastructure projects. The absorption of the operation costs by TC funds could also help to make low-spread operations in C&D countries feasible.

## I. INTRODUCTION

- 1.1 **The objective of the evaluation is to verify whether the AP achieved its objectives to enhance the quality and quantity and improve coordination of the IDB Group activities in support of private sector development in C&D countries.** Based on a desk-analysis of the IDB's documentation related to the AP, the evaluation follows several sequential steps.
- 1.2 **First, the evaluation will analyze the AP's diagnosis.** The evaluation will verify whether the problems that the AP attempts to address are clearly identified and logically linked with their causes. To help answer these questions, the evaluation will conduct a background analysis emphasizing issues about private investments in C&D countries, such as aggregate indicators of competitiveness and business climate.
- 1.3 **Second, the evaluation will analyze whether the AP's proposed actions are linked to the problems identified in the AP's diagnosis.** Likewise, the evaluation will verify whether the AP's goals, components, and activities are logically linked and whether the AP adequately identifies the conditions for its execution and its achievement.
- 1.4 **Third, the evaluation will analyze whether the AP's Evaluation Framework is adequate to measure the progress and the achievement of the AP's proposed actions.** The evaluation will analyze whether the AP establishes adequate targets, milestones, baselines, and benchmarks to track progress in private sector development in C&D countries.
- 1.5 **Fourth, the evaluation will measure the results achieved from the AP's implementation.** Tracking the AP's Evaluation Framework, the evaluation will verify whether there is evidence that the quantity of the IDB's private sector operations/loans increased in the mentioned countries as a result of the implementation of the AP. Likewise, the evaluation will look for evidence on whether the AP improved the efficiency of the IDB Group to promote the private sector in the region by facilitating project preparation and by reducing the time and costs of the projects, as well as by improving coordination among IDB departments to enhance the efficiency of IDB interventions.

## II. THE ANALYSIS OF THE AP'S DIAGNOSIS

- 2.1 The objective of this chapter is to present the evaluation's findings on the adequacy of the AP's diagnostics. **The evaluation found that the diagnosis is vague and non-specific: it does not identify a clear problem statement and it does not identify the causes of a lack of private sector involvement in the target countries.**<sup>vii</sup>
- 2.2 **The AP limits itself to general qualitative statements about the lack of private operations in C& D countries.** These are attributed to a number of obstacles. The obstacles identified are general problems of market failure, common problems of C&D countries and problems within IDB. The assertions, without supporting empirical evidence are, in greater detail, the following:
- a. In general, the market failures that affect the private sector are institutional deficiencies and constraints regarding access to productive resources, particularly to credit and infrastructure.<sup>viii</sup> The institutional deficiencies have been discouraging private investments in infrastructure because they are "sensitive to the institutional and policy environment,"<sup>ix</sup> and they involve the commitment of large resources on a long-term basis. Country specific factors determine this institutional and policy environment, such as the quality of the investment climate, affecting the companies regardless of size and affecting the competitiveness of the infrastructure services.
  - b. In particular, C&D countries also suffer negative impacts related to the underdevelopment of their capital markets, the limited scale of their projects, and the small size of their private sector. In accordance with the AP, in C&D countries, "projects are small because markets are small and services are best delivered by a single supplier who carries high start-up costs that typically cannot be absorbed easily in a small project."<sup>x</sup>
  - c. The AP also states that problems of coordination within the IDB Group are jeopardizing the promotion of an appropriate business climate and private operations in C&D countries.
- 2.3 **The AP fails to explain what is the causal relationship among the aforementioned determinants, as well as the weight of each one of them, to determine the lack of IDB Group private projects in C&D countries.** For instance, although the AP stresses the importance of the regulatory framework for the success of the privatization of natural monopolies, which the AP considers the best industrial configuration for the C&D infrastructure given its market size, the AP does not show any evidence of how to overcome the financial constraints occasioned by the limited small markets and the high start-up cost of the projects.
- 2.4 **In addition, because the AP focused exclusively on coordination shortcomings, it only partially identifies the determinants of the IDB Group transaction costs that may have also been inhibiting private operations in**



**small markets with small operations.** OVE (2004) had identified that “the combination of the sluggish pace of [IDB] project processing and high analysis costs are a major barrier to entry for those sponsors, usually local, who do not have the financial strength to make it through to the end, as well as a serious constraint for prospective smaller-scale projects. From this standpoint, transaction costs are directly impacting the pursuit of the mandate received from the Governors (...) to scale up activity in the Group C and D countries.”<sup>xi</sup>

- 2.5 For instance, one of the reasons identified by the IIC Management for the failure of the Small Loan Program (CII/GP-14-6), approved by the Board of Directors in October 2002 and expired on December 31, 2005, was the impossibility of paying the commissions required to local partners because the expected income from fees and the interest rate spread was insufficient.
- 2.6 **Further, the AP’s lessons learned underestimated the IDB’s shortcomings and instead mainly emphasized the countries’ institutional deficiencies.**<sup>xii</sup> Indeed, the AP states that “lessons learned have shown that the direct support of private firms is ineffective when the enabling environment is not favorable or is weak” and that “development of private sector is part of the overall development agenda (...) [and] in this endeavor there is a triple partnership between the public and private sector and the multilateral organizations like the Bank.”<sup>xiii</sup>
- 2.7 The AP’s shortcomings were also recognized during the AP’s approval process. The Board’s Evaluation Committee asked the Management for a better definition of the activities that were to be carried out by the IDB Group to promote private sector development and the mechanisms with which to fill the lack of an institutional forum in order to organize all stakeholders involved in the AP.<sup>xiv</sup> However, these issues were not incorporated in the final version of the document.

### III. ANALYSIS OF THE AP'S PROPOSED SOLUTIONS

- 3.1 The objective of this chapter is to present the evaluation's findings on the AP's proposed solutions to the problems identified. The analysis of the AP's proposed solutions found the following problems: (i) lack of justification; (ii) lack of relevance; (iii) inadequate consideration of global-macroeconomic conditions and; (iv) weakness of logic. These problems will be discussed below.
- 3.2 First, **the AP lacks an adequate justification for a generic C&D country classification-based plan.**<sup>xv</sup> The AP's general statements about the C&D private sector problems did not explain why the IDB should create a generic plan for these countries instead of using an IDB country approach or a general private sector approach. Although the C&D country size markets and levels of competitiveness indexes are smaller than A&B countries, both group of countries have a lot of similarities (See Annex 1). Indeed, **Table 3.1** shows that the inequality within C&D countries is much greater than the inequality verified between them and the A&B countries regarding relevant dimensions of the private sector. For instance, a small portion of the variation in PPI and foreign direct investment is explained by the variation between the Bank's classification. The same happens with the dispersion within the C&D Group between private capital flow (75%) and market capitalization (62%) dimensions

**Table 3.1 – Inequality Index between and within C&D and A&B Group of Countries For Relevant Dimensions to the Private Sector**

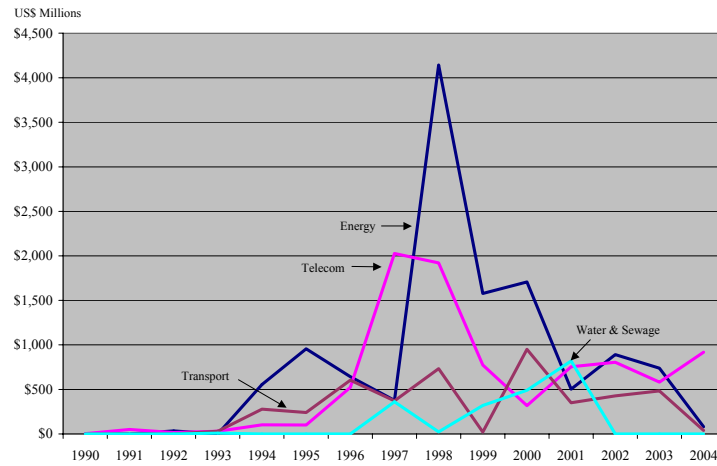
Relevant Dimensions to the Private Sector	Between Groups	Within-C&D	Total
	Inequality	Group Inequality	
Market capitalization (% of GDP)	38.0	62.0	100.0
PPI (Telecommunications) US\$ per capita	5.3	94.7	100.0
Private capital flow (% of GDP)	25.6	74.4	100.0
Foreign direct investment (% of GDP)	2.3	97.7	100.0

Source: WDI

- 3.3 Second, **the AP's relevance can be questioned.** It is unclear why the AP defined infrastructure and financial market activities as its sectorial priorities. These sectorial priorities could be better explained by the limitations of the IDB's mandate than by the conclusions of an eventual AP's diagnosis identifying country needs. Due to the IDB policy limitations, a large number of sectors were unassisted and some operations were not permitted, such as local currency lending, thus weakening the AP's capacity to boost the private sector development in C&D countries.
- 3.4 Third, **the IDB Group launched the AP without an adequate consideration of the global-macroeconomic context.** The AP did not contain contingency measures to handle a downturn in business activities generated by global-macroeconomic slowdowns and increases in the opportunity cost of the private

sector investment. Indeed, **Figure 3.1** shows the fall in the inflow of FDI investments in infrastructure privatization after a peak in 1998.

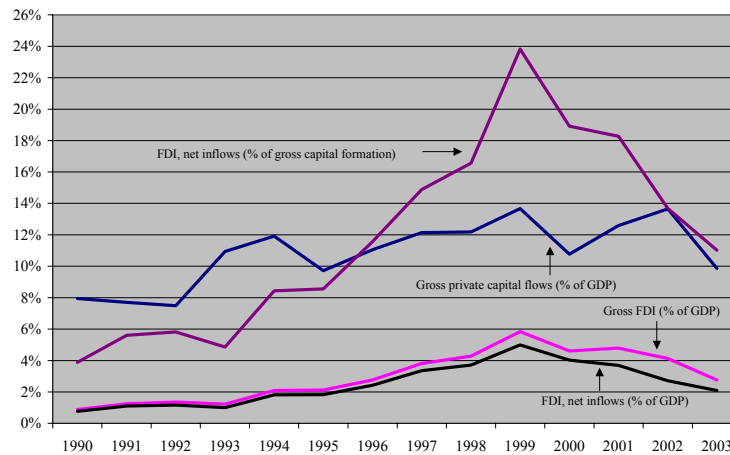
**Figure 3.1 Private Participation in Infrastructure (PPI)  
C&D Countries**



Source: World Bank PPI database

3.5 **The business climate suffered an adverse effect from the international macroeconomic crises that hit the Region's economies after 2001 that only began to be reversed in 2004.**<sup>xvi</sup> Figure 3.2 shows that this crisis contributed to a decline in private capital flows in LAC, as a consequence of a recession in the global economy caused by the busting of the equity market bubble in the major economies, which in turn provoked a decline in private lending and debt finance for developing countries.<sup>xvii</sup>

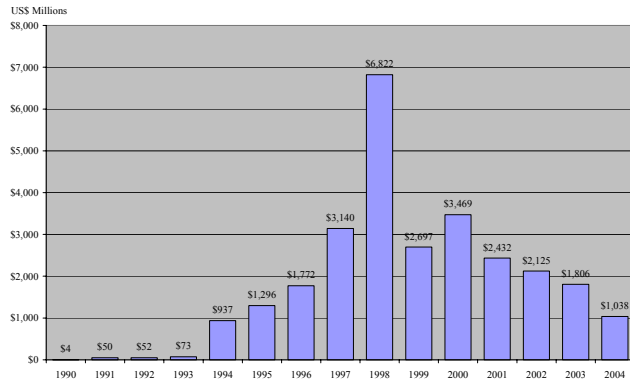
**Figure 3.2. Foreign Direct Investment  
& Private Capital Flows<sup>xviii</sup>  
Latin America and the Caribbean**



Source: WDI.

