



Corporate Evaluation

Transnational Programs at the IDB



Inter-American Development Bank
July 2012

ABSTRACT

This evaluation assesses IDB's role in contributing to the coordinated solution of transnational challenges during the period 2000-2011. The evaluation found that the relevance and effectiveness of IDB's Technical Cooperation program has been limited - in particular the Regional Public Goods program. The efficiency of the transnational Technical Cooperation program has been reduced by specific characteristics of the RPG program, though the Regional Public Goods team has been successful in mitigating some of these challenges through strong execution. Even in technical cooperation that financed pilots, asymmetric ownership among countries has been a serious constraint to sustainability.

Transnational operations face a pervasive misalignment of incentives. Without concessional funds, countries have limited incentives to undertake these costly operations. The IDB should carefully consider the pros and cons of deepening its engagement in transnational projects and related technical cooperation. In the event it chooses to do so, it should take steps to identify ways to enhance concessionality, and adapt IDB processes, structures, incentives, and budget to facilitate the implementation of transnational projects. It should also enhance the effectiveness of the transnational technical cooperation program, which should continue at some level of funding.

Evaluation of Transnational Programs at the IDB

OFFICE OF EVALUATION AND OVERSIGHT, OVE



Inter-American Development Bank

July 2012



This work is distributed under a Creative Commons license (CC BY-NC-ND 3.0). You are free to copy, distribute and transmit this work to third-parties, under the following conditions:



Attribution - You must attribute the work in the manner specified by the author or licensor (but not in any way that suggests that they endorse you or your use of the work).



Non-Commercial - You may not use this work for commercial purposes.



No Derivative Works - You may not alter, transform, or build upon this work.

Waiver - Any of the above conditions can be waived if you get permission from the copyright holder.

© **Inter-American Development Bank, 2012**

Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

ACKNOWLEDGEMENTS

ACRONYMS

EXECUTIVE SUMMARY	ix
1 INTRODUCTION.....	1
2 OVERVIEW OF IDB's REGIONAL & TRANSNATIONAL PROGRAMS	5
A. When Do We Need to Work Regionally?	5
B. What is the Role for Multilateral Development Banks?	6
C. The Bank's Transnational Portfolio, 2000-2011	7
2 THE REGIONAL PUBLIC GOOD INITIATIVE.....	11
A. Description of the Program.....	11
B. Evaluation Findings	13
3 THE BANK'S REGIONAL INFRASTRUCTURE PROGRAMS.....	25
A. Infrastructure Integration Initiatives -- IIRSA and PPP/PM.....	26
B. Transnational Institution-Building Initiatives – SIEPAC and Trifinio.....	27
C. The Experiences of Other MDB's in Undertaking Regional Projects.....	31
D. Evaluation Findings	33
4 SUMMARY OF FINDINGS AND RECOMMENDATIONS.....	37

ACRONYMS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
AUG	Office of the Executive Auditor
CABEI	Central American Bank for Economic Integration
CACM	Central America Common Market
CAF	Andean Development Corporation
CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Centre
CATHALAC	Water Center for the Humid Tropics of Latin America and The Caribbean
CCAD	Central American Commission of Environment and Development
CCCCC	Caribbean Community Climate Change Centre
CDB	Caribbean Development Bank
CDEMA	Caribbean Disaster Emergency Management Agency
CDERA	Caribbean Disaster Emergency Response Agency
CEAC	Central American Electrification Council
CENAPRED	National Center for Disaster Prevention
CEPRENAC	Coordination Center for the Prevention of Natural Disasters in Central America
CRIE	Regional Council of Electrical Interconnection
CSME	Centre for Small and Medium Sized Enterprises
EA	Executing Agency
ECLAC	Economic Commission for Latin America and the Caribbean
EPR	Network Owner Firm (SIEPAC)
FDI	Foreign Direct Investment
FSO	Fund for Special Operations
FTAA	Free Trade Area of the Americas
GAFI	Financial Action Task Force
IDA	International Development Association
IDB	Inter-American Development Bank
IICA	Inter-American Institute for Cooperation in Agriculture
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
INCOSUR	Southern Cone Initiative to Control/Eliminate Chagas Disease
INDES	Inter-American Institute for Economic and Social Development
INT	Integration and Trade Sector
INTAL	Institute for the Integration of Latin America and the Caribbean
LAC	Latin America and the Caribbean
LAFTA	Latin American Free Trade Association
M&E	Monitoring and Evaluation
MDBs	Multilateral Development Banks
MER	Integrated Information System of the Regional Electrical Market
MFIs	Multilateral Financial Institutions
MIF	Multilateral Investment Fund

NGOs	Non-Governmental Organizations
OC	Ordinary Capital
OECD-DAC	Organization for Economic Co-operation and Development-Development Assistance Committee
OECS	Organization of Eastern Caribbean States
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
PM	<i>Proyecto Mesoamérica</i>
PPMR	Project Performance Monitoring Report
PPP	<i>Plan Puebla Panamá</i>
PRODEV	Program to Implement the External Pillar of the Medium-Term Action Plan
PSR	Project Status Report (MIF)
RPD	Regional Policy Dialogue
RPG	Regional Public Good
RPGI	Regional Public Good Initiative
RTA	Regional Trade Agreement
SCL	Social Sector
SECCI	Sustainable Energy and Climate Change Initiative
SIEPAC	Central American Electrical Interconnection System
TC	Technical Cooperation
UNASUR	Union of South American Nations
VPC	Office of the Vice President for Countries
WB	World Bank
WTO	World Trade Organization

This document was prepared by Juan Manuel Puerta with the support of Maria Elena Corrales (Senior Consultant), and the technical assistance of Laura Atuesta, Elena Costas and Julia Sekkel, under the general supervision of Cheryl Gray (Director). The following reviewers provided helpful comments and suggestions: Monika Huppi, Silvia Raw, Alejandro Soriano, Héctor V. Conroy, and Diego Vera.

The team would like to thank Antoni Estevadeordal, Joaquim Tres, Laura Bocalandro, Rafael Villa, and other Bank staff in HQ for their collaboration and comments. We would also like to thank Bank staff and national authorities in Argentina, Brazil, Uruguay, El Salvador, Costa Rica, Colombia, Panamá, Barbados and Guyana for their support. The team wishes to thank Ana Ramirez for her assistance in the preparation of this document.



The objective of this evaluation is to assess the Bank's role in identifying and contributing to the coordinated solution of transnational challenges during the period 2000-2011.

(C) iStockPhoto/PhotoCanal, 2008

Executive Summary

The Bank has an explicit mandate to support regional cooperation and integration in Latin America and the Caribbean. This has been a perennial goal of the Bank since its creation in 1959. Throughout most of its history, the Bank was able to advance knowledge and cooperation in the region by means of a small but important regional TC program. Turning the integrationist spirit into a regional lending portfolio, however, has proved to be a persistent challenge. Around 2000, there was an increasing consensus in the development community that MDBs should be investing more in regional and global public goods. In reaction to this, the Bank created two regional infrastructure initiatives and, later on, the Regional Public Good Initiative. The commitment to regional and global integration has been recently renewed in the IDB-9 agreement.

The objective of this evaluation is to assess the Bank's role in identifying and contributing to the coordinated solution of transnational challenges during the period 2000-2011. For the purposes of the evaluation, **a project is transnational if there are additional benefits to a country from having a coordinated approach with other countries.** OVE applied this definition to the "regional" portfolio of the Bank and identified 204 non-reimbursable operations and two projects (with five operations) that addressed transnational challenges in Latin America.

The evaluation questions are organized around the OECD-DAC criteria of relevance, effectiveness, efficiency, sustainability, plus the *ad hoc* criteria of incentives. The evaluation team carried out a literature review of the transnational challenges and 264 interviews in nine countries and Headquarters. These interviews covered 71 operations (*e.g.* team leaders, executing agencies, national focal points). Besides

the portfolio-related interviews, the team discussed the operational implications of transnational operations with country representatives, fiduciary specialists, and legal specialists in the IDB as well as key informants at the AfDB, ADB and the World Bank. The team also took advantage of a number of staff surveys as well as an earlier round of structured interviews. Finally, parts of the portfolio covered by this evaluation had already been evaluated by OVE in the past (*e.g.* IIRSA, PPP, TCs). Based on these sources of information, the evaluation obtained the following findings:

Relevance. In the period under evaluation, the relevance of the Bank's TC program -- in particular the Regional Public Good program -- has been limited. The TC program is small and dispersed. It has supported coordination and advocacy in a constellation of sectors, with weak relation to national and regional priorities and weak programming. Furthermore, these interventions have been small, with a project-logic centered on relatively short-term activities.

The Bank has undertaken few transnational projects, and their relevance has also been modest. Only in two cases, SIEPAC and Trifinio—when *ad hoc* concessional funds became available—did the Bank manage to play a relevant role in transnational institution-building. Without a concessional financial instrument to offset extra costs, other Bank regional lending initiatives turned primarily to national investments in infrastructure—most notable in IIRSA and PPP-PM—whose regional spillovers were not identified or evaluated. The Bank has had a relevant role coordinating and financing national projects under IIRSA and PPP-PM but has been less relevant in contributing to the resolution of asymmetries related to the transnational infrastructure corridors.

Effectiveness. The effectiveness of the transnational TC program, including the RPG program, has been low. Although the TCs have typically produced the outputs, these have been unconnected to any strategic outcome, compromising the overall effectiveness of the TC program. Only a few operations have financed pilots aimed at promoting institution-building and the development of an agenda beyond initial talks and conversations.

The effectiveness of transnational projects has varied. During more than 25 years in the SIEPAC project, the Bank has kept a clear focus, acted as an honest broker, made available the TC funds needed to set up the regional institutions (*e.g.* MER), and topped up with concessional funds each national loan. While SIEPAC probably would have never occurred without the IDB, its final results will depend on the capacity of Central American countries to operate SIEPAC as a truly integrated electric market. The case of Trifinio has been less encouraging: the trinational institution was unfocused and the Bank added to this lack of focus. As a result, the investment was largely cancelled, and the TCs approved for Trifinio failed to be integrated under a common program. IIRSA and PPP-PM have financed mostly national infrastructure projects.

The experience of IDB and other development Banks indicates that regional projects are significantly more complex and costly than national projects. Implementation times are longer and implementation challenges more likely to appear. Countries tend to prioritize national operations. Substantial Bank time and resources need to be spent in coordinating with each national government. Bank staff also face disincentives in working on tasks that are unlikely to lead to loans. Today virtually all the lending program of the Bank is national.

Efficiency. The efficiency of the transnational TC program has been reduced by the specific characteristics of the RPG program, though the RPG team has successfully mitigated some of these challenges through strong execution. The commitment to work in “early stage RPGs”, where institutional development was limited, has meant that the Bank ended up working with less experienced and weaker regional institutions. Efforts to ensure “country ownership” have led to elaborated governance structures that have added to the administrative costs. A totally “demand driven” program has limited the alignment of RPGs to sector priorities and country strategies, and this weak alignment has reduced the incentives of staff to engage with RPGs. As a result of all of these features, the Bank has worked primarily with NGOs with limited capacity. Despite these challenges, however, management has successfully implemented many Regional Public Good TCs, which often compare favorably in terms of financial and physical execution to similar TCs elsewhere in the Bank.

Sustainability. Sustainability has been compromised, particularly for the TC program. Even in TCs that financed pilots, the asymmetric ownership among countries has been a serious constraint to sustainability. In the case of transnational projects, results have been mixed. Sustainability is unlikely in Trifinio. SIEPAC seems to be more promising, provided that regional institutions are finally consolidated.

Incentives. Transnational operations face a pervasive misalignment of incentives. Without concessional funds, countries have limited incentives to undertake these costly operations. Similarly, Bank staff incentives are centered around national and sector priorities, and multi-sector and multi-country interventions are *de facto* given low priority.

RECOMMENDATIONS

In light of the above findings, OVE makes the following recommendations to Bank Management:

Recommendation 1: Consider carefully the pros and cons of deepening Bank engagement in transnational projects and TCs. This evaluation underscores the complexity, high cost, and long duration of this work. Yet it also points out the unique role that MDBs can have in furthering important areas of transnational collaboration. The IDB9 agreement calls for enhanced Bank engagement in global and regional integration, of which transnational programs are an important subset. Yet a decision to deepen this area of work necessarily entails investments and tradeoffs, as indicated below, and should be considered carefully and deliberately, in conjunction with the Board.

Recommendation 2: If the Bank decides to deepen its commitment to transnational projects, take needed steps to that end:

- Identify ways to enhance the concessionality, and if possible availability, of project funding to offset borrower disincentives and reduce the effective cost of transnational operations. One possibility would be to earmark a specific amount of FSO from the next replenishment in order to finance blended loans for projects that can show significant cross-border externalities. Other alternatives include interest-rate subsidy schemes (e.g. IFF) or the use of grants. The Bank should also explore the feasibility and risk-implications of concessional lending to regional institutions without sovereign guarantee. Even if it is not possible to increase concessionality, the Bank could earmark resources from OC to finance regional projects. This could increase countries' incentives to engage in transnational projects—especially for countries with small lending envelopes at the national level.
- Adapt Bank processes, structures, incentives, and budgets to facilitate the implementation of transnational projects. Structures and incentives need to be adapted to enhance ownership and long-term staff commitment to these operations. Fiduciary policies also need to be adapted to the specific challenges of transnational operations. Recognizing the higher complexity of these operations, the Bank should allocate more resources—both staff and budget—for the preparation and supervision of these projects.

Recommendation 3: Enhance the effectiveness of the Bank's transnational TC program, which should continue at some level of funding in any case.

- Increase the strategic focus of the regional TC program. The Bank should avoid the atomization of technical assistance into a myriad of stand-alone TCs covering a wide array of sectors. In order to do so, the Bank should prioritize regional challenges and grant support to fewer and larger projects on a sustained basis (10 years). OVE welcomes Management's recent emphasis on focused interventions. In doing so, however, Management should aim at keeping a high level of country ownership through, for instance, the alignment of programming discussions with the regional policy dialogues (RPDs).
- Increase the efficiency of implementation. The Bank should systematically carry out simplified *ex-ante* fiduciary capacity assessments for potential executing agencies, facilitate training on fiduciary issues, and engage bank specialists (fiduciary, legal) earlier in transnational operations to avoid delays in execution.
- Strengthen monitoring and evaluation of regional technical cooperation while keeping goals realistic. OVE supports management's recent initiative to strengthening TC supervision. It further recommends simplifying the monitoring system by focusing on realistic and achievable goals. The priority should be on tracking the effective delivery of TC products, possibly introducing some quality assessment. In the future, TCs should not list outcomes that are difficult to reach, hardly attributable to the operation and, ultimately, not even tracked. Instead, OVE suggests that TCs simply define specific outputs and sensible intermediate outcomes, and that management track them.



Governors from the Region in the inauguration of the Inter-American Development Bank, in 1959.

(C) IDB, 2012

1 Introduction

Regional cooperation and integration have been perennial goals of Latin America and the Caribbean and are intimately tied to the Bank's origins. As an institution that was born out of the integrationist effort of the late 1950s, the Bank nurtured the infant integration schemes, promoted research in trade and integration, and made available pre-investment instruments for transnational projects. It even assumed a strong advocacy role when the integrationist agenda started to lose momentum.¹

After the period of lethargy during the 1980s, IDB supported the “new regionalism” that provided a market-based approach centered on economic reform.² As a consequence of the renewed integration effort, intra-regional trade doubled between 1990 and 2000, although it still remained below the values of Asia or Europe.³ As countries became more interlinked through trade flows, opportunities for increased functional cooperation and coordination for the provision of regional public goods developed.⁴

Around the year 2000, the provision of global and regional public goods emerged as a key *raison d'être* of MDBs. Since the mid-1990s, increased awareness of the cross-border effects of national actions (mostly pollution) had led to embryonic efforts to coordinate the provision of key transnational public goods. In a period in which the role of MDBs was being reexamined, some proposed that “*the development banks be transformed from capital-intensive lenders to sources of technical assistance, providers of regional and global public goods.*”⁵ In the view of the proponents, a theory of global public goods provided “*a new motivation for a different type of development assistance.*”⁶

During the period 2000-2011, the Bank undertook a number of initiatives to promote the provision of regional public goods. Two regional infrastructure initiatives were created. A new facility was created to promote regional policy dialogue (RPD) and exchange of expertise and experiences.⁷ An existing FSO-financed Regional Technical Cooperation (RTC) program of the Bank continued to support strategic regional

initiatives. Finally, in 2004 the Bank created a pilot program to operationalize the then new concept of Regional Public Goods (RPGI). In sum, through different instruments the Bank aimed to support enhanced regional integration and cooperation, be it an interconnected electric grid, the harmonization of sector policies, or the exchange of best practices.

The Bank's commitment to regional cooperation and integration was renewed in the recent capital increase (IDB-9). Regional integration was a core mandate of IDB-8 (AB-1704), further reinforced by the 1999 Institutional strategy (GN-2077). In 2003, the Bank approved its first integration strategy with the stated purpose of guiding "*the institution's support for the creation of regional public goods.*" (GN-2245, p.1.2) More recently, "*competitive regional and global integration*" has been identified as one of IDB9's sector priorities, with a specific target of 15 percent of overall lending by 2015.⁸

The objective of the evaluation is to assess the Bank's role in identifying and contributing to the coordinated solution of transnational challenges during the period 2000-2011. A project is considered transnational if it aims at tackling a problem for which there is value-added if multiple countries act together. In other words, **a project is transnational if there are additional benefits to a country from having a coordinated approach with other countries.** In the interests of clarity, OVE uses this concept of "transnational" to distinguish the specific focus of this evaluation from the Bank's broader terminology of "regional." Bank systems have a functional definition of operations with "regional benefits" (RG/RS).⁹ It is not clear what principles are used to assign the regional classification; it seems to work as a default classification that includes operations whose benefits cannot be assigned to any particular country.¹⁰ The regional classification includes some activities with no multi-country coordination, and it misses national operations that are *effectively coordinated* to achieve a common transnational goal. For these reasons, throughout this evaluation we will use the term "transnational".¹¹

The evaluation questions are organized around the OECD-DAC criteria of relevance, effectiveness, efficiency, and sustainability, plus the *ad hoc* criteria of incentives. The evaluation looks at the relevance of Bank programs: Did they address transnational challenges that were most important for the region? It then turns to the extent to which the intended goals of the programs were achieved or are likely to be achieved—i.e. *effectiveness*. In order to assess the *efficiency* of the Bank regional programs, the evaluation looks at whether the benefits were commensurate with the costs. Sustainability looks at whether the interventions financed by the Bank are likely to be maintained after Bank support ends. Finally, the evaluation looks at whether the incentives of both the countries and the Bank lead to effective generation, preparation and implementation of transnational operations.

The evaluation draws on various sources of evidence. The evaluation team carried out a literature review of the transnational challenges.¹² By means of a systematic review of projects, the team identified and evaluated a portfolio of transnational operations. The evaluation team carried out 264 interviews in nine Latin American and Caribbean countries and Washington. These interviews covered 71 operations (e.g. team leaders, executing agencies, national focal points). Besides the portfolio-related interviews, the team discussed the operational implications of transnational operations with country representatives, fiduciary specialists, and legal specialists in the IDB as well as key informants at the AfDB, ADB and the World Bank (See Annex VII for complete list). The team also took advantage of a number of staff surveys as well as an earlier round of structured interviews. Finally, parts of the portfolio covered by this evaluation have already been evaluated by OVE in the past (e.g. IIRSA, PPP, TCs). Whenever possible, OVE drew from the lessons learned from these evaluations. Given the extensive availability of previous OVE evaluations, this assessment will place special attention on the RPGL, the only part of the portfolio never reviewed before by OVE.



Working regionally makes sense whenever the payoff to one country depends on the actions taken by others; that is, when there are cross-border externalities. The most important cross-border externalities are related to public goods, which are typically undersupplied.

(C) IDB, 2012

2 Overview of IDB's Regional and Transnational Programs

A. WHEN DO WE NEED TO WORK REGIONALLY? ¹³

In general, working regionally makes sense whenever the payoff to one country depends on the actions taken by others; that is, when there are cross-border externalities. There are two broad types of cross-border externalities: i) regional and global public goods—e.g. shared river basins, climate change—and ii) challenges that are essentially national, but where efficiency could be increased if countries worked together. Examples of the later include joint training/technical assistance (e.g. CARTAC), joint negotiating efforts (e.g. RNM), or initiatives that enlarge and integrate markets (e.g. standardization).¹⁴

The most important cross-border externalities are related to public goods, which are typically undersupplied. The cost to an additional country of providing them is low (*e.g.* knowledge), and it is difficult or costly to exclude a country from their consumption (*e.g.* unpolluted air). These “non-rivalry” and “non-excludability” properties imply that countries have incentives to free-ride on the contribution made by others. As a result, without any external intervention, the market will produce too little of them.

Among the most important regional public goods in Latin America and the Caribbean are the management of transnational shared resources, the support to infrastructure integration, and the control of transnational crime (See Table 1, in Annex I). Mechanisms are needed for cost-sharing, financing of investments, construction and operation of regional infrastructure and management of shared natural resources like transnational basins. In the case of security, the high costs of crime to the region—combined with its transnational crime linkages, including drug-trafficking—make it a top priority. Other sectors are less suited to the Bank’s natural comparative advantages: some challenges have a very technical nature (*e.g.* PAHO in health) or require complex global collective action (*e.g.* climate change) [See Table 1, Annex I].¹⁵

B. WHAT IS THE ROLE FOR MULTILATERAL DEVELOPMENT BANKS?

In absence of supra-national governments, multilateral institutions have a unique role to play in the provision of regional public goods. The distinctive feature of public goods is that the market provides too little of them. In the case of national public goods (*e.g.* national security), this is solved by national governments that can tax individuals to ensure the provision of the public good. In the case of regional and global public goods, the absence of a “regional” or “world” government leaves an open space for a regional mediator or *honest broker*.

Although the literature on public goods is full of caveats, a number of variables appear to be associated with the likelihood of coordination and collective action.

- Collective action is more likely to emerge in public goods with clearly established causal links.¹⁶
- The complexity of the problem and the degree of under-provision of a public good typically increases with the number of participants.¹⁷
- Also, transnational challenges that have benefits that are dispersed or mature only over the long-term (*e.g.* climate change) are typically more difficult to solve.¹⁸
- Achieving collective action is more challenging when the interests of the countries are conflicting, so there is an incentive for a “race to the bottom.”
- Collective action is easier when there are proportionally more national benefits.¹⁹ A typical example is of the comparison of acid rain—a byproduct of certain gases coming from the combustion of fossil-fuels, particularly sulfur emissions—with nitrogen oxides. Because sulfur emissions rarely travel far away from where they were emitted, most of the benefits of an eradication campaign are national. The same is not true with nitrogen oxides. Consistent with this, international agreements were more easily achieved to curtail sulfur emissions.²⁰ Drawing a parallel with investments in infrastructure, investments that have clear national benefits are easier to fund than those that provide mostly regional benefits.

Various types of actions can contribute to the solution of transnational challenges through collective action:

- **Coordination/Advocacy.** The simpler challenges are those in which the main obstacle is to coordinate countries whose interests are otherwise aligned. In this case, MDBs can play a role in facilitating coordination between countries through technical cooperation and policy dialogue. In cases where the causal link between the challenge and the public good is unclear or where the benefits are not quantified, MDBs can support the quantification of benefits through technical cooperation.
- **Resolution of Asymmetries.** In many cases there are asymmetries in the distribution of costs and benefits, as is common in many infrastructure integration projects. The costs are typically proportional to the amount of investment that is

located in the country. However, benefits do not necessarily follow a geographical pattern; maybe the two ports at the end of the network get most of the benefit of the route that connects them through third countries. In other cases (*e.g.* climate change, money laundering), the interests of different countries may be totally misaligned. In these cases, MDBs can use their convening power to help countries work out acceptable cost-sharing mechanisms and mobilize resources needed to sustain cross-border subsidies.

- **Transnational Institution building.** Some investments (*e.g.* power grid) are not a one-shot coordination exercise: once built, the infrastructure needs to be maintained and upgraded over time, and the regional market needs to be created and regulated. All of these activities require repeated interactions, which call for institutions. MDBs can promote and strengthen regional institutions through loans to an entity with a regional rather than national perspective. Regional institution-building has highest value-added but is more complex and long-term.

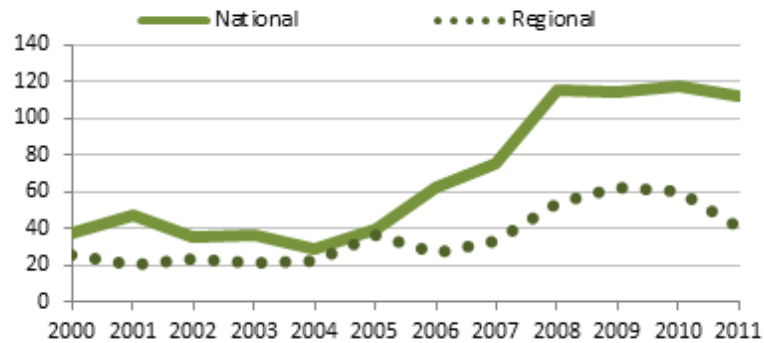
The theory of public goods suggests that Regional Development Banks should focus on regional—as opposed to global—public goods. The logic behind this “subsidiarity principle” is simple: Since coordination becomes more challenging as the number of countries increase, the discussion should occur in the smallest forum that congregates all the affected countries. A regional challenge (*e.g.* river basin) should be discussed at a regional rather than global level. Conversely, global challenges (*e.g.* climate change) exceed the convening power of regional institutions.²¹

C. THE BANK'S TRANSNATIONAL PORTFOLIO, 2000-2011

The Bank has a mandate to support economic development not only individually but also collectively.²² In order to achieve its mandate, a combination of regional loans and technical assistance has been used. During the first decades, regional lending was done through sub-regional development banks (*e.g.* CDB, CABEL, CAF), but this has declined in importance over time.²³ Much more relevant was the historic Regional Technical Cooperation (RTC) program.²⁴ Through it, the Bank promoted a variety of regional public goods, including training and research centers—particularly agricultural—as well as the four sub-regional integration schemes.²⁵ The Bank often referred the RTC program as a tool to advance specific agendas.²⁶ In the period 1961-1996, about 80 percent of the program was financed from FSO, increasingly in local currency.²⁷ A distinctive feature of FSO-financed regional TCs was the high—and increasing—level of bank execution.²⁸ Around the year 2000, the RTC program was facing several challenges, including weak programming and limited availability of FSO.²⁹

In the period under evaluation, Regional TCs had two clearly defined sub-periods and a transition (2005-2007).