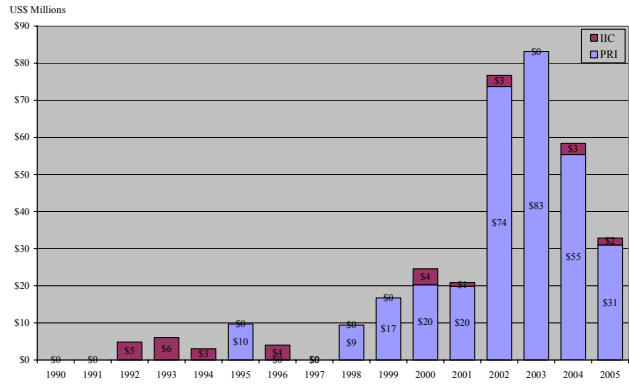
- 3.6 **Figure 3.2** shows that the net private capital flows in LAC grew from US\$ 13 billion in 1990 to a peak of US\$127 billion in 1998, almost 5% of LAC's GDP in 1999 <sup>xix</sup>. Because of the financial crisis that swept global markets, the flow declined to US\$ 103 billion in 1999, to US\$ 83 billion in 2000, to US\$ 71 billion in 2001 and to US\$ 36 billion in 2002.
- 3.7 Fourth, **the weak logic of the AP hindered the attribution of its expected results to the AP implementation.** *First*, because the AP fails to identify the link of the AP's objectives with its components. Indeed, **the AP does not clarify to what extent the causes for the smaller quantity and quality of the IDB's Group private operations in the C&D countries are linked to coordination problems of the IDB Group.** Hypothetically, more coordination could even generate a reduction in the number of operations because duplication efforts would be avoided. Therefore, to understand how and why the coordination could have had positive impacts in the private sector development in these countries, the AP's should have made a diagnosis on (i) why the prevailing IDB organizational system is inadequate; and (ii) what the expected improvements in coordination are from the AP's implementation, in order to increase the number of private operations of the IDB Group.
- 3.8 *Second*, because **it is difficult to attribute to the AP's implementation the expected impacts regarding improvements in country competitiveness and quality of infrastructure and financial markets** given the small participation of the IDB Group's lending in the total amount of private investments in C&D countries (**Figures 3.4 and 3.5**), (AP's General Objectives). **The contribution of the IDB's private lending to the promotion of private sector operations in these countries has been very small, considering the volume of private participation in C&D countries.** This can be exemplified by the evolution of the IDB's disbursements in infrastructure projects compared to the private participation in infrastructure (PPI) in these countries. Despite the fact that the average level of Bank's private infrastructure funding more than tripled during 2002-2004 compared with 2001, it has still been relatively small compared to the PPI during the same period. Looking at the evolution of IDB Group disbursements, it is possible to conclude that the Bank did not take advantage of the boost in private business that occurred in these countries until 1998.

**Figure 3.4 Private Participation in Infrastructure (PPI)  
C&D Countries**



Source: World Bank PPI database  
Notes: the private participation in infrastructure (PPI) Project database records total investment in infrastructure projects with private participation, not private investment alone

**Figure 3.5 IIC and PRI Disbursements in  
Infrastructure Projects  
C&D Countries**



Source: IIC cognos project portfolio cube; OVEDA  
Notes: IIC Disbursements in Transportation & Warehousing and Utilities & Infrastructure sectors; PRI Disbursements in Energy, Communications, Water & Sanitation, and Transport sectors

#### IV. THE AP'S EVALUATION FRAMEWORK

- 4.1 **The objective of this chapter is to present the evaluation's findings on the AP's evaluability. The AP's purposes were to: "increase quantity", "enhance quality" and "improve coordination" of the IDB Group. The plan promised annual reports to show implementation progress.**
- 4.2 **The AP does not provide a metric to monitor the goals and purposes.** None of the AP's goal indicators have targets, baselines or milestones. A few of the purpose indicators have targets, but none of them have baselines or milestones (Table 4.1).
- 4.3 **The AP does not contain a justification for the number of interventions or the distribution of these across countries.** Furthermore, there is no horizontal logic between some indicators and their purposes. For instance, there is no demonstrated relationship between "coordination" and "quantity", as analyzed in paragraph 3.7. Likewise, the increasing "number of interventions" is not an indicator of an increase in "quality", nor is the enhancing of the "investment climate" an indicator of improvement in "coordination."
- 4.4 **The proposed purpose indicators are outputs, given that they refer to activities** such as "number of interventions and amount of financing". Furthermore, **almost all output indicators identify targets and have adequate quantitative measures of the expected activities to be delivered through the AP's implementation.** However, none of the output indicators have baselines. In addition, given the confusion between outcomes and outputs as analyzed before, some output indicators are also used to measure the achievement of outcomes, such as "number of interventions" and "specific issues concerning coordination".
- 4.5 **The tracking of the AP was limited by deficiencies in the timing of instruments and in the comparability of metrics across time.** The AP's Evaluability Framework was defined in the First Report on the Multi-Year Rolling Plan (April 23, 2003), a few months after the beginning of the implementation of the AP (See Annex 1, Section A). Similarly, the First Report for 2002 was produced in April 2003 - after the launching of the Plan - thus jeopardizing any result measurement. Furthermore, this First Report changed the classification of activities defined in the original AP, precluding the tracking of the evolution of the results previously defined in the AP. The Second Annual Report, regarding 2003, was made in September 2004 and, like the first one, it only mentioned the compliance of outputs, by counting the number of activities that were expected and executed each year.
- 4.6 **The short time of implementation combined with the absence of baselines, milestones, and targets impeded a full evaluation of whether the AP has achieved its goals and purposes.** It must also be noted that **AP approval was delayed** – the first draft was made in January 2002<sup>xx</sup> and the last version was only approved in December 2002. Even though the AP's First Report of activities

referred to 2002, **the first year was practically spent in the approval process of the Plan.**

- 4.7 **Furthermore, lack of data compatibility impeded the verification of the AP's delivery of non-financial activities.** The evaluation was unable to examine the results because the products, listed in the AP's 2002 and 2003 Reports, are not comparable, given the problem of evaluating a "moving target". While the original indicative list of projects focused on infrastructure and capital market development, by the time of the second report in 2003, the AP's Report list included any activity that supported the private sector, such as agriculture, micro enterprises, small and medium enterprises, microfinance, reforms, science & technology, and trade.

**Table 4.1. Project Result Achieve Analysis**

	<b>Outcome</b>	<b>Indicator</b>	<b>Baseline</b>	<b>Milestone</b>	<b>Target</b>	<b>Type</b>	<b>Metric</b>	<b>Adequate</b>
<b>Goal</b>	Improve quality (competitiveness) of infrastructure and Financial Capital Markets in C&D Countries	Competitiveness ranking	No	No	No	Outcome	No	No
		Key Indicators of coverage, quality, prices, security of supply and financial/capital market development	No	No	No	Outcome	No	No
	Promote private sector investment in infrastructure and Financial/capital market development in C&D Countries	Private investment in infrastructure by sectors and by countries (total and variations)	No	No	No	Outcome	No	No
		Measures of financial/capital markets development	No	No	No	Outcome	No	No
<b>Purpose</b>	Increase quantity of the IDB Group activities in support of private sector development in C&D countries	Number of interventions and amount of financing under the C&D Action Plan	No	No	Yes	Ouput	Yes	No
		Indicators for investment climate related to infrastructure & capital markets	No	No	No	Outcome	No	No
		Specific issues regarding coordination	No	No	Yes	Ouput	No	No
	Enhance quality of the IDB Group activities in support of private sector development in C&D countries	Number of interventions and amount of financing under the C&D Action Plan	No	No	Yes	Ouput	Yes	No
		Indicators for investment climate related to infrastructure & capital markets	No	No	No	Outcome	No	No
		Specific issues regarding coordination	No	No	Yes	Ouput	No	No
	Improve Coordination of the IDB Group activities in support of private sector development in C&D countries	Number of interventions and amount of financing under the C&D Action Plan	No	No	Yes	Ouput	Yes	No
		Indicators for investment climate related to infrastructure & capital markets	No	No	No	Outcome	No	No
		Specific issues regarding coordination	No	No	Yes	Ouput	No	No





## V. THE RESULTS OF THE AP

- 5.1 **The objective of this chapter is to present the evaluation's findings on the results of the AP. Given the aforementioned constraints, the evaluation tried to learn from the AP's implementation experience focusing on output results.** After a brief analysis of the accomplishment of the AP's output activities, the evaluation attempted to measure the IDB Group's improvements in efficiency and coordination related to private operations in C&D countries.
- 5.2 **An analysis of the accomplishment of the AP's activities found that the IDB Group Bank's program was not executed as planned. Table 5.1** shows that 56% of the activities, as originally defined by the AP, were carried out in 2002 and 55% in 2003. The mismatch between execution and planning could be underscored for the large number of executed additional operations not foreseen in the original AP. If these operations were considered, the percentage of activities accomplished in 2002 and 2003 increases to 62% and 67%, respectively.