GRAPH 1.1
TCs - Amounts Approved
(US \$ Million)



- 2000-2004: In the first period, the regional TC program functioned similarly to earlier decades: i) Programming was centralized under the integration department in consultation with the presidency.³⁰ ii) Regional programming papers were done for each sub-region.³¹ iii) Bilateral and tied trust-funds financed some regional TCs. An envelope of US\$10 million per year from FSO was earmarked to regional TCs, in addition to approvals from trust funds or OC special funds (RPG, US\$10 million since 2005).
- 2008-2011: In the second sub-period, the regional TC program was mostly financed from OC special funds and trust funds, with a thematic logic, decentralized programming, and no regional earmarked funds.³² Between 2004 and 2011, the Bank created 17 special OC programs which accounted for 51 percent of the entire technical cooperation program and 60 percent of regional TCs. Programming was *de facto* done at a sector level, and regional programming papers discontinued.³³ Trust funds became increasingly untied and, if possible, matched to a Bank OC fund (e.g. SECCI OC and SECCI multi-donor).³⁴ Despite the increase in approvals, only one OC fund (RPG) is *earmarked* for regional operations; and it has been reduced from US\$10 million to US\$5 million per year.³⁵ The FSO-financed RTC program has not yet been transferred (US\$ 10 million per year) in spite of the explicit GCI-9 mandate.³⁶

During the period 2000-2011, the Bank's regional lending program was mostly composed by national projects under regional umbrellas. During this decade, the Bank financed 154 operations for an accumulated US\$5 billion under these infrastructure initiatives. The rest of the "regional" portfolio corresponds mostly to private sector financing and to the historic lending to CDB for on-lending to IDA-eligible non-member countries in the Caribbean (OECS). See portfolio in Table 2 (Annex I).

OVE applied the definition of transnational operation to the universe of regional operations (Table 2 - Annex I). In that process, the office identified 209 operations—204

TCs—and 2 projects (involving five operations) that are clearly aimed at addressing transnational challenges (Table 3 – Annex I).³⁷ These include both operations that involved activities and investments in many countries, and research and knowledge products related to transnational challenges.³⁸

The two transnational projects are SIEPAC electric interconnection project and the Lempa River Sustainable management program (CA0034 and CA0035). They are examined at length in Chapter 4.

The transnational TC program of the Bank includes 204 operations for US\$191 million. The program had a particular emphasis on transnational interventions in environment and climate change (34 percent), especially since the creation of the SECCI OC fund. Support to research and knowledge was the second most important area (21 percent). Infrastructure integration (15 percent) and support to trade and integration (13 percent) were also important (see Table 3 and 4 in Annex I).

3 The Regional Public Goods Initiative

Around the year 2000 a consensus emerged in the development community that MDBs should be investing more in global and regional public goods, although the exact operational implications were still unknown.³⁹ In 2002, the Bank organized a conference with the purpose of broadening “*the discussion on strategic and operational issues related to the provision of regional public goods.*”⁴⁰ Almost in parallel, the International Task Force on Global Public Goods (ITF) was created to bridge the gap between academic discussion and policymaking.⁴¹ The ITF was led by Ernesto Zedillo, former president of Mexico, and IDB president Enrique V. Iglesias was one of its 15 members.

A. DESCRIPTION OF THE PROGRAM

In March 2004, the Board of Executive Directors approved the initiative for the promotion of regional public goods (GN-2275-5).⁴² The initiative’s goal was to “*to support the initial stage of the processes for generating regional public goods having a high potential development impact and significant effects on a substantial number of the Bank’s borrowing member countries.*”⁴³ In practical terms, the initiative proposed a non-reimbursable facility—US\$10 million per year—to finance activities like technical and logistic support for inter-country agreements, the formulation of action plans, and the design of policies and institutions (p. 61). During the implementation of the initiative a set of general principles, and specific operational guidelines were developed through the interaction of management and the Board of the Executive Directors.⁴⁴

Definition and Selection Criteria: Management adopted an operational definition of RPGs as “*any good or activity that generates benefits to more than one country as a result of the coordinated action by the participating countries.*” The definition was updated in 2012 to “*add clarity.*”⁴⁵

The selection process for the initiative was made competitive, subject to the following eligibility criteria:⁴⁶

- **Regional:** The operating regulations required that proposals include “*most of the countries affected*,” and the text suggested bi-national projects would not be eligible (par. 56). This was formalized in the first call for proposals in 2004.⁴⁷ In 2012, management updated the regional criteria and re-stated the three-country rule but allowing for bi-national projects in “special cases.”⁴⁸
- **Public good:** Following the literature, the initiative required that the activity promoted have the properties of a public good, i.e non-rivalry and non-excludability.
- **Early Stage:** Management argued that the initiative was to focus on early stage interventions where “*the process is essentially one of institutional development*.” Dialogue was to be a “*means to [...] come to a mutual understanding on the [...] common problems and [...] agree on appropriate actions (par. 24)*.” The operational approach to RPGs was received with some doubts by the Board.⁴⁹

General Principles: In the discussions between the Board and Management, a number of principles emerged:

- **Country ownership and Bank execution:** The original document broadly stated that “*there must be evidence of “ownership” on the part of each country to participate in the RPG*.”⁵⁰ Demonstration of country ownership was done through several means, such as letters of commitment from participating national agencies.⁵¹ In 2005, in the context of the discussion of how to streamline the approval process (GN-2275-6), directors noted that the Bank’s role as an executing agent, theretofore allowed, “*could encroach on the participating countries’ sense of ownership and sustainability commitment*.”⁵² In the ensuing revision of the initiative, the conditions for the Bank to be an executing agency were further tightened.⁵³
- **Executing agencies and role of the private sector:** One of the few other explicit restrictions was the ban on hemispheric and global institutions executing RPGs.⁵⁴ Private not-for-profit organizations could execute RPGs provided they received a non-objection from the executing country and the letter of commitment from national participating agencies.⁵⁵ In 2012, the Board approved a change in the eligibility rules allowing private not-for-profit to propose RPGs “*that do not depend on public policy and therefore do not require the participation of policy-setting institutions*,”⁵⁶ waiving the need for a government commitment.
- **Alignment with Bank Strategies:** The original approved document established that projects should be related to IDB-8 objectives, and this alignment would be reviewed during the programming cycle.⁵⁷ Directors “*emphasized the need to set clear priorities, taking into account the Bank’s mandates and strategies*,”⁵⁸ but also acknowledged the importance of a demand-driven competitive approach.⁵⁹ Management noted tension between a totally “demand-driven” approach and the

alignment of the initiative with the Bank's strategic priorities.⁶⁰

- **Involvement of the Board of Executive Directors:** From the outset, the Board of Executive Directors expressed its intentions to have direct involvement in the selection and approval process.⁶¹ After the first round of proposals, directors asked management to study “*ways to give maximum leeway to Management while ensuring that the Board maintains some involvement in the early stages*” of the initiative.⁶²

Operational Guidelines: According to the original document, INT/RTC (later INT) would be responsible for coordinating programming and allocation of funds.⁶³ INT/RTC developed a specific business model that emphasized project governance and country ownership as keys to successful collective action.⁶⁴ According to the RPG business model, all decisions should be made by countries, who define what should be done and the role of participants during implementation. In the RPG business model, countries manage every operational decision, from discussing terms of reference to approving a consultancy report.

This approach has had several practical implications:

- First, all RPG projects have a specific project governance structure. Although the structure may vary from project to project, it usually involves a multi-layered governance structure with technical, executive, and political governing committees.⁶⁵
- Project activities are seen as inputs to a decision-making process. In the view of the RPG team, the program “*provides the negotiation table, to which countries come.*”⁶⁶ As such, the project finances all the inputs needed to make decisions (e.g. meetings, technical consultancy reports). Except for a special emphasis on individual consultants, the type of products financed by RPGs is similar to that of TCs.⁶⁷
- The addition of new countries during the execution process is seen in a positive light. Furthermore, countries can join a project at any point in time.

B. EVALUATION FINDINGS

Between 2004 and 2011, the RPG initiative received 325 proposals for a total amount of \$401 million and financed 82 projects for a total of \$67m, an average of \$.8m per project (See Table 5 in the Annex I). On average, the Bank received 46 proposals per year and approved about 25 percent of them. The proposals asked the Bank to finance about 75 percent of the total costs, and the Bank granted about 75 percent of the funds requested by the projects. In 2012, the initiative received 95 proposals for a total amount of US\$110.7 million, but 2012 approvals are not included in the analysis for this evaluation.

Selection: OVE found evidence that the selection process has in general been competitive, and there is no evidence of systematic bias toward specific sectors, countries, or types of executing agency. Yet the outcome of this selection process is that operations are small and dispersed. No single sector had more than US\$12 million or ten projects approved. The size and dispersion of RPGs is incommensurate with the regional challenges at hand.

Even though overall funding per sector is small, the RPG window has been the main source of funding from the Bank for some transnational challenges. For instance, almost all the biodiversity projects approved in the period are RPGs, and the Chagas project is one of the few operations aimed at transnational health challenges in the period.

The proposals have come from a wide variety of sectors and subsectors. Almost all sectors have had a similar 25 percent success rate.⁶⁸ About one-quarter of the proposals and approvals have been in environment, particularly conservation and biodiversity, water resources, and climate change. Another 15 percent of the proposals and approvals have been concentrated in reform and modernization of the state. In health, most of the proposals have been concerned with setting up surveillance systems and data collection.⁶⁹ In education and knowledge, projects promote education quality, academic and science networks, and accreditation. Finally, in agriculture, proposals have been devoted to information systems (*e.g.* climatic information for risk management) and pest management (*e.g.* Cotton boll weevil).⁷⁰

Proposals have been submitted and implemented primarily by NGOs. About 40 percent of proposals have come from NGOs, well ahead of regional (22 percent) and national organizations (18 percent). IDB has generated about 4 percent of the proposals. The pattern of approvals broadly reflects this, with NGOs receiving about 30 percent of approvals, regional organizations 27 percent, and national organizations 13 percent.

Two subregions, Central America and Southern Cone (Mercosur), have been overrepresented in both proposals and approvals. Of the proposals that can be assigned to a specific subregion, these two subregions each account for about one-third of proposals.⁷¹ In terms of approvals, this process is slightly accentuated: about 46 percent of RPGs have been granted to Central American countries, and another 27 percent to the Southern Cone. The Andean subregion is particularly underrepresented with only four projects exclusively generated within the region. However, the subregion did participate extensively in proposals generated elsewhere.

The dynamics behind the relative success of Central America and Mercosur differ. In the case of Central America, the ongoing integration process and existence of

many specialized agencies facilitate the preparation of proposals.⁷² The case of the Caribbean is somewhat similar to Central America, as most projects are executed through CARICOM or its specialized agencies (CDERA/CDEMA, CCCCC).⁷³ In contrast, most Southern Cone approvals go to NGOs, universities, and to a lesser extent, national governments.⁷⁴

The selection process is costly for both proposing agencies and the Bank. Proposals must have a full diagnostic and detailed budget and sometimes reach 50 or 60 pages in length.⁷⁵ After the first round of proposals, Management noted the strain on INT/RTC resources and called for “*the Bank [to] dedicate additional resources both at the evaluation stage and during the project approval and implementation.*”⁷⁶

Regional Criteria: All projects fulfilled the regional eligibility criteria, with an average participation of 8.7 countries and a median participation of eight countries. No project involved less than three countries.

Public Good Criteria: Most of the projects in the portfolio target challenges that broadly corresponded to the definition of transnational public goods. About half of the projects are directed to traditional public goods such as management of common resources (*Trifinio* RG-T1157), preservation of biodiversity (RG-T1201), and eradication of animal (RG-T1268) or human (RG-T1206) cross-borders diseases. About 30 percent address national challenges that offer economies of scale if countries work together, such as the project for joint procurement of medicines in Central America (RG-T1272). Finally, the remaining 20 percent have a weaker connection to the concept of transnational public good and focus primarily on exchange of best practices and lessons learned at the national level – for example, sharing strategies for combating non-communicable diseases in the Caribbean (RG-T1276).⁷⁷

Although the topic is “regional,” the approach does not always address the main cross-border externality. For example, despite correctly identifying the river basin as the regional public good, the *Trifinio* RPG does not focus on transnational basin management but rather on small community-based interventions like educating the public on the importance of water.⁷⁸

Early Stage Criteria: In general, it has been challenging to target projects at the nascent institution-building stage. About 39 percent of projects target early institution-building, while the other 61 percent address areas where there is an institution addressing the challenge, such as the Pan-American institutions (PAHO, IICA) or established agencies of the SICA and CARICOM systems.

Alignment with Bank Strategies: Being primarily demand-driven, the RPG approvals have not been strongly aligned with the Banks strategies. During most of the period under evaluation, RPGs had a weak link with the strategic approach of the Bank in different sectors. In recent years, and particularly after GCI-9, there has been increased emphasis on the need to integrate this initiative with other Bank activities.⁷⁹ In the discussion of the RPG definition and eligibility criteria, management noted that they were moving in that direction, as their new definition “*had been crafted to improve the strategic allocation of support for RPG projects*” in view of the new integration strategy.⁸⁰ Although it is too soon to have a definitive conclusion, recent projects seem to have a stronger link to the Bank’s national lending portfolios (*e.g.* RG-T2015, Caribbean Energy Efficiency) and limited connection with regional institution-building processes.

Involvement of the Board: Board involvement declined in 2006, when the approval process was streamlined after the first programming exercise to introduce approval by delegation of authority for projects below US\$750,000.⁸¹ In 2008, in the context of the new TC policy, the ceiling for approval by delegation was elevated to US\$1.5 million and the approval process for RPGs became similar to that for standard TCs.⁸² While 68 percent of operations were directly approved by the Board in 2005-2007, only one operation was approved by the Board in 2008-2011.⁸³

Project Design, Monitoring and Evaluation: At least 13 RPGs have had broad and ambiguous designs (*e.g.* RG-T1269, RG-T1156). In five cases budgets have not been well tailored to the actual needs of the programs (*e.g.* RG-T1206, RG-T1511).⁸⁴ In others (four) important stakeholders were not fully engaged in the project (*e.g.* RG-T1515, RG-T1518). Poorly specified designs can also exacerbate the loss in institutional memory when team leaders change (*e.g.* RG-T1206). Yet strong execution has compensated for poor design in some cases, as many of the best performing RPGs substantially departed from their original design.⁸⁵

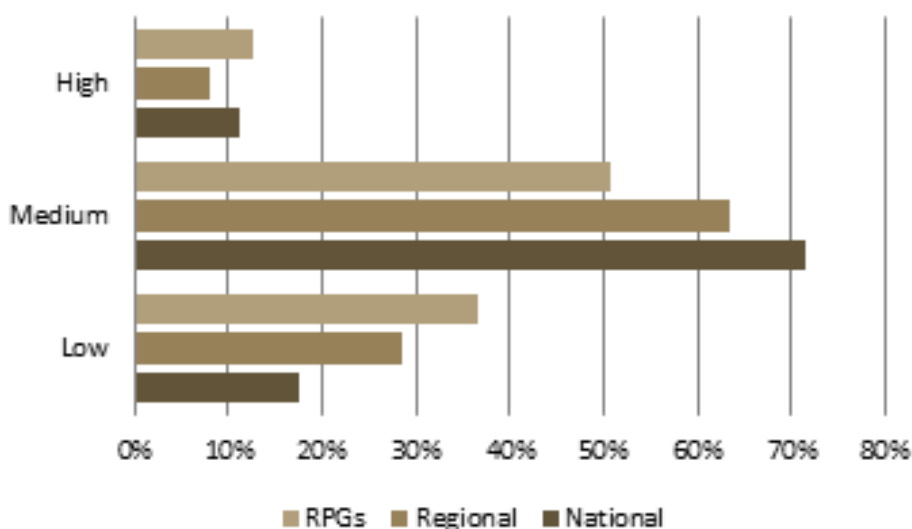
All RPGs include results frameworks, though with weaknesses. Only a minority of indicators (40 percent of output and 16 percent of outcome indicators) are adequate to measure results (*i.e.* SMART indicators). The logical link between outputs and outcomes is weak: Only 11 percent of the operations had an *ex-ante* link between outputs and outcomes. Yet even with these weaknesses, RPGs tend to compare favorably in terms of indicators against other TCs in the Bank’s portfolio.⁸⁶

Effective compliance with the Bank’s M&E requirements is low, though higher than other Bank TCs. All RPGs—and the vast majority of other Bank TCs—have a section on M&E in the Plan of Operations where the responsibilities for M&E are established. About 30 percent of RPGs have at least one Project Performance Monitoring Report (PPMR). Three RPGs had PCRs—a 17 percent compliance rate for Operations closed to date. Although these numbers are low, they exceed Bank TC averages.⁸⁷

Country Ownership: The RPG governance structure has been successful in generating the participation of country representatives, as revealed in meeting minutes interviews carried out by OVE in the field, and the staff survey carried out by OVE. About 26 percent of interviewees considered RPGs to have low country ownership, as compared with 39 percent for regional TCs.⁸⁸ However, only 11 percent of National TCs verified low country ownership.

Implementation: TCs impose significant administrative costs on the Bank, accounting for 70 percent of the Bank's disbursement transactions but only 2 percent of disbursements.⁸⁹ RPG execution is particularly burdensome at startup, taking 40 to 60 percent more time from approval to signature than other Bank TCs.^{90, 91} RPGs take about 9.6 months from approval to first disbursements, half a month more than single-country TCs and about 1 month more than other TCs in the Bank.⁹² Once in execution, they take some 42.6 months to fully disburse, slightly more than national TCs but less than Regional TCs or MIF projects.⁹³ About 14 percent of the active RPGs are in alert and 8 percent in warning status, indicators of TC non-performance.⁹⁴ While the number of projects in alert is similar to the Bank average, TCs in warning are significantly lower.

A number of RPG features contribute to poor execution at startup. Sixteen projects—about one-fifth of the portfolio—have had a change in executing agency, most (15) between the proposal and approval stage. This change in executing agency has been associated with a higher chance of cancellation, weaker performance (especially in the early stage), and increased transaction costs related to finding, checking, and negotiating with a new executing agency.^{95, 96}



GRAPH 111.1

Capacity of the Executing Agency

Source: OVE Survey, 2012

Fiduciary requirements of RPGs are typically higher due to the multi-country nature of these projects. Some projects have faced challenges related to hiring and paying non-resident consultants.⁹⁷ Other projects have faced unbudgeted costs of wire-transfers⁹⁸ or taxes.⁹⁹ Also, creative solutions have been needed to avoid excessive audit costs.

RPG team leaders rotate on average after 2.2 years, implying that the average RPG has slightly over 2 team leaders over its lifetime.¹⁰⁰ This may lead to loss of institutional memory.

Many proposals bear limited resemblance with the final projects approved. The high rotation of Bank staff, changes in the executing agencies, and ambiguous original designs can lead to significant changes between proposal, approval, and execution. For instance, an operation originally proposed to protect the ecosystem and biodiversity in the *Chaco* region changed on approval to one promoting sustainable development of indigenous groups that inhabit the Chaco. The project failed to achieve consensus and was finally cancelled.¹⁰¹

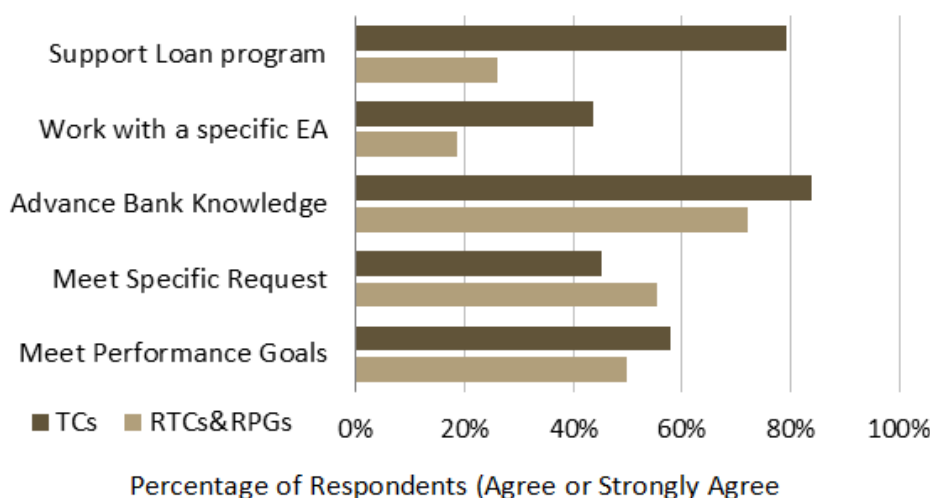
RPGs tend to be executed by relatively inexperienced agencies. Sixty percent of RPG executing agencies have not had previous experience with the Bank. Indeed, when asked about initial problems in execution, 80 percent of team leaders and project coordinators and 65 percent of fiduciary specialists attributed them to organizational challenges within the executing agency.¹⁰² This was identified as the top challenge in RPGs, greater even than lack of confidence or coordination among the countries.¹⁰³

The RPG business model has several operational implications. First, project governance can translate into costly operations. About 24 percent of RPG budgets—and 26 percent of disbursements—are allocated to administration, project governance, monitoring, and evaluation. Actual administrative costs may actually be higher, as it is typically difficult to separate the costs associated with travel and honoraria of members of the governance structure. In one exceptional case—RG-T1206—OVE estimated that the governance structure absorbed about 63 percent of all amounts disbursed.¹⁰⁴

Second, TCs are fragmented into many individual consultant contracts. The median number of consultant contracts in RPGs is 12, almost twice the figure for other regional TCs.¹⁰⁵ This not only poses a challenge in implementation and increases costs of coordination, but it also increases the number of interactions with the corresponding Country Office.¹⁰⁶

A third costly aspect of the business model is the change in the number of participant countries, which has happened in at least 10 RPGs. While increasing country interest can be healthy, this can generate complications in the actual management of the project, whether through increases in the amount approved (RG-T1265), changes in a component—*e.g.* the roaming project (RG-T1680), added funding pressure for regional meetings,¹⁰⁷ or difficulties in coordination.¹⁰⁸

From the operational point of view, RPGs are very similar to standard RTCs except in their procurement limitations and the selection process. A significant proportion of Bank staff, however, noted both the higher level of ownership of RPGs as well as the implications of it. Approved RPGs do not seem to provide longer term support than other stand-alone regional TCs of the Bank.¹⁰⁹ Fewer than 50 percent of Bank Staff surveyed found any significant difference between RPGs and other regional TCs. Those that cited a difference emphasized: i) the degree of ownership and the operational implications of it, ii) the selection process and iii) different eligibility criteria and type of procurement.¹¹⁰

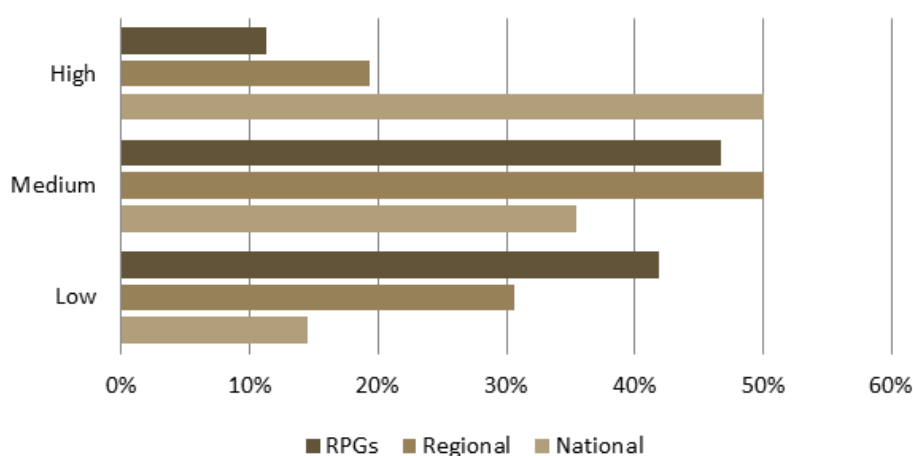


GRAPH 11L.II

Incentives to work on TCs: All TCs vs. RTCs & RPGs

Source: OVE Survey, 2012 and OVE Survey RE-364

Incentives and Supervision. Incentive problems related to TCs are pervasive.¹¹¹ There are strong incentives to approve but limited incentives to supervise approved TCs, especially given the lack of resources available.^{112, 113} These specific challenges are more severe in the case of RPGs because of the following factors:



GRAPH 11L.III

Alignment with Country Priorities (TCs)

Source: OVE Survey, 2012

The Program to Eradicate the Cattle Screwworm in Mercosur Countries (RG-T1268) was among the five RPGs to incorporate pilot interventions to assess the costs and benefits of the provision of a public good

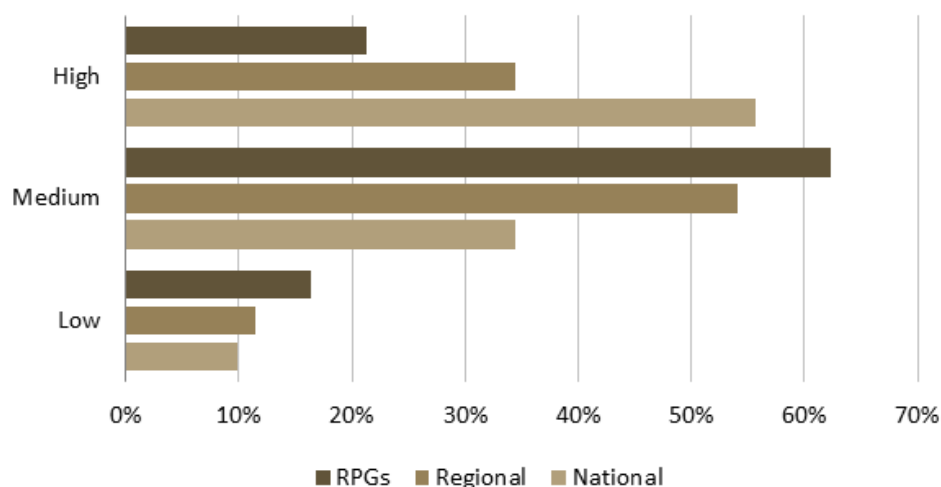
(C) IDB, 2012



- **Weak connection with lending programs:** in the 2010 analysis of TCs, OVE found that the strongest incentive to work on TCs was to help prepare or execute loans. The limited relation of RPGs to the Bank's lending program reduces incentives to work on them.¹¹⁴ Another important incentive in national TCs—the possibility of working with a specific executing agency—is missing in Regional TCs.¹¹⁵
- **Separation of approval authority from implementation responsibility:** INT handles approvals of RPGs, while implementation responsibility lays in the specific sector and country departments.¹¹⁶ In interviews with OVE, Bank staff often referred to RPG projects as being “inherited” by their division or “given” to them. Although lack of resources for preparation and execution of TCs is not unique to RPGs, divisions often mitigate it by cross-subsidizing from other operations. That is yet another reason why the full ownership of the executing division is needed.
- **Weak alignment with the country programming process:** in the case of national programs, the programming process with the government is usually when the alignment of TCs occurs.¹¹⁷ Regional TCs and RPGs do not have a natural focal point in the countries, requiring the Bank to take a more proactive role. The competitive selection process further limits consultation with the national governments involved. Finally, there are limited incentives for Bank staff in country offices to put additional effort to execute TCs that do not contribute either to the

country dialogue or to the corresponding regional department.