**TABLE 5.1. AP ACTIVITIES – PLANNING AND ACCOMPLISHMENT**
**By Kind of Activities (2002)**

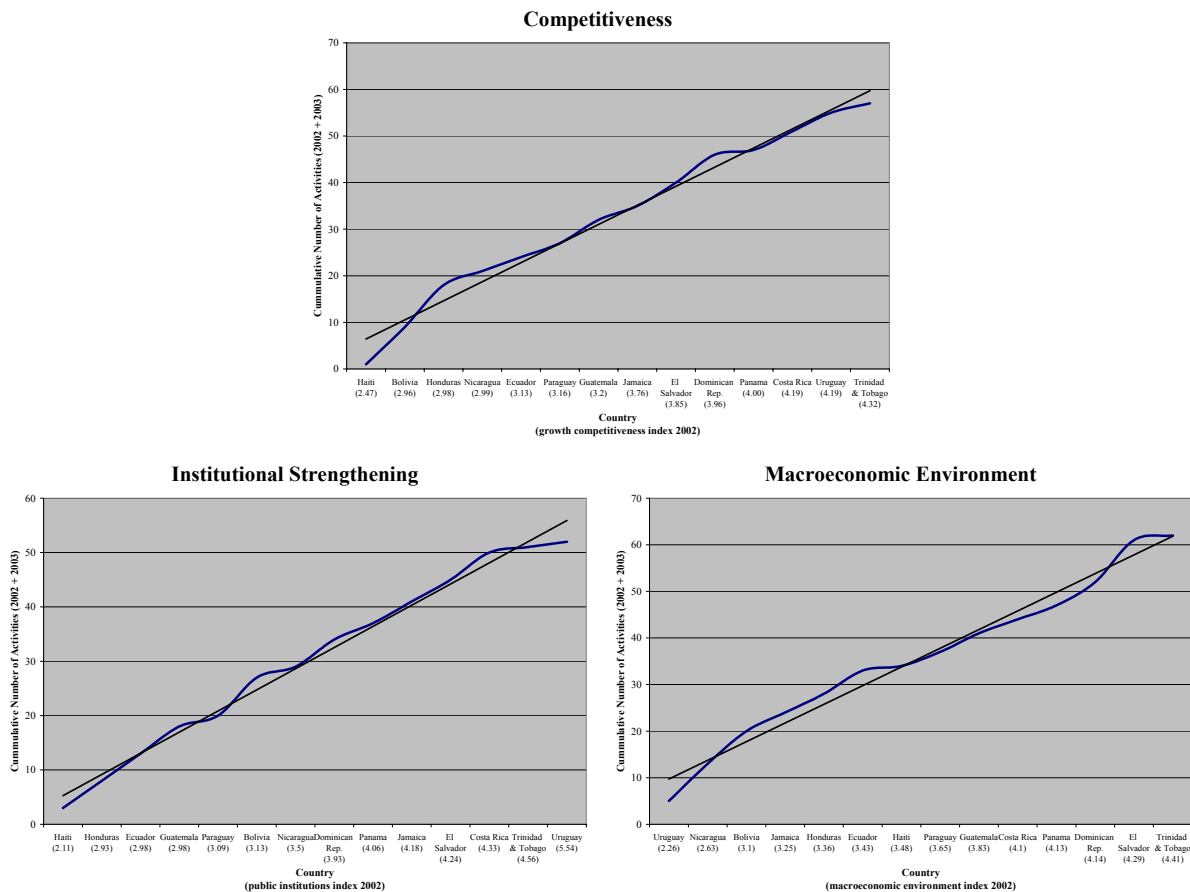
2002 Activities	Planned	Original Plan Accomplishment	Original Plan Accomplishment %	Additional Operations Accomplished	Total Accomplished Operations	Total Accomplishment %
	(a)	(b)	(b) / (a)	(c)	(b) + (c)	[(b) + (c)] / [(a) + (c)]
Analytical Work on Market Structure, Regulatory Framework and Legal, Judiciary and Regulatory Institutions	8	6	75%	2	8	80%
Interaction with the Private Sector	5	5	100%	0	5	100%
Discussion with Governments on the Obstacles to Increasing Private Sector Investments	6	4	67%	0	4	67%
Regional Activities	13	11	85%	1	12	86%
Financial and Capital Market Development	19	13	68%	7	20	77%
Develop. / Support of Infrastructure Funds	1	0	0%	0	0	0%
Competitiveness	2	1	50%	1	2	67%
Strengthening Regulatory Frameworks, Institutional Development, and Structuring Specific Concessions (Airports, Concessions Lines of Activity, Reg. T.C)	28	14	50%	6	20	59%
Project Preparation	2	2	100%	2	4	100%
Public Sector Loans that Impact Private Infrastructure	10	5	50%	1	6	55%
Public Sector Loans that Impact Capital and Financial Markets	6	3	50%	0	3	50%
Public Sector Loans that Impact Competitiveness	3	1	33%	0	1	33%
PRI Projects: Infrastructure	13	6	46%	0	6	46%
IIC Projects	10	3	30%	1	4	36%
MIF Projects: Financial Institutions / Remittances	12	3	25%	1	4	31%
<b>Total activities related to Private Sector Development in C &amp; D countries (2002)</b>	<b>138</b>	<b>77</b>	<b>56%</b>	<b>22</b>	<b>99</b>	<b>62%</b>

**By Kind of Activities (2003)**

2003 Activities	Planned	Original Plan Accomplishment	Original Plan Accomplishment %	Total Additional Operations	Total Accomplished Operations	Total Accomplishment %
	(a)	(b)	(b) / (a)	(c)	(b) + (c)	[(b) + (c)] / [(a) + (c)]
Analytical Work on Market Structure, Regulatory Framework and Legal, Judiciary and Regulatory Institutions	12	11	92%	0	11	92%
Interaction with the Private Sector	0	0	...	1	1	100%
Discussion with Governments on the Obstacles to Increasing Private Sector Investments	5	5	100%	1	6	100%
Regional Activities	12	10	83%	1	11	85%
Financial and Capital Market Development	26	19	73%	4	23	77%
Competitiveness	13	7	54%	8	15	71%
Strengthening Regulatory Frameworks, Institutional Development, and Structuring Specific Concessions (Airports, Concessions Lines of Activity, and Regular T.C)	33	14	42%	3	17	47%
Project Preparation	0	0	...	2	2	100%
Public Sector Loans that Impact Private Infrastructure	9	4	44%	1	5	50%
Public Sector Loans that Impact Capital and Financial Markets	7	1	14%	2	3	33%
Public Sector Loans that Impact Competitiveness	7	3	43%	4	7	64%
PRI Projects: Infrastructure	5	1	20%	0	1	20%
PRI Projects: Capital Markets/Trade Financing	3	0	0%	0	0	0%
IIC Projects	8	4	50%	15	19	83%
MIF Projects: Financial Institutions / Remittances	6	1	17%	1	2	29%
Microfinance Projects	0	0	...	14	14	100%
<b>Total activities related to Private Sector Development in C &amp; D countries (2003)</b>	<b>146</b>	<b>80</b>	<b>55%</b>	<b>57</b>	<b>137</b>	<b>67%</b>

5.3 The analysis of the AP’s implementation also underscores the inadequacy of the C&D’s general approach to address private sector development in these countries. Figure 5.1 shows that there is no clear targeting between the number of activities to support competitiveness, institutional strengthening and the improvement of the macroeconomic environment and the respective index for each of these dimensions for each C&D country.<sup>xxi</sup> Countries with greater “need” as measured by these indices are not allotted a greater number of activities; if anything, there is a slight bias against implementation in countries with greater need. The correlation of these three indicators and the country needs displays an erratic behavior, revealing a lack of consistency in the AP to allocate their activities by C&D country priorities.

Figure 5.1



5.4 As a proxy for efficiency, the evaluation compared the C&D operation times and quantity of private operations with those observed in A&B private operations, before and during the implementation of the AP. The evaluation did not find any evidence that C&D private operations had reductions in their preparation and execution times<sup>xxii</sup> after the AP’s implementation. Regarding preparation times, Table 5.2 shows that the C&D and A&B operations presented an erratic behavior between 2001 and 2004. Regarding execution times, C&D

operations increased significantly from 2000 to 2003, but decreased to levels lower than A&B operations in 2004. Finally, regarding *extension times*, the lack of information obstructed any kind of analysis.

**Table 5.2 – PRI Private Operations (1995-2004)  
Preparation, Execution and Extension Times by Months**

PRI Preparation Times										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A&B	6.5	15.2	11.5	14.3	12.1	13.4	16.7	13.0	15.9	20.7
C&D	3.0	NA	29.5	15.3	23.0	17.0	22.0	28.3	9.0	19.0
RG	NA	NA	NA	11	NA	19	16	NA	NA	24

PRI Execution Times										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A&B	28.0	19.8	18.0	37.3	22.7	16.9	19.0	NA	13.8	24.0
C&D	2.0	NA	22.0	15.0	NA	0.0	3.0	15.7	30.0	16.0
RG	NA	NA	NA	60	NA	NA	8	NA	NA	13.5

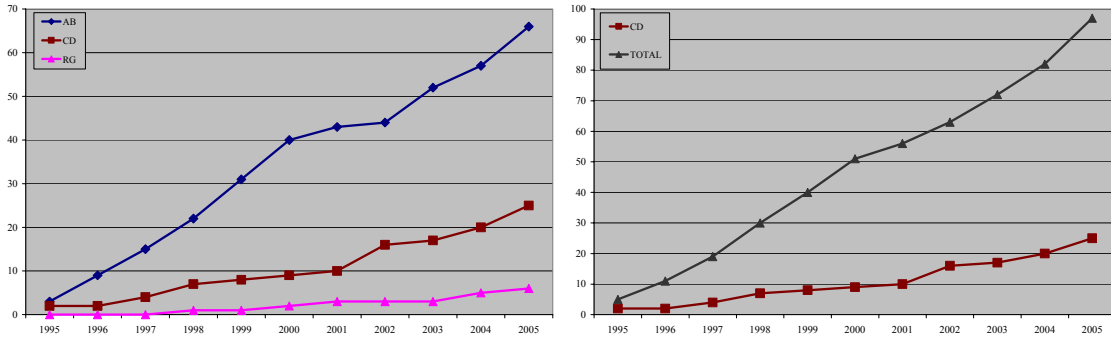
PRI Extension Times*										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A&B	0.0	-0.8	0.0	0.0	0.3	5.0	4.3	NA	0.0	0.0
C&D	0.0	NA	0.0	0.0	NA	0.0	-1.0	3.7	0.0	0.0
RG	NA	NA	NA	9	NA	NA	6	NA	NA	1.5

(\*) Extension times mean the difference between the original to current disbursement date.