- **Difficulty of aligning RPGs with the strategic priorities of the sector division:** many RPGs have been on topics in which the Bank had limited previous expertise or interest in future engagement (e.g. *Screwworm*, *Chagas*, *Accreditation*). Irrespective of the intrinsic value of an operation, if the Bank lacks the ability or the incentives to invest in a specific sector, its value added is likely to be limited.



GRAPH III.IV

Alignment with Sector Priorities (TCs)

Source: OVE Survey, 2012

Despite these incentive challenges, RPGs have had larger budgets for supervision than other TCs.¹¹⁸ It is difficult to establish whether these increased budgets have been allocated before or after the operations have run into implementation difficulties. In staff interviews, management and clients recognized the efforts of the INT RPG team, which used periodic meetings with the participants to overcome implementation challenges, stimulate country ownership, and strengthen the identification with the initiative and its business model.

Effectiveness and Sustainability. Analysis of results and sustainability is constrained by the limited number of closed operations (18 projects¹¹⁹) and the nature of the initiative. The stated goal of the initiative to “*support the initial stage of the processes for generating regional public goods*”¹²⁰ is not easily evaluable, as it involves speculative assessments about the likelihood of future outcomes.

While outputs can be verified at an individual project level, the outcome of a TC occurs at a program level. TCs finance interventions that provide inputs for a specific program. As such, they are not an end in themselves but rather a means to achieving an end. The expectation that an individual TC should have final outcomes is often unrealistic. OVE’s analysis of outcomes is thus restricted to intermediate outcomes,

such as changes in national legislation, making the information available over the web etc.

Based on the sample of complete operations, OVE estimated that the majority of operations have been able to achieve the proposed outputs.¹²¹ About half of completed operations (53 percent) produced more than 75 percent of the outputs, and another 30 percent of the operations produced between 50 and 75 percent of the outputs. Only one operation was unsuccessful in producing outputs.¹²² Operations in advanced implementation produce a more mixed picture, with 30 percent having produced more than 75 percent of expected outputs and another 30 percent having produced less than 25 percent to date.¹²³

Bank operations have typically not been part of a strategic program of institution-building. Most RPGs have been a constellation of isolated interventions that typically did not promote a role beyond the coordination and advocacy emphasized by the original RPGI document. Only a few pilot interventions have tried to tackle the discussion and resolution of asymmetries.

Five RPGs implemented pilot interventions to assess the costs and benefits of the provision of a public good (see Boxes 1 and 2 in Annex I).¹²⁴ Some of them tried to estimate the cost-effectiveness or the feasibility of a regional arrangement to tackle an underlying challenge, often involving an extra-ordinary commitment of at least one country and stronger South-South cooperation.¹²⁵

A minority of RPGs achieved intermediate outcomes:

- **Changes in legislation:** six projects were designed to support changes in national legislation to adapt to regional norms.¹²⁶ In only one project—the Social Security project (see Box 3 in Annex I)—could OVE verify that the change took place.
- **Information/Websites:** five completed RPGs aimed to design websites for the dissemination of regional information collected during the implementation of the project.¹²⁷ The objectives were achieved, and the websites contain project information, though sustainability can be a challenge (See Central American example in Box 4 in Annex I).¹²⁸

Finally, a minority of projects have been unable to achieve anything beyond the most immediate outputs. An example is the Chagas disease project. The Chagas project did not focus on a transnational challenge, add to the institution-building effort led by PAHO, or build on the Bank's previous expertise in the area.¹²⁹ It only funded a few meetings and literature reviews of existing knowledge. The fact that the project achieved all its outputs without leading to any impact illustrates the potential pitfalls of deficient strategic programming.

Even in projects with promising initial results, sustainability appears low. Pilot RPGs, even if successful in initial efforts to catalyze the production of public goods, have been unable to gather consensus for continued investment beyond the pilot phase. The dispute settlement RPG stagnated over the discussion of distribution of costs and the conditions of access to the regional facility. In the screwworm disease project, after the pilot established an astronomical return rate of 400 percent, only Uruguay showed continued interest in pursuing the investment (see Box 2 in Annex I). Foot-and-mouth disease is still a more pressing concern for the other three countries.¹³⁰ Several other RPGs were unable to ensure financial sustainability beyond the project (Red Clara/Climatic Data Base CATHALAC).¹³¹



In the 1990s, the deficit in access to good quality infrastructure in LAC was identified as a major obstacle to competitiveness in an increasingly globalized world..

(C) iStockPhoto, 2010

4 The Bank's Regional Infrastructure Programs

Lack of infrastructure and policy heterogeneity were identified as major constraints to the increase of intraregional trade and competitiveness of LAC¹³². During the 1980s, the reduction in public investment in infrastructure reduced the quality of LAC's transportation, electricity and communication networks in comparison with those of Asia or Europe. In the 1990s, the literature identified the deficit in access to good quality infrastructure as a major obstacle to competitiveness in an increasingly globalized world.¹³³ Additionally, the expectations of continued growth in intra and inter-regional trade required the removal of bottlenecks created by the limited availability, quality, and interconnectivity of regional infrastructure.

As the idea of a Free Trade Area of the Americas (FTAA) started to lose momentum, new integration alternatives began to be contemplated, led by Brazil and Mexico. The Bank decided to grant support to two regional integration programs: IIRSA created in Brasília (2000) and Plan Puebla Panamá (PPP), which later became the Proyecto Mesoamérica (PM), led by Mexico and launched in 2001.¹³⁴

IIRSA and PPP/PM focused on the development of transnational infrastructure corridors. Despite their more general scope, both programs focused on transport, electricity and telecommunication integration infrastructure.¹³⁵ They aimed at capitalizing on synergies, improving the logistics of production and trade, and enhancing the competitiveness of the region. The technical, institutional, and financial challenges were substantial due to significant cross-border externalities and asymmetries in the distribution of costs and benefits. The mitigation of these challenges hinged on collective action (Box 5 and 6, Annex I).

To address these challenges both initiatives turned to MDBs not only for financing projects but also for management and coordination.¹³⁶ The Bank's pledge for support for IIRSA and PPP was two-pronged. First, it committed to support the coordination of the initiatives, providing technical and logistic support from its position within the initiative's governance structures.¹³⁷ The convening power and credibility made IDB ideally suited to help reducing transaction costs, overcome lack of coordination, and help design and enforce cost-sharing mechanisms that would ensure the provision of the public good.¹³⁸ Second, the Bank re-launched financing of integration infrastructure projects, promoting mechanisms to overcome the unique features of those projects.

The Bank supported the promotion and financing of transnational infrastructure corridors through different instruments. 110 national and regional technical assistance operations and 46 national loans were approved for transnational infrastructure corridors. The Bank's portfolio was aimed at various challenges: (1) coordination and advocacy of integrated infrastructure solutions through technical cooperation and policy dialogues; (2) the resolution of asymmetries in the costs and benefits of individual projects; and (3) provision of two multinational loans with strong focus in the financing of transnational institutional building: the Central America Electrical Integration project, which financed an electric grid that connects five Central American countries (SIEPAC, CA0007 /CA0035) and the Lempa River Basin Management project (Trifinio, CA0035), which financed an integrated plan of regional development in the Lempa River basin, shared by Honduras, Guatemala and El Salvador.

A. INFRASTRUCTURE INTEGRATION INITIATIVES -- IIRSA AND PPP/PM

Bank support in promoting and financing research and coordination was relevant in forging consensus among countries and structuring a portfolio of integrated infrastructure corridors. Bank support has been important in ensuring continued support for IIRSA and PPP/PM since 2000, and in helping to advance the physical integration strategy of the countries. In the case of IIRSA, the Bank played a key role in coordinating and providing technical support that led to the definition of the transport corridors (EID). It was less successful in promoting cooperation and agreements on other infrastructure axes (energy and telecommunications). In the case of PPP/PM, the Bank made an important contribution to consensus-building and collective agreement on energy, telecommunications and transport integration projects. The Bank drew on available grant resources to finance the costs associated with country coordination, policy dialogue, and pre-investment studies.

In order to finance the costs associated with country coordination, policy dialogue and pre-investment studies, the Bank indistinctly used the available grant resources. The integration content of the PPP/PM TC program was higher than that of IIRSA.

Almost all of the technical cooperation approved under IIRSA focused on institutional strengthening of the IIRSA's management and the promotion of methodological issues. Only a few operations financed bi-national border-crossing operations. On the other hand, PPP/PM made use of technical cooperation to consolidate the construction of the regional institutions in a broader scope; from an energy market to joint environmental challenges. RPGs were oriented towards joint environmental challenges.¹³⁹ FIRII grants were oriented at financing pre-investment in regional energy integration projects (oil, gas and electricity) and transport corridors.¹⁴⁰ By contrast, IIRSA was totally centered on the pre-investment of national transportation projects (12 out of 16) [see Table 6, Annex I].¹⁴¹

Between 2000 and 2011, 43 loans were approved under IIRSA and PPP/PM, of which two (SIEPAC and Trifinio) were transnational projects and the rest were national transportation projects. In the case of IIRSA, 19 out of 20 national operations were directed towards financing stretches of national roads that belong to one of the previously agreed integration corridors. The selection of projects was driven by national priorities; their contribution to integration was not measured. Operationally, these projects are equivalent to national transportation projects. Furthermore, the contribution to integration was not included in the strategic dialogue with the country nor reflected in the financial instrument employed to finance them. In the case of PPP/PM, the portfolio has been more diversified. Only 12 of 23 projects correspond to national road projects. From the rest, seven support electric interconnection and the remaining four deal with management of natural resources. The geographic dimension of the Central American integration process conferred a stronger integration element to this portfolio.

In spite of the Bank's relevant role in providing the "negotiation table" and financing national projects, it has been less successful in contributing to the resolution of asymmetries related to the transnational infrastructure corridors. National projects have been designed, evaluated, and executed with virtually no consideration to their integration element. In particular, there has not been a methodological framework or evaluation tools centered on regional operations. It is through these methodologies that benefits of the infrastructure projects could be appraised, establishing a clear ground over which the cost-sharing negotiations should take place.¹⁴² As a consequence, the Bank missed the opportunity to advance from the coordination/advocacy role to promoting the resolution of asymmetries, and contributing to the advancement of transnational investments.

B. TRANSNATIONAL INSTITUTION-BUILDING INITIATIVES – SIEPAC AND TRIFINIO

SIEPAC.¹⁴³ The Central American electric interconnection project SIEPAC is the most accomplished and complex integration initiative funded by IDB and—arguably—any

other multilateral development Bank. For over 25 years, the Bank has applied a mix of loans and reimbursable and non-reimbursable technical cooperation. Throughout this period, the Bank has been central in supporting not only infrastructure investments but also operations associated with institution-building needed to achieve a Central American electric market.

The profitability of SIEPAC hinged on the ability to generate strong and dependable regional institutions. Pre-investment studies showed that profitability of the project crucially depended on a deep integration of the national electricity markets. Most of the benefits of the SIEPAC project occur when countries move towards integrated planning and management of a regional market, as most of the benefits are generated not by the energy exchange but rather from the possibility of sharing national reserve capacity levels, reducing the overall sum of national reserve capacity levels. These benefits can be obtained only through a unique and dependable regional electricity market and regional institutions (*e.g.* regulator) to support it. Consequently, the benefits of SIEPAC depend mostly on a regional institutional-building process.

The original SIEPAC project was conceived as a regional loan to the owner of the regional infrastructure, with a sovereign guarantee by each of the six Central American countries. The original SIEPAC loan was approved in 1997 (CA0007) and was granted to the EPR. It included US\$170.6 million from ordinary capital funds plus more than US\$70 million from the concessional *Quinto Centenario* Spanish Fund. In both cases, the six Central American countries had to provide sovereign guarantees for the funds to become available. In parallel—and as an integral part of the loan—IDB approved two technical cooperations for CEAC (*Comisión de Electrificación de América Central*) to finance the regulatory adaptation and harmonization, and to create MER (CA0010). One was a reimbursable TC from OC for US\$9.9 million, which, as in the case of loans, had to be guaranteed by the governments. The other was a non-reimbursable FSO TC for US\$5 million.

The lack of adequate instruments to finance transnational programs became evident, even when important economic benefits of such integration had been confirmed. In two of the six countries the required loan guarantee was considered unconstitutional on the grounds that national governments could not guarantee supranational authorities such as CEAR or EPR. In the process of transferring the regional loan to individual national loans, additional complications emerged: Honduras and Nicaragua—in the midst of a debt relief process—were unable to borrow from unconcessional funds like OC. There emerged a challenge to produce additional concessional funds for these countries, especially in the context of increasingly scarce FSO funds.¹⁴⁴ In 2001 a solution was finally reached: the regional loan was transformed into six national loans to the national electric power companies—with national sovereign guarantee. A mechanism was devised to transfer these funds to EPR, which remained the executing agency. Concessional funds from FSO were finally made available for Honduras and Nicaragua (CA0035). In the meantime, only the non-reimbursable TC had been

implemented, and it had to be restructured in order to adapt to the delays in signing the investment loans.

These changes increased the cost and delayed the execution of the project. Transaction costs increased as each loan had to be transferred through national electric power companies—with the sovereign guarantee of their respective governments. The coordination process for basic implementation and the strengthening of the new regional jurisdiction were slow, and reaching agreement turned out to be more complex than initially considered.

Building integration infrastructure and the electricity market in Central America have proved challenging during the 10-year execution of SIEPAC. The electricity systems of the six countries have been connected through a transmission line of 1.800km and 230Kv. Similarly, the connection between Panama and Colombia is now in the pre-investment phase. At the same time, there have been improvements in institutional capacity required for shaping the Central American electricity market. Those developments are still not enough to overcome the interests and distrust of national governments, or the short term individual objectives of national systems. Under these conditions, the exchange of electricity through the network has been limited. During the last years, energy transfers have remained below 1% of the regional demand after reaching a peak of 5.5% in 2003.

Recent evaluation reports indicate that the regional electricity market has not yet been consolidated and its institutions need to be strengthened.¹⁴⁵ In particular, the process of regulatory convergence and energy integration still faces various institutional challenges: the government distance from its role of guiding the integration process, the lack of political support to national and regional regulatory entities, the weakness and fragility of CRIE, and lack of instruments for regional energy planning that are adequate to support the energy integration process. Under these conditions, the benefits of integration projects have been limited to the sporadic interchange of energy surpluses in levels well below what was estimated *ex-ante*.¹⁴⁶

Lempa River Sustainable Development Project (Trifinio). The creation of an integrated approach for the protection of the Trifinio area is a unique experience of transnational cooperation in LAC. This region, which is mostly known for its natural resources and biodiversity, is located on the tri-border area between Guatemala, Honduras and El Salvador. It is also where the headwaters of the three most important Central American water systems are located (Lempa, Motagua y Ulúa).¹⁴⁷ In 1986, the governments of the three countries agreed on the need to protect the valuable natural resources of the tri-national region of the Montecristo Park. The first version of the Trifinio Regional Comprehensive Development Plan was launched in 1988, and its final version was approved in 1993 by the Trifinio Plan Tri-national Commission, integrated by the vice-presidents of Guatemala and El Salvador, and the designated officer from the Honduran government.¹⁴⁸

The Bank supported both the process of institutional strengthening and the implementation of a comprehensive management plan for the Trifinio region. After the tri-national treaty was ratified in 1998, IDB approved 11 operations using different financial instruments:

- The bulk of the program was composed by five TCs and a regional loan (CA-0034) that supported the sustainable development of the High Lempa River Basin.¹⁴⁹ The transnational project CA-0034 had a general objective of improving life quality of the population of the high basin through actions that would elicit sustainable development in the area of intervention and break the cycle of poverty and degradation of natural resources.
- A number of later TCs supported biodiversity, including a GEF-financed TC approved in 2006 (RS-X1016) and two preparatory TCs (in 2004 and another in 2005) aimed at supporting the preparation of a new comprehensive management plan conceived by the GEF project.
- In 2005, a RPG (RG-T1157) was approved to develop and promote tri-national mechanisms for the comprehensive and sustainable management of water as a Regional Public Good.
- Finally, in 2010 a MIF project was approved (RG-M1118) to support the development of sustainable tourism in the Trifinio Region.

The majority of the project's (CA-0034) resources were cancelled. Although the project was approved under a common loan document for the three countries, it comprised three separate subloans—with national sovereign guarantee—for US\$14, US\$ 4.5 and US\$3.3 million for El Salvador, Guatemala, and Honduras, respectively.¹⁵⁰ Parallel financing in concessional terms—grants and loans—was secured from other partners for about 20 percent of the amount of the Bank loans.¹⁵¹ The Honduran and Guatemalan sub-loans had significant delays attaining eligibility. In the case of El Salvador, the Government did not sign the operation so the bulk of the project resources (64 percent) were cancelled. Guatemala also cancelled 25 percent of its national loan. At the end of the project, 70 percent of the original resources approved by the Bank were cancelled.¹⁵²

The cancellations and complexity of the project compromised the achievements of the objectives. The multi-sector and multi-country approach was too ambitious given the institutional limitations and the coordination costs within the Bank and between the countries. The design of the project placed particular emphasis on the participation of local communities and local, national and tri-national institutions. This prompted the need to incorporate a wide array of stakeholders. Interventions had also been designed to be small and scattered. As a result, the outcomes of the project were limited in relation to the main challenges in the region. However, they did add to the Bank limited experience in the management of tri-national projects. The TCs that followed the initial project (biodiversity GEF, water RPG) showed similar patterns of results.

Although specific advances were achieved in the execution of demonstrative projects, these have not provided a decisive impact on the tri-national area.

C. THE EXPERIENCES OF OTHER MDB'S IN UNDERTAKING REGIONAL PROJECTS

The engagement of other MDBs in transnational projects is relatively recent and entirely dependent on the availability of concessional funds. Regional projects were virtually unknown in MDBs before the early 2000s. Around that time, the emphasis on transnational cooperation and collective action led many MDBs to earmark specific allocations for multi-country projects from their concessional windows (IDA, ADF and AfDF).¹⁵³ In the case of IDA, only a handful of operations were approved before 2003, when a pilot earmarked allocation of US\$297 million was approved.¹⁵⁴ The earmark was increased successively in IDA-14 and 15 to reach 1.5 billion SDR—US\$2.3 billion—in IDA-16. Similarly, the ADF has recently earmarked up to 10 percent of the whole allocation (US\$1.08 billion) to sub-regional projects.¹⁵⁵ However, the most revealing experience is that of AfDF: from an initial 4 percent envelope in 1996-1998, the AfDF has recently earmarked 20 of all the resources to multi-country programs (AfDF-12). With 257 multinational operations and US\$6.35 billion in regional projects, the AfDF has the highest figure of multi-country loan approvals in the portfolio of any multilateral (10 percent of total approvals between and 2000-2010).¹⁵⁶

Other MDBs have typically focused on regional infrastructure projects. About 75 percent of all the commitments of IDA were concentrated in infrastructure—typically energy and transportation—most of it in the Africa region.¹⁵⁷ Similarly, about half of the AfDF portfolio (1996-2006) was concentrated in infrastructure and about two-thirds of their pipeline (2008-2010) was devoted to infrastructure. In the case of the ADB—including the ADF—most of the lending (90 percent) has been allocated to two regional programs: Greater Mekong (GMS) and, to a lesser extent, CAREC.¹⁵⁸ About 80 percent of overall lending—70 percent of concessional lending and 93 percent non-concessional lending—was devoted to transportation, particularly an extensive cross-border infrastructure development.¹⁵⁹

The MDBs have a very similar instrument for financing regional projects: an earmarked envelope from their concessional fund (IDA/AfDF/ADF).¹⁶⁰ This earmarked envelope supplements the national allocation for the regional program by a fixed proportion. For instance, both in IDA and AfDF, for each dollar of a national allocation spent in the regional project, the envelope contributes to two extra dollars. The economic incentive is materialized through the ability of “leveraging” concessional fund allocations.¹⁶¹

**CO-L1087: Regional Integration -
Pasto Mocoa Road - Phase II.**

The Road Corridor Pasto - Mocoa is part of the Intermodal Transportation Hub Tumaco (CO) - Belem do Para (BR) of the IIRSA Initiative, to promote the development of southern Colombia, northern Ecuador, Peru and Brazil, strengthening trade between countries and facilitating access to the Pacific .

(C) IDB, 2010



Due to the way in which this instrument was designed, MDBs have faced some challenges.

- Only participating countries that are also eligible for the concessional window receive the incentive. There is no incentive for the other countries. Not surprisingly, in practice transnational projects tend to occur in areas where all the countries are eligible (e.g. Africa, OECS). This asymmetry in incentives for eligible and non-eligible countries has now been widely recognized in the AfDB and IDA, although solutions have not yet been implemented.¹⁶²
- The projects increase the indebtedness of poor and vulnerable countries. The whole scheme is based on granting additional access to concessional funds to poor and vulnerable countries, increasing their overall indebtedness. Indeed, many of the countries that benefited from the extra-funding have also benefited from the HIPC and MDRI debt relieves earlier in the decade. Alternatives could be top-up grants.
- The 2-to-1 rule (regional envelope to national allocation) is ad hoc and has some built-in asymmetries. The linearity of the rule can be a disincentive for small countries, which may have to dedicate a large proportion of their concessional fund allocation to the regional project, leaving no room for their own national priorities.¹⁶³
- Incentives for Bank staff have not all been positive. All institutions agreed that having an earmarked financial envelope can alleviate many of the incentive problems related to the preparation and supervision of regional operations. This extends to the TC portfolio that supports the new regional loans. On the negative side, any scheme that grants concessional access to a specific type of operation gives a perverse incentive to “label” projects—that is, to design national projects so as to appear regional. All three MDBs stressed the importance of specific and detailed definitions of what constitutes a regional project.

In some cases, a regional loan is better than national loans within a regional umbrella. Although the programs financed by all MDBs—including the Bank—may be regional, loans are typically made to each national government with the corresponding sovereign guarantee.¹⁶⁴ Under certain conditions, having a regional loan instead may prove to be both more effective and efficient. A regional loan to a regional institution will ensure that investments are prioritized and carried out according to the needs of the region, effectively breaking the logic between national loans tied to national investments. In this context, it becomes easier to agree and implement cost-sharing mechanisms that typically involve cross-subsidies between the countries. Finally, by centralizing planning of investments, costly and repeated coordination will be improved, as well as expedite fiduciary management.¹⁶⁵ It will also build stronger regional institutions.

D. EVALUATION FINDINGS

The evaluation of the Bank's response to infrastructure integration challenges in LAC will be undertaken in three different dimensions. First, it gauges the Bank's support as a long term honest broker to guarantee coordination, technical support, and sustainability. Second, the Bank's actions are assessed in terms of coherence of the instruments used in these regional programs, including time and cost efficiency during program preparation and implementation and, finally, the effectiveness of the Bank in achieving the objectives proposed. For this second dimension, comparisons with other multilaterals will be done.

Effectiveness. SIEPAC has been a positive success, although the consolidation process has been long due to the institutional complexity and high degree of cooperation required. The presence of the IDB along the way has been acknowledged as an important stability factor when facing political changes that have taken place in the region. The time frame of a regional project may often be difficult to match with that of national governments or even multilateral institutions. However, throughout this period, the Bank had been successful in keeping project coherence and boosting the institution building process in the electricity market, which nevertheless will require still long maturity periods. Seen in this light, it comes at no surprise that other MDBs are praising the Bank's long term approach in SIEPAC as a source of inspiration.¹⁶⁶

In contrast, the Bank had difficulties identifying a sustainable intervention strategy for Trifinio as well as mustering the necessary levels of internal coordination, despite continued long-term engagement. The Bank dispersed its operations in a sector-oriented fashion, initially aiming for an ambitious multi-sector development plan. In later stages, the focus was changed to water management, biodiversity and, recently, tourism. All these changes seem largely whimsical and linked to the availability of resources from specific thematic funds. In all cases essential elements needed for the solution of the transnational challenge were missing: The challenge was not identified, nor the relevant actors convened, nor the costs and benefits of the intervention

assessed, nor a cost-sharing mechanism devised.¹⁶⁷ In this context, the transnational institution operated more like a fund-raiser than as the key tri-national actor needed to provide the regional public good. As for the Bank, even though every single one of these interventions may have been considered individually relevant, and might have strengthened the execution capacity of the *Comisión Trinacional*, the overall program results were not relevant. Furthermore, the lack of internal Bank ownership contributed to the sector fragmentation of the interventions. In absence of an encompassing approach, whatever results the individual operations may have generated are unlikely to be sustainable.

Incentives. On the countries' side, the lack of incentives to engage in regional projects is related to the lower prioritization, higher vulnerability, and increased coordination costs. The essence of a transnational project is that the results for a given country—who takes responsibility for part of the debt—depends on the actions of other countries. In a context of scarce resources, governments tend to prioritize national operations above regional, irrespective of the externalities.¹⁶⁸ In addition, regional projects are particularly vulnerable to changes in government priorities. In the case of regional projects, this gets magnified as the number of countries increases. For example, if the probability of changes in priorities in any one government is, say, 20 percent, the chance that a 7-country regional project would have at least one country changing priorities goes up to 80 percent.¹⁶⁹

The Bank has made limited progress in producing the right incentives for preparing and managing regional projects. OVE's previous evaluations—and the present update—also identified a persistent lack of incentives to overcome the incremental costs of coordination both between countries and within the Bank. In addition, the lack of indicators and appropriate monitoring and evaluation tools poses a challenge to the effective management of the portfolio and the identification of results.