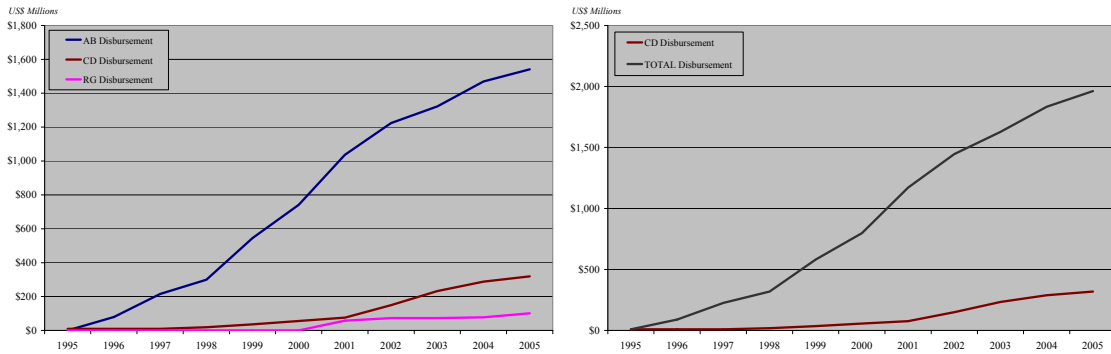
- 5.5 **Further, the evaluation did not find any evidence that the AP contributed to increasing the quantity of approvals and volume of disbursements in PRI operations in C&D countries compared with A&B countries.** Regarding *approvals*, **Figure 5.2** indicates that the average in C&D countries was one operation per year until 2002, when it increased atypically (6 approvals), returning to one operation in 2003, but increasing after that. In the same period, although the number of approvals of A&B operations decreased in 2002, it has never been lower than the C&D countries, showing that the AP was unable to increase the participation of C&D operations in the PRI portfolio. Regarding *disbursements*, C&D operations increased after 2001 reflecting the peak of C&D approvals in 2002, but this behavior was not sustainable, declining after 2003. At the same time, A&B disbursements have been decreasing since 2001, despite a brief recovery in 2004.

**Figure 5.2 – PRI Number of Approvals and Volume of Disbursements  
C&D Countries (1995 – 2005)**

**PRI – Cumulative Number of Projects Approved**



**PRI – Cumulative US\$ Disbursed**



Source: OVEDA

5.6 **Regarding measures to increase coordination, the evaluation shows that, for the most part, action plan activities were temporally irrelevant. Table 5.3** shows that all AP’s actions and activities defined to enhance the coordination within the IDB Group had already been implemented for all IDB Group private sector interventions. In addition, it did not create any innovation in the Bank’s internal procedures and policies in order to better conduct them in C&D countries. The only activity that could be authored by the AP is the requirement of a Portfolio Review and Evaluation.

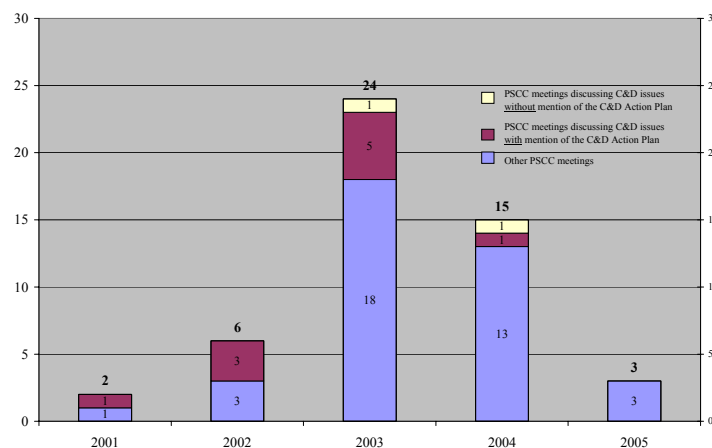
**Table 5.3 – Action Plan: Identification Actions, Activities and Responsible**

Action	Activities	Created by AP	Definition of Responsible
Upstream Work	Analytical work	No	No
	Interaction with the private sector	No	No
	Dialogue with governments to increasing private investments	No	No
Special Fields of Interest and Promotion	Infrastructure and financial integration	No	No
	Domestic and Regional Financial and Capital Market Development	No	No
	Development of Infrastructure Funds	No	No
	Competitiveness (**)	No	No
Better Integration into Country Programming (CP)	CP should include a section on private sector, following new CP guidelines	No	No
	More active participation by PRI, MIF and IIC in (pre-) programming exercise and missions	No	No
Other Activities	Coordination with other MDBs	No	No
	Private Sector Coordination Committee (PSCC)	No	No
	Designation of Focal Points	No	Yes
	Improve Processing Times	No	No
	Portfolio Review and Evaluation	Yes	Yes

(\*\*) Included by the First AP Report (2003)

5.7 **Figure 5.3 shows that, among the 50 meetings of the PSCC between 2001 and 2005, only 20% of them discussed issues linked with the AP, mainly in the years 2001 and 2002<sup>xxiii</sup>.**

**Figure 5.3 - PSCC Meetings**



Source: PSCC's Minutes of Meetings(2001-2005)

5.8 **The PSCC made few recommendations and a few of them show some evidence of accomplishment. The analysis of the agenda of the PSCC meetings (see Table 5.4) shows that the PSCC's recommendations basically refer to the design phase of the AP. Regarding the AP's implementation, the**

evaluation did not find any evidence of accomplishment and enforcement of two important PSCC recommendations to the Management: (i) revision of the indicators for AP evaluation and; (ii) elaboration on the obstacles and reasons for not delivering what was promised in the previous report for 2003.

**Table 5.4 - Agenda and Recommendations of the Private Sector Coordination Committee (PSCC) Issues Concerned to the AP**

<b>Date</b>	<b>Issues</b>	<b>Recommendations to the Departments involved on the AP</b>	<b>Evidence of accomplishment</b>
12/20/2001	Seminar about coordination among IDB groups and strategic plan to increase C&D private operations	None	
01/25/2002	Report about the private sector operations in C&D countries (PS-3)	To incorporate in the draft the following issues: (i) institutional requirements to allow private operations in the countries; (ii) integration actions; and (iii) indicative list of projects and studies; (iv) AP evaluation	Yes
02/16/2002	AP (GN-2193-1)	To promote interaction among Bank Departments in order to study how to comply with Board requests about country Annual diagnoses stressing constraints for private operations in C&D countries	No
10/29/2002	AP (GN – 2193)	None	
01/28/2003	Information about the preparation of the First AP Progress Report	None	
02/11/2003	AP (GN – 2193-2 and GN-2193-4)	To appoint one responsible person by each department in order to interact with EVP consultant in charge of the preparation of the AP Progress Report	Yes
04/15/2003	First AP Progress Report	To except the AP of an indicative list of projects for 2004-05; To study a revision of the indicators for the AP evaluation due to difficulties to attribute causality between the actions and their impacts	Yes No
07/01/2003	Information about the Board considerations about the First AP Report and the actions that EVP is doing to address them	None	
09/23/2003	AP implementation: presentation about the Business Climate in C&D countries	None	
08/24/2004	Second AP Progress Report	To elaborate further on the obstacles and reasons for not delivering what was promised in the previous report for 2003.	No



- 5.9 **Other evidence that the AP did not change the *modus operandi* of the IDB Group in C&D countries is the fact that the AP was never quoted in any financial or non-financial activity** that was included in the AP's planned activities. This evidence is corroborated by opinions collected from interviews with the IDB Group's staff involved with the AP reports. From the interviews, OVE learned that the **IDB's staff unanimously believes that the AP was a formal exercise of collecting Bank's programmed activities** in C&D countries in order to respond to the Board's demand to increase the number of private sector operations in C&D countries.
- 5.10 **To the Board, the listing of AP activities reported by Management had basically an informational role.** Although the Annual Reports assigned status codes identifying the degree of progress of each activity, it did not bring any operational recommendation, weakening any eventual strategic role that the AP could have played to the Management and the Board. The Reports never elaborated on the obstacles and reasons for not delivering the activities that were promised.
- 5.11 **The inadequacy of the reports can be partially attributed to giving responsibility to PSCC without an additional budget and empowerment.** The monitoring responsibility was given to PSCC where it was to monitor the AP's implementation and to report the progress of specific actions and products of the IDB Group.<sup>xxiv</sup> However, given the absence of a specific budget and human resources needed for its monitoring, the AP has never had a specific staff in charge of its tracking leading to AP Reports being produced by sporadic task-force efforts of PRI, MIF, and IIC staff members.
- 5.12 **Finally, the AP was superseded by other IDB initiatives, especially the Country Private Sector Development Strategy (CPSD), that was recently initiated for all countries covered by IDB Group support and followed up by the PSC.** As evidence of the ineffectiveness of the AP, the second and last report made by the Management and approved by the Board in September 2004 states that: "looking forward, as the CPSD strategies are developed, the Action Plan's main features and goals will be mainstreamed into the Bank's group programming activities replacing this report."<sup>xxv</sup>

## VI. CONCLUSIONS

- 6.1 First, **the AP's lack of an adequate diagnosis**, missing background information, and context analysis, led to a poorly developed plan.
- 6.2 Second, **the AP did not explain how it would handle a downturn in business activities**. The AP was launched in a context when the opportunity cost of the private sector to invest was higher than in a normal business period. Because the AP did not acknowledge this context, its expected results to boost private sector development were jeopardized.
- 6.3 Third, **the AP was not based on country specific analysis for each C&D country**. Given that the heterogeneity regarding private sector development within C&D countries is much greater than the heterogeneity between them and A&B countries, such relative heterogeneity obviated a C&D Plan.
- 6.4 Fourth, **the AP only partially addressed the problem of transaction costs of the IDB Group operations. The AP failed to focus on the IDB Group's due diligence costs** which, associated with the small size of C&D markets, made it almost unfeasible to promote private sector operations in C&D countries.
- 6.5 Fifth, **the AP limited the scope of private operations, reducing the AP's relevance**. Although determined by the IDB Group's mandate regarding operations to private sector, the authorized scope of operations prevented refinancing and referred exclusively to infrastructure and capital market sectors. Likewise, state-owned companies have been controlling many of these sectors and the PRI mandate did not authorize lending to government enterprises.
- 6.6 **Sixth**, despite the lack of evaluability that impeded the efforts to measure the achievement of the AP's goals and purposes, this evaluation found that **the AP did not meet its objectives to increase the quality, quantity and coordination of the IDB activities in the private sector in C&D countries**. In particular, although the AP's accomplishment of activities was partial – about 50% of the AP's original activities were accomplished in 2002 and 2003 - the evaluation did not find evidence that the C&D private sector operations reduced either their preparation and execution times or increased the number of approvals as a consequence of the AP implementation. Likewise, the evaluation found a negative correlation between the number of AP's activities promoting competitiveness, institutional strengthening and macroeconomic environment in each country and the ranking of countries based on each of these indicators. This evidence revealed a lack of consistency in the AP to allocate their activities by C&D country priorities. Finally, the evaluation found that the AP's activities did not lead to a better coordination of activities in support of private sector development in C&D countries. The AP's activities lacked a management business plan clearly linked to a budget and personnel empowered to insure enforcement and monitoring of the AP activities.