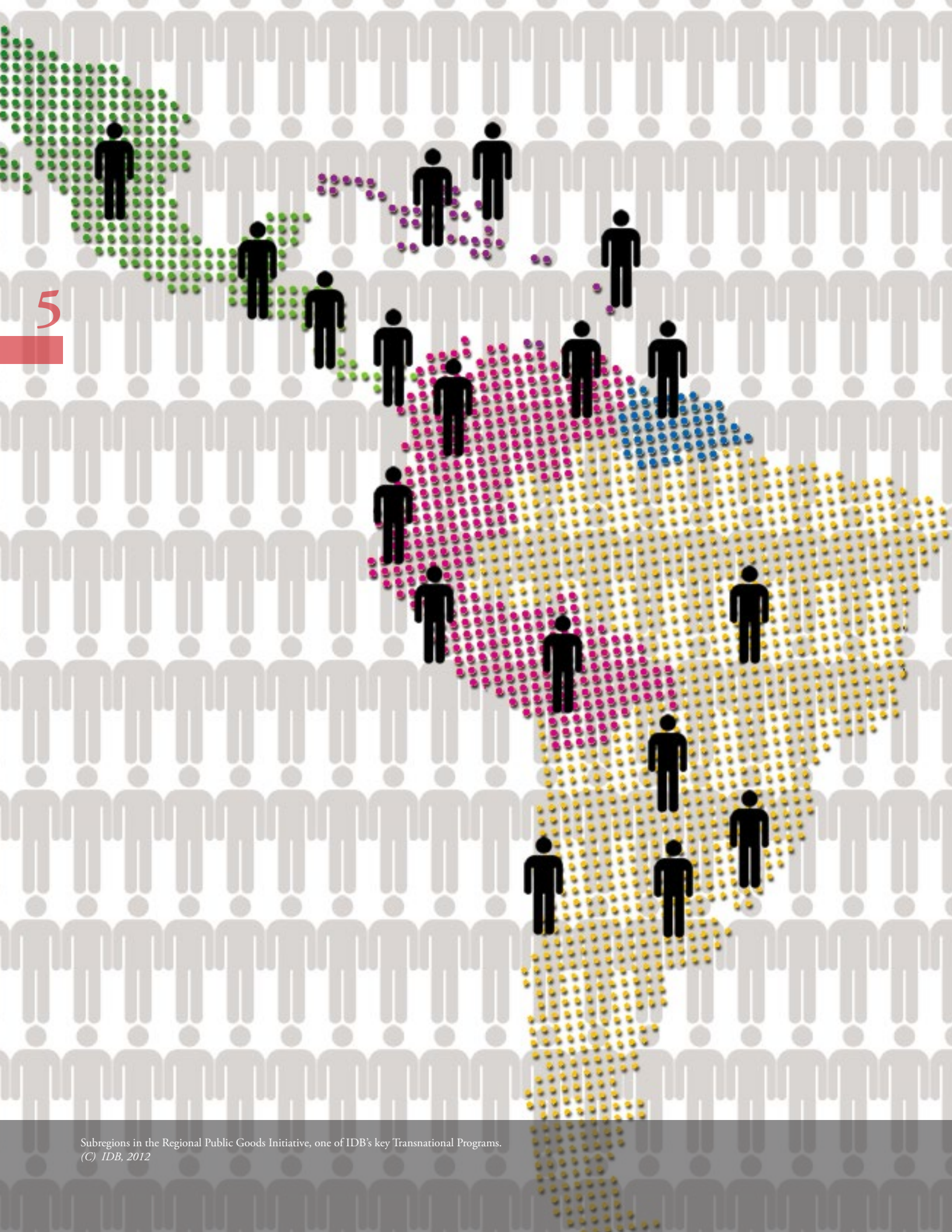
Implementation. The quest for a regional financial mechanism remains largely on the drawing board. The lack of financial instruments that are able to compensate for the high transaction costs and the asymmetries inherent to infrastructure integration projects made it very difficult to have a lending program that addresses transnational challenges.¹⁷⁰ During the period of evaluation, only one instrument was created with the purpose of supporting transnational projects, the Fund for Infrastructure Integration (FIRII), created by the Bank in 2005. FIRII has been crucial to finance the preparation of projects identified in the IIRSA and PPP/PM portfolio.¹⁷¹ However, this new instrument has a limited amount of available resources for non-reimbursable technical assistance.

All MDBs have typically found that working regionally is costly and complex. Although difficult to estimate, there is indication that regional projects in general have significantly higher preparation and supervision costs. Management estimated the costs of preparing and supervising a regional operation to be 100 and 35 percent

higher, respectively.¹⁷² The World Bank has similarly found that regional projects cost about 76 percent more to prepare and 23 percent more to supervise.¹⁷³ The AfDB estimates that regional projects cost 1.5 times more to prepare and supervise.¹⁷⁴ The World Bank experience indicates that these projects are also more likely to have lower performance. Indeed, regional projects tend to be about twice as likely to be at risk, to be a problem project, and to have implementation problems.¹⁷⁵ Furthermore, the proportion of projects likely to achieve their development objectives is just 60 percent in regional projects as opposed as 75 percent for a Bank wide average.

The limited Bank experience indicates that regional projects tend to have longer implementation times. SIEPAC's implementation times were significantly longer than other similar projects, and TCs related to SIEPAC also had longer execution times than national TCs.¹⁷⁶ In Trifinio the differences were not so significant, but project CA0034 still had a delay of 24 months, 40 percent above the loan operations for the countries in the region.

Finally, the fiduciary aspects have been challenging in both projects and TCs. SIEPAC involved management of a large number of loans (15) that were executed in different country offices, while Trifinio involved three different sub-loans. Most of the Bank's systems and the application of the policies are tailored to each national case. The limited experience from SIEPAC and Trifinio confirms the experience of other MDBs: financial management and procurement can easily become cumbersome.



5

5 Summary of Findings & Recommendations

This evaluation has sought to assess the Bank’s engagement in a specific subset of regional initiatives, namely transnational programs that address challenges that cross country borders and require multi-country collaboration for success. In LAC, the Bank is in a unique position to support transnational programs as it can act as a convener, support negotiations, increase awareness of regional challenges, and become the honest broker needed to arrive to equitable cost-sharing arrangements. In all these aspects, the long history and reputation in the region give the Bank a role of preeminence and potentially high impact.

The Bank has an explicit mandate to support regional cooperation and integration in Latin America and the Caribbean. This has been a perennial goal of the Bank since its creation in 1959. Throughout most of its history, the Bank was able to advance knowledge and cooperation in the region by means of a small but important regional TC program. Turning the integrationist spirit into a regional lending portfolio, however, has proved to be a persistent challenge.

The period under evaluation is marked by the Bank’s attempts to revive its strategy for regional and transnational initiatives. The Bank maintained its traditional TC program through old (RTC) and new (OC/RPG) funds. In its lending program the Bank promoted and nurtured two regional infrastructure initiatives, IIRSA and PPP/PM. The period culminates with the restatement of regional and global integration as a priority, with an associated lending target. Although this evaluation focuses only on a subset of the “regional” programs of the Bank—namely transnational programs—it highlights many of the challenges that lay ahead in assuring relevance, effectiveness, efficiency, and sustainability of transnational programs.

Relevance. In the period under evaluation, the relevance of the Bank's TC program – in particular the Regional Public Good program -- has been limited. The TC program is small and dispersed. It has supported coordination and advocacy in a constellation of sectors, with weak relation to national and regional priorities and weak programming. Furthermore, these interventions have been small, with a project-logic centered on relatively short-term activities.

The Bank has undertaken few transnational projects, and their relevance has also been modest. Only in two cases, SIEPAC and Trifinio—when *ad hoc* concessional funds became available—did the Bank manage to play a relevant role in transnational institution-building. Without a concessional financial instrument to offset extra costs, other Bank regional lending initiatives turned primarily to national investments in infrastructure—most notable in IIRSA and PPP-PM—whose regional spillovers were not identified or evaluated. The Bank has had a relevant role coordinating and financing national projects under IIRSA and PPP-PM but has been less relevant in contributing to the resolution of asymmetries related to the transnational infrastructure corridors.

Effectiveness. The effectiveness of the transnational TC program, including the RPG program, has been low. Although the TCs typically have produced the outputs, these have been unconnected to any strategic outcome, compromising the overall effectiveness of the TC program. Only a few operations have financed pilots aimed at promoting institution-building and the development of an agenda beyond initial talks and conversations.

The effectiveness of transnational projects has varied. During more than 25 years in the SIEPAC project the Bank has kept a clear focus, acted as an honest broker, made available the TC funds needed to set up the regional institutions (e.g. MER), and topped up with concessional funds each national loan. While SIEPAC probably would have never occurred without the IDB, its final results will depend on the capacity of Central American countries to operate SIEPAC as a truly integrated electric market. The case of Trifinio has been less encouraging: the trinational institution was unfocused and the Bank added to this lack of focus. As a result, the investment was largely cancelled, and the TCs approved for Trifinio failed to be integrated under a common program. IIRSA and PPP-PM have financed mostly national infrastructure projects, as noted above.

The experience of IDB and other development Banks indicates that regional projects are significantly more complex and costly than national projects. Implementation times are longer and implementation challenges more likely to appear. Countries tend to prioritize national operations. Substantial Bank time and resources need to be spent in coordinating with each national government. Bank staff also faces disincentives in working on tasks that are unlikely to lead to loans. Today virtually all the lending program of the Bank is national.

Efficiency. The efficiency of the transnational TC program has been reduced by the specific characteristics of the RPG program. In spite of this, RPGs successfully mitigated many of these challenges through strong execution. The commitment to work in “early stage RPGs” where institutional development was limited meant that the Bank ended up working with less experienced and weaker regional institutions. Efforts to ensure “country ownership” have led to elaborate governance structures that have added to the administrative costs. A totally “demand driven” program has limited the alignment of RPGs to sector priorities and country strategies, and this weak alignment has reduced the incentives of staff to engage with RPGs. As a result of all of these features, the Bank has worked primarily with NGOs with limited capacity. Despite these challenges, management has successfully implemented many Regional Public Good TCs, which often compare favorably to comparator TCs (National, Regional, MIF) in terms of financial and physical execution.

Sustainability. Sustainability has been compromised, particularly for the TC program. Even in operations that financed pilots, the asymmetric ownership among countries was a serious constraint to sustainability. In the case of transnational projects, results were mixed. Sustainability is unlikely in Trifinio. SIEPAC seems to be more promising, provided that regional institutions are finally consolidated.

Incentives. Transnational operations face a pervasive misalignment of incentives. Without concessional funds to induce countries, there are limited incentives to undertake these costly operations. Similarly, Bank staff have an incentive centered around national and sector priorities; with the lack of specific incentives, multi-sector and multi-country interventions are *de facto* relegated, even when their very nature requires special attention.

RECOMMENDATIONS

In light of the above findings, OVE makes the following recommendations to Bank Management:

Recommendation 1: Consider carefully the pros and cons of deepening Bank engagement in transnational projects and TCs. This evaluation underscores the complexity, high cost, and long duration of this work. Yet it also points out the unique role that MDBs can have in furthering important areas of transnational collaboration. The IDB9 agreement calls for enhanced Bank engagement in global and regional integration, of which transnational programs are an important subset. Yet a decision to deepen this area of work necessarily entails investments and tradeoffs, as indicated below, and should be considered carefully and deliberately, in conjunction with the Board.

Recommendation 2: If the Bank decides to deepen its commitment to transnational projects, take needed steps to that end:

- Identify ways to enhance the concessionality, and if possible availability, of project funding to offset borrower disincentives and reduce the effective cost of transnational operations. One possibility would be to earmark a specific amount of FSO from the next replenishment in order to finance blended loans for projects that can show significant cross-border externalities. Other alternatives include interest-rate subsidy schemes (*e.g.* IFF) or the use of grants. The Bank should also explore the feasibility and risk-implications of concessional lending to regional institutions without sovereign guarantee.¹⁷⁷ Even if it is not possible to increase concessionality, the Bank could earmark resources from OC to finance regional projects. This could increase countries' incentives to engage in transnational projects—especially for countries with small lending envelopes at the national level.
- Adapt Bank processes, structures, incentives, and budgets to facilitate the implementation of transnational projects. Structures and incentives need to be adapted to enhance ownership and long-term staff commitment to these operations. Fiduciary policies also need to be adapted to the specific challenges of transnational operations. Recognizing the higher complexity of these operations, the Bank should allocate more resources—both staff and budget—for the preparation and monitoring of these projects.

Recommendation 3: Enhance the effectiveness of the Bank's transnational TC program, which should continue at some level of funding in any case.