## VII. RECOMMENDATIONS

Based on the analysis of the AP's experience, the evaluation recommends:

- 7.1 Due to the heterogeneity within C&D countries regarding private sector development, **an AP aimed at increasing the number of private operations should be built on country-specific information. The AP's targets should be defined and implemented by country-specific strategies for private sector development (CPSD)**, which also are inputs to the corresponding country strategies and programs. This will allow a better definition of country priorities and strategies by capturing the specificities of each C&D country.
- 7.2 **The Bank should prepare an in-depth and specific diagnosis for each country before launching the CPSDs**, clearly identifying the determinants and targets to overcome the causes of market failures and risks related to private investments in each C&D country.
- 7.3 **The Bank's country strategies and programs should contain result frameworks with baselines, milestones and measurable targets to address private sector development in each C&D country.** These result frameworks will allow the Bank to **generate an oversight information system of targets achieved** on the implementation of the specific CPSDs among the C&D countries **to be coordinated by the Private Sector Committee (PSC)**. These measures will also serve to enhance the institution's accountability.
- 7.4 The CPSD should promote the coordination between the IDB's private and public branches, maximizing the synergy effects within the IDB Group. In order to be a useful instrument for the Management, **the CPSD should contain a business plan for each C&D country displaying how the Bank will address the country's private sector priorities, with a clear assignment of responsibilities, budget allocation and a timeline for its implementation.**
- 7.5 **Finally, the CPSD targets should also include the reduction of transaction costs of C&D private operations by putting in place mechanisms aiming at reducing and absorbing some of these costs.** On the one hand, the Bank should consider the possibility of hiring more lawyers to reduce external costs and enable the Bank to conduct more in-house legal due diligence and document preparation. On the other hand, the Bank should target technical cooperation (TC) funds for priority areas identified in CPSD to identify new private projects, similar to the Bank's creation of an Infrastructure Fund for infrastructure projects. The absorption of the operation costs by TC funds could also help to make low-spread operations in C&D countries feasible.

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## ANNEX 1

## A. C&amp;D Action Plan Evaluation Framework

		INDICATORS	INDICATORS' SPECIFICATION & SOURCES <sup>1</sup>
General Objectives	Improve quality (competitiveness) of infrastructure and Financial/Capital Markets in C&D countries.	Competitiveness ranking Key Indicators of coverage, quality, prices, security of supply, and financial/capital market development.	Global Competitive Report: [GCR]. <i>Electricity</i> : Total electricity consumption as % of generation capacity; % of the population with access to electricity; % of rural population with access to electricity; price for industrial consumers; price for residential consumers; affordability index: [OLADE]; % of transmission losses; % of distribution losses: [WDI]. <i>Telecom</i> : Fixed and mobile tel. per 1000 people; waiting time for fixed line installation: [WDI]. Residential lines per 100 homes; cost of 3 minutes local call (US); affordability index; failures per 100 lines per year: [ITU]. <i>Water</i> : % of houses connected; cost per cubic meters at urban service; affordability index: [CEPIS]. Tap water safety: [GCR]. <i>Transport</i> : Paved roads (% total); roads network density: [WDI]. Road infrastructure quality; air transport infrastructure quality; port infrastructure quality; railroad infrastructure quality: [GCR]. ICAO Aviation Classification: [ICAO]; passengers carried; freight carried: [WDI]. <i>Financial Cap Markets</i> : Corporate funding by type of instrument; total funding by sector: [LF]. Insurance assets as % GDP: [ASSAL]. Pension funds under administration as % GDP: [AIOS]. Banking: Capital / assets adequacy; loans as % of assets; public sector loans as % of assets; 5 biggest banks as % of total assets; bank profitability; non-performing loans total loans; provisions for non-performing loans total non-performing loans; administrative costs total loan portfolio: [FELABAN and Bank Superintendence].
	Promote private sector investment in infrastructure and financial capital market development in C&D countries.	Private investment in infrastructure by sectors and by countries (total and variation) Measures of financial/capital markets development	<i>Infrastructure</i> : Foreign net investment; private investment in energy; private investment in telecom; private investment in transportation; private investment in water and sanitation: [WDI]. Number of private projects in infrastructure: [PPI]. Privatization Progress: (Annex 1 of document GN-2193-2). <i>Financial Cap Markets</i> : Trading volume as % GDP; market capitalization as % GDP: [WDI]. Amount and number of bond issues by private companies: [S&P]. Banking assets as % of GDP; private sector loan as % of GDP.
Specific Objectives	Increase quantity, enhance quality, and improve coordination, of the IDB Group activities in support of private sector development in C&D countries: (1.7)	Number interventions and amount of financing under the C&D Plan	Annual Report of the Plan.
		Indicators for investment climate related to infrastructure & CM	Overall infrastructure quality; property rights; presence of demanding regulatory standards; effectiveness of anti-trust policy: [GCR]. Financial market sophistication; venture capital availability; access to foreign CM; foreign inv. access to local CM; access to bond market; local equity market access: [GCR].
		Specific issues regarding coordination	Annual Report of the Plan. Impact of decisions made at the PSCC.
Actions	<b>A. Upstream Work</b>		
	A.1 Analytical work on market structure, regulatory framework and legal, judiciary and regulatory institutions.	Studies, conferences, workshops, strategies.	Annual Report of the Plan.
	A.2 Interaction with the private sector A.3 Discussion with governments on the obstacles to increasing private sector investments.	Special meetings with private sector representatives. "Encuentros" and policy dialogues.	Annual Report of the Plan. Annual Report of the Plan.
<b>B. Special Fields of Interest</b>			
B.1 Regional activities.	Studies, conferences, workshops, strategies, meetings with private sector.	Annual Report of the Plan.	
B.2 Financial and Capital market development.	Strategies, technical cooperation, special missions. Local and International capital market financing Identification activities	Annual Report of the Plan. Amount and # of project with local and/or international capital market financing.	
B.3 Development/Support of Infrastructure Funds B.4 Competitiveness	Studies, conferences, workshops, strategies, technical cooperation, special missions.	Annual Report of the Plan. Annual Report of the Plan.	

<sup>1</sup> Data sources between brackets.

	INDICATORS	INDICATORS' SPECIFICATION & SOURCES <sup>1</sup>
<b>C. Better Integration into Country Programming</b>		
C.1 Country Paper incorporate analysis of Private Sector Opportunities	Country papers with a section on private sector following new guidelines	Annual Report of the Plan.
C.2 Group coordination in programming exercise	PRF, MIF participation in pre-programming and programming missions	Annual Report of the Plan.
C.3 Coordination with other multilateral institutions and bilateral donors	Consultations; joint missions with other institutions; co-financing levels	Annual Report of the Plan. Mission # and objective Amount and number of co-financed projects
<b>D. Instruments to facilitate private investment</b>		
D.1 Strengthening regulatory frameworks, institutional development, and structuring specific concessions	Number and amount of Technical Cooperation operations approved.	Annual Report of the Plan.
D.2 Letters of interest to potential bidders	Number of letters issued by PRF to bidders.	Annual Report of the Plan.
D.3 Project preparation	Number and amount of Technical Cooperation operations approved.	Annual Report of the Plan.
<b>E. Projects in preparation</b>		
E.1 Public sector loans that impact private infrastructure.	Number and amount of projects	Annual Report of the Plan.
E.2 Public sector loans that impact capital and financial markets.	Number and amount of projects	Annual Report of the Plan.
E.3 Public sector loans that impact competitiveness.	Number and amount of projects	Annual Report of the Plan.
E.4 PRF projects: infrastructure.	Number and amount of projects	Annual Report of the Plan.
E.5 PRF projects: capital markets / trade financing	Number and amount of projects	Annual Report of the Plan.
E.6 IIC projects.	Number and amount of projects	Annual Report of the Plan.
E.7 MIF projects: financial institutions / remittances	Number and amount of projects	Annual Report of the Plan.
<b>F. Other Actions and Activities to improve coordination and efficiency</b>		
F.1 PSCC	Issues resolved in PSCC related to C&D	Issues addressed and actions taken
F.2 Designation of Focal Points	List of focal points	Annual Report of the Plan
F.3 Processing times	Months to approval	IDB mainframe
F.4 Portfolio Review and Evaluation	Jointly addressing PSD issues in Portfolio Reviews and evaluations of C&D Tracking Missions	PPMR y PCR BES LERN

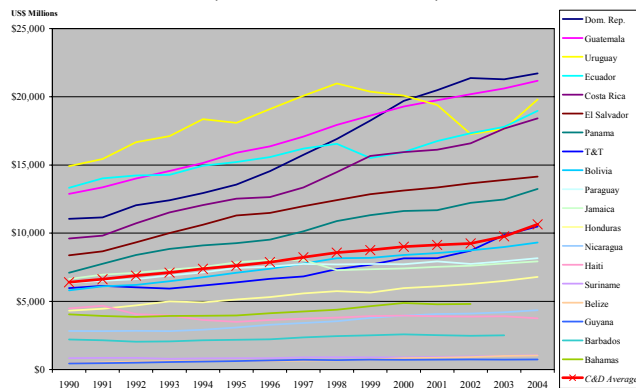
AIOS:	Asociación Internacional de Organismos de Supervisión de Fondos de Pensiones
ASSAL:	Asociación de Superintendentes de Seguros de América Latina
BES:	Bank Evaluation System
CM:	Capital Markets
CEPIS:	Centro Panamericano de Ingeniería Sanitaria y Ciencias del Ambiente
GCR:	Global Competitiveness Report
ITU:	International Telecommunications Union
LERN:	Lessons Learned Retrieval Network
OLADE:	Organización Latinoamericana de Energía
PCR:	Project Completion Report
PPI:	Private Participation in Infrastructure, World Bank
PPMR:	Project Performance Monitoring Report
PSCC:	Private Sector Coordination Committee
PSD:	Private Sector Development
TC:	Technical Cooperation
WDI:	World Development Indicators, World Bank

## B. An Analysis of the Rationale for the Creation of a Generic C&D Plan Regarding Private Sector Development

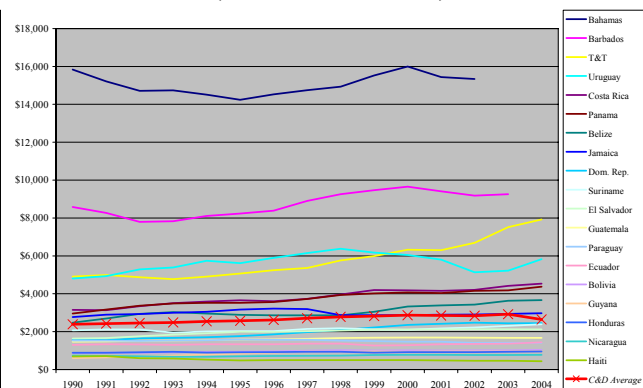
The AP does not articulate the rationale for the creation of a generic C&D country classification-based plan regarding private sector development due the existence of the following dimensions:

**The size and wealth indicators vary significantly among C&D economies.** Based on the analysis of the Gross Domestic Product (GDP), **Figure B.1** shows that the sizes of the economies of the Dominican Republic and Guatemala are double the average of C&D countries, contrasted with Barbados and Bahamas, which are the smallest of this group of countries. However, **Figure B.2** demonstrates that, despite their sizes, the economies of Barbados and Bahamas have the biggest GDP per capita among the C&D economies.

**Figure B.1 - C&D Countries - GDP (Constant 2000 US\$)**

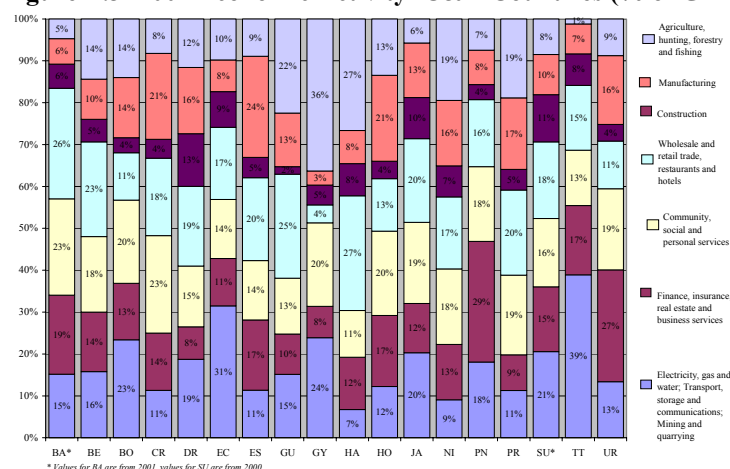


**Figure B.2 - C&D Countries – GDP per capita (Constant 2000 US\$)**



Source: WDI

**The relative importance of the economic activities is also different for each C&D economy.** Based on the analysis of the composition of GDP, **Figure B.3** shows plenty of examples. For instance, while infrastructure and mining are the most important activities in Trinidad & Tobago (37%) and Ecuador (31%), they represent only 7% of the composition of the Haitian economy. Likewise, finance is the most important activity in Uruguay (27%) but represents only 8% of the Paraguayan economy. Agriculture is a much more important activity for Guyana (36%) and Haiti (27%) than for the Bahamas (5%) and Jamaica (6%).

**Figure B.3- 2002 Economic Activity- C&D Countries (% of GDP)**

Source: ECLAC

**C&D countries also have heterogeneous indexes of competitiveness.** Table B.1 shows that the C&D Group category consists of countries with relatively higher levels of public institutions, such as Uruguay 5.19, El Salvador 4.45 and Costa Rica 4.32, and others with relatively lower indexes levels, such as Ecuador 2.93, Paraguay 2.97 and Guyana 3.10. The statistical variance declined between 2002 and 2005 from 0.78 to 0.41, although it remains significant. In general, this trend is also observed for growth competitiveness and macroeconomic environmental indexes.

**Table B.1– Competitiveness Indexes in Selected C&D Countries**

	Growth Competitiveness			Public Institutions			Macroeconomic Environment		
	2002	Δ	2005	2002	Δ	2005	2002	Δ	2005
Bolivia	2.96	↑	3.06	3.13	↑	3.71	3.1	↓	3.05
Costa Rica	4.19	↓	3.72	4.33	↓	4.32	4.1	↓	3.44
Dominican Rep.	3.96	↓	3.05	3.93	↓	3.24	4.14	↓	2.78
Ecuador	3.13	↓	3.01	2.98	↓	2.93	3.43	↑	3.5
El Salvador	3.85	↑	3.86	4.24	↑	4.45	4.29	↓	4.03
Guatemala	3.2	↓	3.12	2.98	↑	3.22	3.83	↓	3.47
Guyana	...	...	2.73	...	...	3.1	...	...	2.77
Haiti	2.47	...	...	2.11	...	...	3.48	...	...
Honduras	2.98	↑	3.18	2.93	↑	3.61	3.36	↓	3.25
Jamaica	3.76	↓	3.64	4.18	↓	4.14	3.25	↓	3.13
Nicaragua	2.99	↑	3.1	3.5	↑	3.74	2.63	↑	2.96
Panama	4	↓	3.55	4.06	↓	3.9	4.13	↓	3.6
Paraguay	3.16	↓	2.8	3.09	↓	2.97	3.65	↓	3.07
Trinidad & Tobago	4.32	↓	3.81	4.56	↓	3.73	4.41	↑	4.44
Uruguay	4.19	↓	3.93	5.54	↓	5.19	2.26	↑	3.4
Variance	0.35	↓	0.17	0.78	↓	0.41	0.40	↓	0.22
C&D average	3.51	↓	3.33	3.68	↑	3.73	3.58	↓	3.35
A&B average	3.98	↓	3.83	4.12	↑	4.24	3.94	↓	3.92

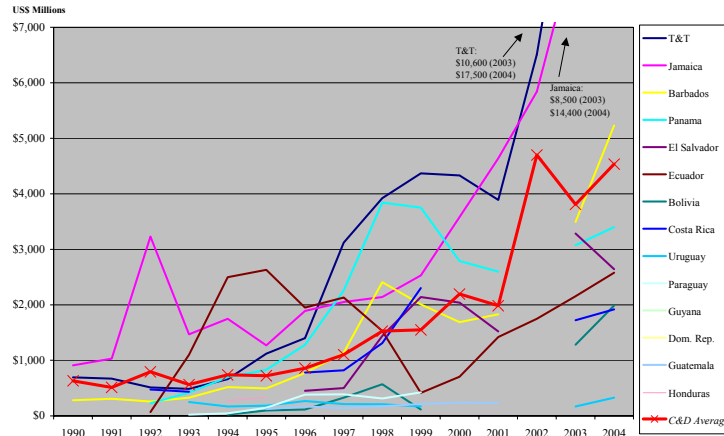
Source: Global Competitiveness Report, World Economic Forum.  
Minimum score is 1, maximum score is 7.

**Likewise, C&D countries also have different levels of market capitalization.** Figure B.4 shows that, despite their limited integration into international financial markets, some



countries have been able to place government bonds in international markets in the last decade, such as Trinidad & Tobago, Jamaica and Barbados, while others do not have access to private markets and depend basically on concessional flows, such as Honduras, Guatemala and the Dominican Republic.<sup>xxvi</sup>

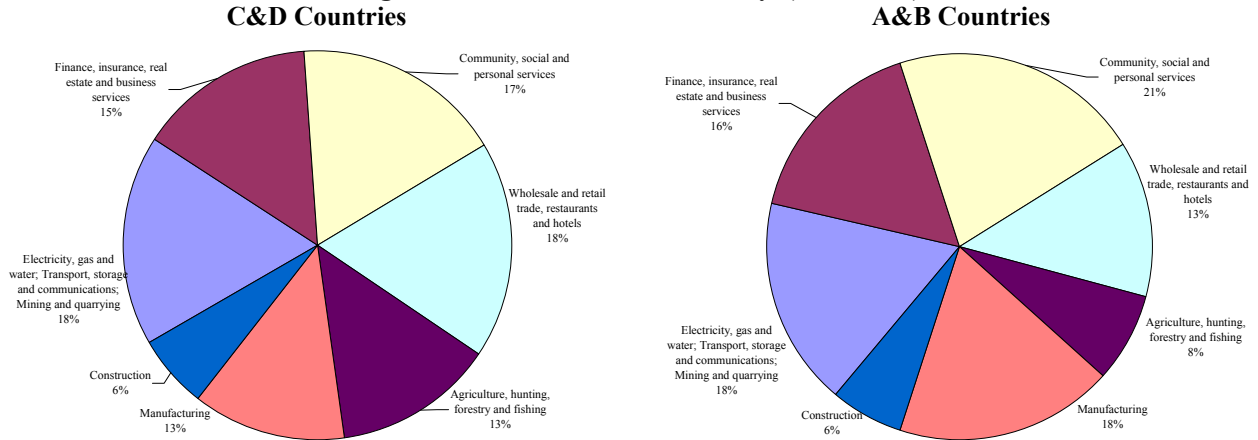
**Figure B.4. Market Capitalization of Listed Companies (Current US\$)**



Source: WDI

**Infrastructure and capital market economic activities, which are the AP's sectorial priorities, have basically the same relative importance for C&D as for A&B group of countries. Figure B.5 shows that while infrastructure (18%) and finance (15%) represent 33% of the GDP in C&D countries, they amount to 34% of the GDP of A&B countries. In addition, there is no significant difference between the GDP's composition or the GDP's historical evolution of both groups of countries.**

**Figure B.5 – 2002 Economic Activity (% of GDP)**

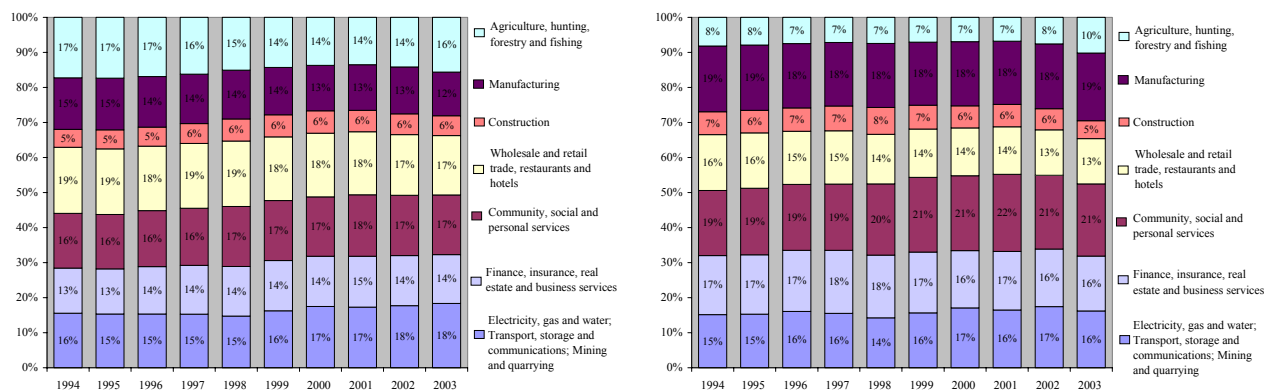


Source: ECLAC

**Figure B.6 shows that the historical evolution of GDP composition by kind of activity does not show a significant difference between C&D and A&B groups of countries. From 1994 to 2003, almost all economic activities retained their participation in GDP in C&D countries, excepted by infrastructure activities, which decreased from 19% to 17%, finance activities, which increased from 16% to 18% and tourism activities,**

which decreased from 19% to 17% their respective participation in the GDP. Likewise, in the same period, almost all economic activities in A&B countries also stayed steady while tourism also lost its relative importance (from 16% to 13%). Personal service (from 19% to 21%) and agriculture (from 8% to 10%) activities increased their participation in the GDP.

**Figure B.6 – Evolution of the Economic Activity (% of GDP)**  
C&D Countries A&B Countries

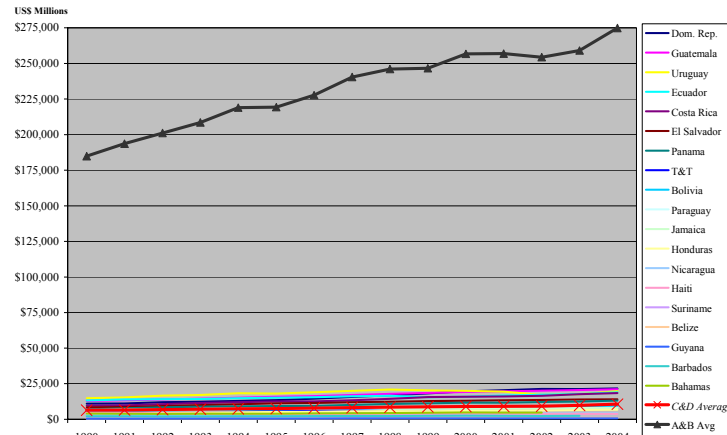


Source: ECLAC

**Business climate deterioration has been a general trend in LAC.** Table B.1 has already shown the decline of competitiveness average indexes in A&B and C&D countries between 2002 and 2005.<sup>xxvii</sup> A 2004 World Bank survey shows that the most important components to attract foreign investments are infrastructure, labor, environmental policy, taxation, and custom legislation. This survey also shows that LAC has not been meeting investors' expectations and the lack of an adequate climate has occasioned an erosion of the private return on investments with a corresponding reduction in the attraction of FDI to LAC.<sup>xxviii</sup>

**Notwithstanding, there is an important common similarity and specificity among the C&D countries: the smaller size of their markets inhibits private sector development.** Figure B.7 shows the outstanding difference of scale between the GDP of C&D countries and the average of GDP of A&B countries.<sup>xxix</sup>

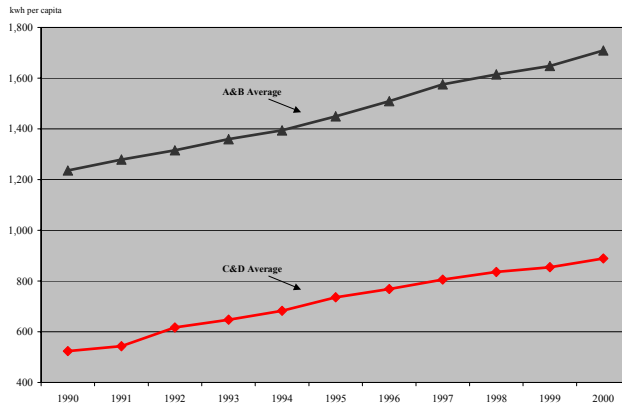
**Figure B.7. C&D Countries and A&B Average GDP (Constant 2000 US\$)**



Source: WDI

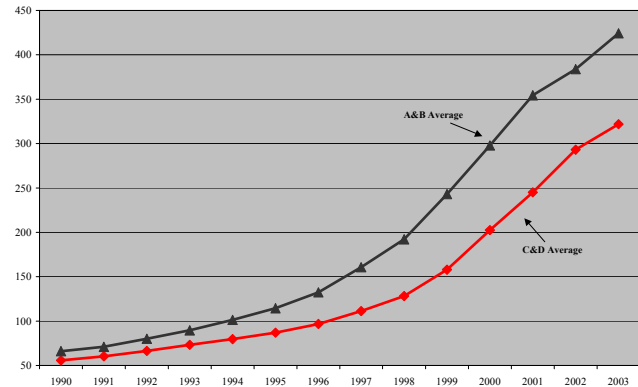
The small market size of the C&D countries has been discouraging foreign direct investments (FDI). Agosin and Machado (2006) state that the most important factor accounting for variation in FDI inflows is the size of the domestic market. According to the authors, the variation of FDI between countries is explained almost exclusively by the absolute level of GDP, although the availability of human resources, growth prospects, and the good quality institutions are also important. Based on infrastructure industry sampling, **Figure B.8 and B.9** display the relatively smaller size of the C&D economies compared to A&B economies.

**Figure 8.8 Electric Power Consumption (Kwh per capita)**



Source: WDI

**Figure 8.9 Fixed Line and Mobile Phone Subscribers (Per 1,000 people)**



The discouragement of private investments in C&D countries is also fostered by a general deterioration of their indexes of competitiveness, which have lower levels than A&B countries. Table B.1 has already shown that in nine C&D countries their growth competitiveness indicators deteriorated, in eight of them their public institution indicators declined and in nine of them their macroeconomic environment indicators decreased between 2002 and 2005.<sup>xxx</sup> In this way, the combination of their inadequate

competitiveness indexes with the small size of their markets represents a serious market failure for C&D countries to attract private sector investments.

In sum, the AP should have analyzed the feasibility of its proposed solutions to cover many particularities that affect the private sector development in C&D countries. In addition, the AP should also justify its exclusive application to C&D countries due to the existence of some problematic homogeneity in the private sector market failures between them and the A&B countries. As analyzed before, despite the existence of specific and common market failures that inhibit private sector development in C&D countries, the AP fails to analyze the weight and the implications of all these similarities and differences to justify why the AP's proposed solutions are feasible.

### C. The AP Activities – Planning and Accomplishment

Table C.1– AP Activities - Planning and Accomplishment

#### 2002 Activities-By Country

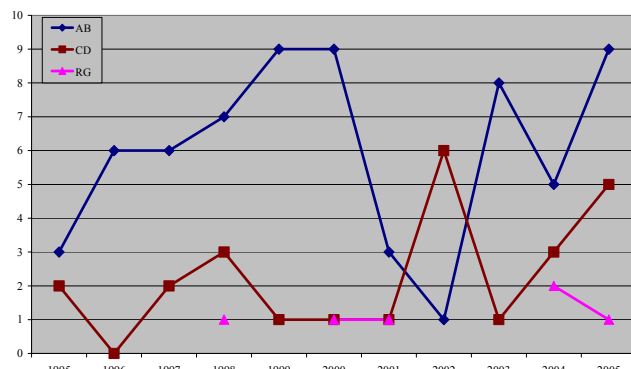
2002 Activities	Planned	Original Plan Accomplishment	Original Plan Accomplishment %	Additional Operations Accomplished	Total Accomplished Operations	Total Accomplishment %
	(a)	(b)	(b) / (a)	(c)	(b) + (c)	[(b) + (c)] / [(a) + (c)]
Bahamas	3	2	67%	0	2	67%
Barbados	3	1	33%	0	1	33%
Belize	1	0	0%	0	0	0%
Bolivia	10	6	60%	3	9	69%
Costa Rica	5	1	20%	1	2	33%
Dominican Republic	6	4	67%	1	5	71%
Ecuador	6	2	33%	3	5	56%
El Salvador	9	3	33%	2	5	45%
Guatemala	11	8	73%	0	8	73%
Guyana	5	2	40%	1	3	50%
Haiti	1	0	0%	1	1	50%
Honduras	9	6	67%	2	8	73%
Jamaica	7	5	71%	2	7	78%
Nicaragua	7	3	43%	0	3	43%
Panama	5	2	40%	0	2	40%
Paraguay	6	2	33%	1	3	43%
Regional	30	22	73%	3	25	76%
Suriname	2	1	50%	0	1	50%
Trinidad & Tobago	2	1	50%	1	2	67%
Uruguay	10	6	60%	1	7	64%
<b>Total activities related to Private Sector Development in C &amp; D countries (2002)</b>	<b>138</b>	<b>77</b>	<b>56%</b>	<b>22</b>	<b>99</b>	<b>62%</b>

## 2003 Activities By Country

2003 Activities – By Country	Planned	Original Plan Accomplishment	Original Plan Accomplishment %	Additional Operations Accomplished	Total Accomplished Operations	Total Accomplishment %
	(a)	(b)	(b) / (a)	(c)	(b) + (c)	[(b) + (c)] / [(a) + (c)]
Bahamas	2	1	50%	0	1	50%
Barbados	3	1	33%	1	2	33%
Belize	4	1	25%	2	3	25%
Bolivia	18	11	61%	2	13	61%
Costa Rica	7	4	57%	6	10	57%
Dominican Republic	10	5	50%	6	11	50%
Ecuador	10	5	50%	3	8	50%
El Salvador	14	6	43%	7	13	43%
Guatemala	8	4	50%	2	6	50%
Guyana	5	4	80%	1	5	80%
Haiti	1	1	100%	3	4	100%
Honduras	7	5	71%	5	10	71%
Jamaica	6	2	33%	2	4	33%
Nicaragua	6	4	67%	6	10	67%
Panama	1	1	100%	3	4	100%
Panama	2	1	50%	0	1	50%
Paraguay	10	4	40%	1	5	40%
Regional	20	15	75%	4	19	75%
Suriname	2	1	50%	2	3	50%
Trinidad & Tobago	4	2	50%	0	2	50%
Uruguay	6	2	33%	1	3	33%
<i>Total activities related to Private Sector Development in C &amp; D countries (2003)</i>	146	80	55%	57	137	67%

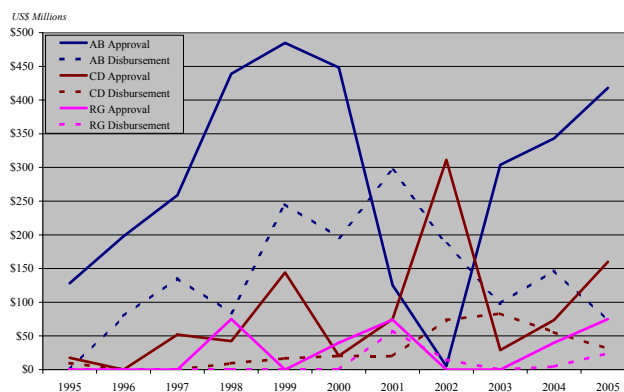
### D. Evolution of the PRI Approvals & Disbursements in C&D Countries (1995 – 2005)

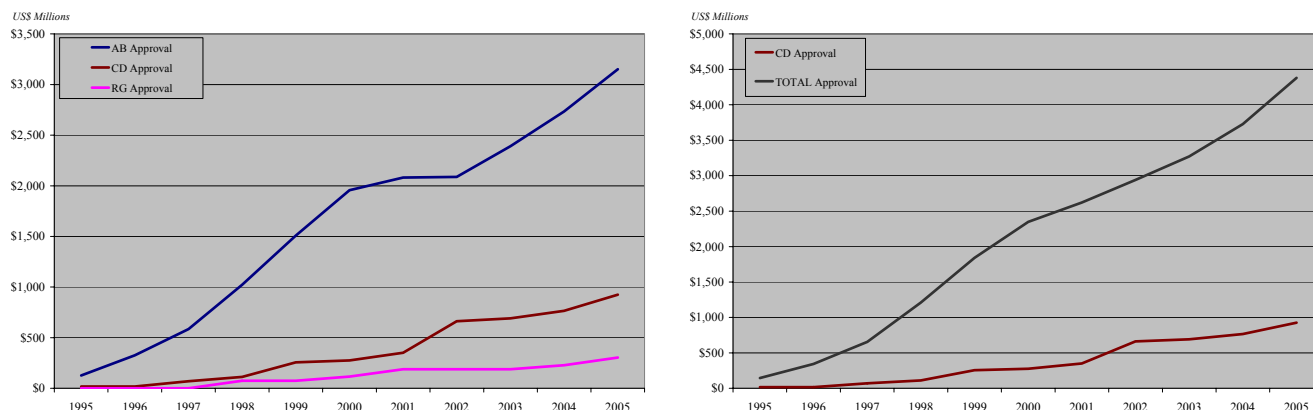
Figure D.1 PRI Approvals  
(Number of Projects)



Source: OVEDA

Figure D.2 PRI Approvals & Disbursements  
(US\$ Millions)



**Figure D.3 PRI – Cumulative US\$ Approved**

Source: OVEDA

## E. List of Interviews Conducted

Astesiano, Gaston	Private Sector Specialist	IDB/RE1/FE1
Basanes, Federico	Pr. Financial Specialist	IDB/RE2/FE2
Benavides, Juan	Sr. Infrastructure Specialist	IDB/SDS/IFM
Franco, Claudia	Sr. Advisor	IDB/FIN/FIN
Guillamon, Bernardo	Pr. Private Sector Specialist	IDB/PRE/PSC
Guimaraes, Carlos	Private Sector Coordinator	IDB/PRE/PSC
Hewlett-Jobes, Kathryn	Sr. Advisor	MIF
Houde, Jean-Michel	Sr. Advisor	IIC/GEN
Manrique, Roberto	Sr. Advisor	IDB/EVP
Schulz, Hans	Sr. Advisor	IDB/PRI/OP1
Trujillo, Carlos	Pr. Infrastructure Specialist	IDB/RE2/FI2
Vellutini, Roberto	Sr. Advisor	IDB/PRI/OP2
Vidaurre-Roche, Ana Maria	Private Sector Specialist	IDB/RE3/FI3

## Endnotes:

<sup>i</sup> Based on the OP-307, for the purpose of applying the Bank's operational policies, the borrowing country members were classified by their relative level of development. Hence, C Group countries have insufficient markets and consist of: Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, and Uruguay. D Group countries have least-developed markets and consist of: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

<sup>ii</sup> AB-2148-1, 26 December 2001.

<sup>iii</sup> GN 2193-2 (22 October 2002).

<sup>iv</sup> GN - 2193-2, pg.17, p.5.8.

<sup>v</sup> GN-2193-4, pg.1.

<sup>vi</sup> IDB approved Country Program Strategies for Private Sector in Guatemala, El Salvador and Honduras in 2005.

<sup>vii</sup> The AP says that "fundamental obstacles need to be overcome in order to promote private sector investment in infrastructure and to develop capital market in these countries", AP, pg. 3.

<sup>viii</sup> This statements are based on IPES (2001). GN-2193, p.2.6, p.2.

<sup>ix</sup> GN-2193-2, paragraph 2.4, pg.4.

<sup>x</sup> GN-2193-2, pg. 5.

<sup>xi</sup> OVE (2004), RE-303, illustrates that "the international legal costs represented more than US\$ 900,000.00, affecting the probability to promote smaller-scale projects, mainly in C&D countries". pg. 22.

<sup>xii</sup> The AP could also take advantage by the lessons learned from the implementation of the IDB's C&D Action Plan, created in 1997, in order to improve the capacity of the C and D borrowing member countries to identify, prepare and execute Bank financed projects so that they are able to meet the 35% target of total lending set in the Eighth Replenishment Agreement. However, the AP does not mention this previous plan.

<sup>xiii</sup> GN- 2193-2, paragraph 4.2, pg. 8.

<sup>xiv</sup> For instance, in the First Draft, the Board asked for "more analysis of the private sector environmental in each C&D country and the expansion of the areas of activity beyond infrastructure and include clear goals and measurable indicators in the plan, which will have a three-year horizon, after which it will be reviewed and evaluated." In the Second Draft, the Board recommended the AP approval with the recommendation that "each C&D country strategy includes multiyear rolling plan to increase private sector participation in these countries" and that "the AP defines the climate for private sector investment in each C&D country, the obstacles to the use of IIC, MIF and PRI products in each C&D country and measures planned to overcome these obstacles in each country".

<sup>xv</sup> For a more detailed analysis of the lack of justification of the C&D classification regarding private sector development, see Annex 1, Section B.

<sup>xvi</sup> The First Report (GN 2193-5) on the multi-year rolling action plan for IDB Group activities related to private sector development in C&D countries, Executive Summary, acknowledged this aspect.

<sup>xvii</sup> Consequently, in 2001 and 2002 payments on private debt were larger than new loans. In this way, private debt flows were a net negative for developing countries. (World Bank: 2003).

<sup>xviii</sup> *Gross private capital flows* are the sum of the absolute values of direct, portfolio, and other investment inflows and outflows recorded in the balance of payments financial account, excluding changes in the assets and liabilities of monetary authorities and general government. *Gross foreign direct investment* is the sum of the absolute values of inflows and outflows of foreign direct investment recorded in the balance of payments financial account. It includes equity capital, reinvestment of earnings, other long-term capital, and short-term capital. This indicator differs from the standard measure of foreign direct investment, which captures only inward investment. *Foreign direct investment* is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments.

<sup>xix</sup> These flows include the purchase of existing public assets that accounted for about 61% of the total flow received by the LAC region in the period between 1990 and 2001, while management and operation contracts with major capital expenditures (concessions) represented 14% and "green field" projects about 25%. For more details, see OVE RE-303 (2004) Background Paper. Data are from the World Bank's Private Participation in Infrastructure Database and is in dollars of 2002.

<sup>xx</sup> Before, in June 2001, the GN 2163 “Activities of the Private Sector Department to Develop Private Sector projects in C&D countries” was prepared by PRI as requested at the 12 January 2000 meeting of the Committee of the Whole and meeting 8 November 2000 of the Board of Executive Directors.

<sup>xxi</sup> The correlation indexes for each indicator were the following: Growth Competitiveness -0.16; Public Institutions -0.41 and; Macroeconomic Environment -0.31. The following general categories indicate a quick way of interpreting a calculated r value:  
 0.0 to 0.2 Very weak to negligible correlation  
 0.2 to 0.4 Weak, low correlation (not very significant)  
 0.4 to 0.7 Moderate correlation  
 0.7 to 0.9 Strong, high correlation  
 0.9 to 1.0 Very strong correlation

<sup>xxii</sup> Extension times mean the difference between the original to current disbursement date.

<sup>xxiii</sup> As it will be discussed in paragraph 5.12, the Board approved the AP second and last report in September 2004 recommending the replacement of the AP by the CPSD. Consequently, the AP was not discussed in any of the 30 Private Sector Committee (PSC) meetings that took place since its creation, replacing the PSCC, in May 2005, up to the end of this evaluation.

<sup>xxiv</sup> AP, GN 2193-2, paragraph 5.3, pg. 16

<sup>xxv</sup> GN – 2193-8, paragraph 3.7, pg. 20

<sup>xxvi</sup> Market capitalization, also known as market value, is the share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year.

<sup>xxvii</sup> There are several reports showing the deterioration of the business climate in LAC countries. For instance, see Loayaza, Fajnzylber and Calderon (2005)

<sup>xxviii</sup> The WB survey showed that the components can vary by kind of economic activity. While exported-oriented manufacturing investors are concerned about exchange rate stability and shipping services and ports, service sector investors are focused on political and regulatory stability and local market size (World Bank: 2005).

<sup>xxix</sup> For instance, as a proxy of C&D countries, in the Caribbean region, private investment at about 20% of GDP including FDI at about 6% of GDP. FDI has been concentrated in a few natural resource-related sectors, especially tourism, mineral extraction and agriculture. [World Bank (2005)].

<sup>xxx</sup> Only Nicaragua presented improvements in all of them, although its ratings are lower than the C&D average score. Other example of the competitiveness erosion is the falling of the FDI to GDP ratios in the Caribbean, which decreased 3.7 times the world average over 1990-94 to 1.9 times over 2000-02 (World Bank (2005)).