- Increase the strategic focus of the regional TC program. The Bank should avoid the atomization of technical assistance into a myriad of stand-alone TCs covering a wide array of sectors. In order to do so, the Bank should prioritize regional challenges and grant support to fewer and larger projects on a sustained basis (10 years). OVE welcomes Management's recent emphasis on focused interventions. In doing so, however, Management should aim at keeping a high level of country ownership through, for instance, the alignment of programming discussions with the regional policy dialogues (RPDs).
- Increase the efficiency of implementation. The Bank should systematically carry out simplified *ex-ante* fiduciary capacity assessments for potential executing agencies,¹⁷⁸ facilitate training on fiduciary issues, and engage bank specialists (fiduciary, legal) earlier in transnational operations to avoid delays in execution.¹⁷⁹

- Strengthen monitoring and evaluation of regional technical cooperation while keeping goals realistic. OVE supports management's recent initiative to strengthening TC supervision.¹⁸⁰ It further recommends simplifying the monitoring system by focusing on realistic and achievable goals. The priority should be on tracking the effective delivery of TC products, possibly introducing some quality assessment. In the future, TCs should not list outcomes that are difficult to reach, hardly attributable to the operation and, ultimately, not even tracked. Instead, OVE suggests that TCs simply define specific outputs and sensible intermediate outcomes, and that management tracks them.

NOTES

1. Both the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM) were established in 1960 and were the result of the same movement that created the Bank. The Bank was involved from its early days in promoting research and capacity building for integration from INTAL (established in Buenos Aires in 1965). Occasionally, the Bank involvement in integration extended to advocacy. For instance, when integration stalled in the mid-sixties, the president of the IDB Felipe Herrera—together with Prebisch and other prominent Latin American scholars—wrote an essay that describes ways of “accelerating” LAC integration. See Jose Antonio Mayobre, Felipe Herrera, Carlos Sanz de Santa Maria y Raul Prebisch. 1965. *Hacia la integración acelerada de América Latina. México*. Fondo de Cultura Económica. The Bank also adapted to the increasing demand for transnational projects that the presidents made in Punta del Este in April 1967. In particular, the presidents of the Americas stated the need to “jointly develop international watersheds, frontier regions and geo-economic areas that include the territory of two or more countries”. To do that, they committed to “provide the preinvestment Fund for the Integration of Latin America of the IDB with sufficient resources to carry out studies to identify and prepare multinational projects in all areas that are important to promote regional integration” (Punta del Este declaration, 1967, link) In 1972, the Bank issued FSO guidelines that allowed the use of concessional funds for regional projects (AB-303-3).

2. The rebirth of integration was favored by the reform agenda of the 1990s and its generalized reduction in protectionism: The average tariff in Latin America was reduced from 40 to 12 percent between the mid-1980s and the mid-1990s. The proliferation of Regional Trade Agreements—especially that of Mercosur—, did not come without questioning. In particular, a significant part of the trade literature attacked RTAs (Regional Trade Agreements) on the grounds of significant trade diversion. There are a number of papers on this issue: Alexander Yeats (Does Mercosur’s Trade Performance Raise Concerns about the Effects of Regional Trade Arrangements?, World Bank Research Working Paper 1729, February, 1997) argued that most of the increase in trade within Mercosur was due to trade-barriers (trade diversion). This point was contested by Devlin (In Defense of Mercosur, Informe Industrial, Vol. 19, No. 156, pp.50-51). The new economic approach to regional integration—the “new” regionalism—“was inserted in an economic framework of policy reform that promotes open and competitive private-market based economies” (IDB, 2002, “Beyond Borders: The New Regionalism in Latin America, p.32). In contrast with the “old” regionalism that focused on import substitution and intra-regional trade—especially of capital goods, the “new” regionalism put the emphasis on economic efficiency and inter-regional (North-South) trade agreements. For a general reference on the New Regionalism see IDB, “Beyond Borders: The New Regionalism in Latin America”, Economic and Social Progress in Latin America, 2002.

3. See IIRSA, 2010, “IIRSA 10 años después: Sus logros y desafíos”. Cuadro I.1, based on data from INTAL and ECLAC. Intraregional trade went from 11.9 to 23.9 percent of total trade between 1990 and 2000. Yet most of this increase is related to the early dynamism of Mercosur and concentrated in the first part of the decade.

4. The opportunities derived for non-trade cooperation are analyzed in Devlin, Robert, Antoni Estevadeordal and Ekaterina Krivonos, “The Trade Cooperation Nexus: How does the Mercosur-EU process Measure Up?”, INTAL, Occasional Paper No. 22. Also, see IDB, “Beyond Borders”, *Op. Cit.*, pp. 37 ff.

5. Allan H. Meltzer, “Report of the International Financial Institution Advisory Commission”, March, 2000.

6. Kaul Inge *et al.*, 1999, “Global Public Goods: International Cooperation in the XX-Ist Century”, UNDP: New York, pp. xiii.

7. These are the thematic regional policy dialogues that the Bank established in a number of different sector. According to management, “*this new innovative mechanism will establish, with the active participation of governments in the region, dialogue networks consisting of senior officials responsible for public policy formulation in areas accorded the highest priority for development in the countries.*” (GN-2096-2) Due to the non-operational nature of RPD, the evaluation will

not consider it further.

8. See document AB-2764. Table 1 contains the specific lending targets. Management was further asked to provide a new integration strategy that would lead the Bank's actions in the future (GN-2565-4).

9. The systems of the Bank only distinguish whether the "benefits" of an operation are regional. During the period of evaluation they used two codes: regional (RG) and regional support (RS). In 2006, the auditor found that there was not a clear definition between the differences of RG and RS operations. This was aggravated by the fact that the two operations had different levels of internal control. See AUG, 2006, "Limited Review on Internal Controls of the Technical Cooperation Activity". In response to AUG's recommendation, management discontinued the use of the category RS.

10. For instance, regional projects include the "Grenada Reconstruction and Recovery Loan" which is a national development loan. It is likely to have been labeled as regional because it is implemented through the Caribbean Development Bank. Similarly, independent national projects approved within a common facility (e.g. investment funds) are considered regional—although each project financed is national and unrelated to other projects in the portfolio. Some administrative operations (to hire a consultant to manage a trust fund, to finance evaluations of funds) are labeled as regional. RG/RS includes studies and "knowledge" products that are done from the whole region and cannot be attributed to any single country, although they might be about national issues or be general research. Finally, RG/RS operations include projects that aim to tackle transnational challenges. In sum, the Bank classification of "regional" seems to be a default category for operations where the benefits cannot be assigned to any single country.

11. This evaluation looks at a subset of the universe covered by the regional and global integration strategy (GN-2565-4). OVE is now working in the evaluation of the full and effective implementation of the regional strategy as part of the IDB-9 evaluation (RE-411-3).

12. The emphasis is in six areas: i) health; ii) education and knowledge; iii) trade and financial integration; iv) environment and climate change; v) infrastructure integration; vi) transnational governance issues. See Annex VIII: Sector studies.

13. The theoretical basis of regional public goods is discussed in Annex II: The Regional Public Good Initiative. Please refer to the Annex for the details.

14. For instance, there are a number of initiatives to exploit economies of scale in the Caribbean like CARTAC or RNM. Similarly, the harmonization of regulations and normalization of technical standards fits in this category. All of these challenges are essentially about coordination; thus they are usually the easiest to tackle as they usually require only some coordination efforts

15. Education, trade and integration require simpler technical assistance operations for coordination and harmonization of policies. Even though a priority, the value of the Bank is higher in more complex public goods. It is important to note that Bank has some experience working with river basin management in the 1990s, but this has recently been discontinued, among other things, because of the complexities of multi-sector projects.

16. For instance, the agreement over ozone shield depletion (Montreal Protocol) was quickly signed after the link between chlorofluorocarbons (CFCs) and stratospheric ozone destruction was established. For a discussion on the solution of this public good see Barrett, Scott, "Why Cooperate? The Incentive to Supply Public Goods", Oxford: Oxford University Press, 2007, ch .3. See also, Sandler, 1997, "Global Challenges: An Approach to Environmental, Political, and Economic Problems", Cambridge: Cambridge University Press, pp. 106-115.

17. This seems to be particularly so in the case of *summation* and *best shot* aggregation, where the incentives to free ride increase. See Hirschleifer, *Op. Cit.* and Vicary, S., 1990, "Transfers and the weakest-link: An extension of Hirschleifer's analysis", *Journal of Public Economics* 43, 375-394 who allows for transfers to subsidize the provision of public goods by other agent. In that case, the income distributions and its changes as population size increase are determinant.

18. Sandler, 1997, *Op. Cit.*, pp. 99-106.

19. Sandler, 1998, "Global and Regional Public Goods: A Prognosis for Collective Action." *Fiscal Studies* 19(3): p. 236.
20. There is a discussion of the case of acid rain in Sandler, 1997, *Op. Cit.*, pp. 115-129.
21. However, this should not be written in stone. In some cases the optimal jurisdictions lack the institutions to deal with the public good or there are increasing returns to a global action. See a discussion on subsidiarity in Sandler, Todd, 2006, "Regional Public Goods and International Organizations", mimeo, University of Dallas, 2005.
22. Agreement Establishing the Inter-American Development Bank, Article 1, Section 1.
23. During the 1970s, 5.2 percent of total approvals went to regional projects, including the first Yaciretá loan in 1979. Regional lending was reduced to 3 and 2 percent for the 1980s and 1990s. During this early period, FSO went from being the main source of financing (68 percent) in 1960s to be virtually inexistent in 1990s (2 percent). See Annex III.
24. Throughout this evaluation, it will be considered as regional TCs, all those TCs that have regional benefits (RG/RS) and that are financed by either Bank funds (FSO/OC) or donor trust funds excluding COFABs. We refer to the historic regional TC program as the one financed by the FSO and managed by INT/RTC.
25. The mandate for regional technical cooperation is contained in the Agreement Establishing the Inter-American Development Bank, Article 1, Section 1. The specific reference to technical assistance is on Article 1, Section 2, a, v. "*To implement its purpose, the Bank shall have the following functions: ... (v) to provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals.*" Article VI provides more details on the technical cooperation program, especially on the financing conditions (Section 3). As for the policies governing regional TCs, the first TC policy of 1974 (AT-80-10) made no operational distinction between regional and national TCs. Until 1990 the responsibility over national and regional TCs was maintained under a common department (DES). After the separation, an operational distinction between national and regional TCs was first introduced (AT-889). A regional TC was then defined as one in which either i) the nature of the intervention was regional *per se*—as the support of multi-country operations, ii) there were economies of scale in the provision of the TC (e.g. Training) or iii) the effectiveness of the intervention increased with the regional perspective. Historically, about one third of the whole technical cooperation envelope of the Bank was saved for regional TCs.
26. For instance, document AT-889, ¶ 3.2. refers to RTCs as allowing the Bank to take the "*proactive role [...] that had been the trademark of the institution*". Further on the supply-driven role of regional technical cooperation, the IDB-8 report (AB-1704, ¶2.57) paper states that "*[t]he regional technical-cooperation program has been an important instrument for the Bank to take a proactive and supportive role in the development of new and innovative approaches to the changing priorities of the region.*"
27. Up until 1998, the FSO had convertible and national (borrowing country) currencies. After the 1998 concessional agreement (AB-1960) most of the remaining national-FSO was converted and used to finance the concessional lending and TC programs from FSO. According to EVO (RE-225), during the 1990s about 52 percent of regional TCs were financed by local currency FSO (RE-225, Table 2.1). On the dependence on local currency, see GN-2077, p. 6.52.
28. Between 1997 and 2000, about 70 percent of the regional TCs were executed by the IDB, in contrast with 40 and 10 percent for 1993-1996 and 1989-1992.
29. In the new concessional agreement approved by Governors in 1998, the yearly amount of FSO net income allocated to the whole TC program was permanently reduced to US\$30 million—roughly one-third for regional technical cooperation. The agreement implied the conversion of a proportion of local currency FSO (80 percent for Brazil, 65 percent for the rest of the countries) and the reduction of the FSO-financed TC program to sustain a lending program of US\$500 million per year (2000-2003) and US\$400 million (2004-2009) for FSO eligible countries in order to finance i) the interest rate subsidies of the IFF (US\$250 million per year) and, ii) the debt relief for Honduras and Nicaragua that had recently been affected by Hurricane Mitch. As a consequence, the yearly approved amounts for regional TCs from

the Net Income of the FSO were reduced 55 percent from US\$28.3 million (1994-1998) to US\$12.7 million (2000-2004). See AB-1960 on the details of the concessional agreement. The institutional strategy recommended focusing the regional program (see GN-2077, Recommendations, p. vii).

30. The description of the approval procedure comes from a memo from INT/RTC done around the time of the realignment in order to explain how the department worked (available upon request).

31. The Bank continued producing its regional programming papers (RPP) that had been started informally in the early 1990s and mainstreamed in 1995 after the IDB-8 agreement. The first regional programming papers were Rio de la Plata Basin (1990, CP-123), Amazon Basin (1993, CP-425), Subregion South (1993, CP-431) and Central America (1994, CP-665-1). After that, the RPPs were organized according to the sub-regional integration scheme: CARICOM (2007-2010), Mercosur (2005-2008), Andean (2006-2009), Central America (2001, 2004).

32. Starting in 2004, the Bank progressively financed technical cooperation—both national and regional—through the “Special OC Programs”; the first of which were Regional Public Goods, FIRII, and PRODEV (GN-2275-3 approved in 2004 and, GN-2344-4 and GN-2346 both approved in 2005). All these programs were originally financed from the Bank’s regular administrative budget. However, management suggested funding them from OC directly as this promoted transparency in the operational program, allowed for direct LMS control, and reduced budget fluctuations due to TC financing from the Budget (See GA-220-4). Subsequently, the resolutions creating all these programs were modified to account for the change in the source of financing. The conditions for eligibility and funding from special OC programs were also developed (GA-220-12). Among other conditions, special OC programs should i) be open to all borrowing countries, ii) created only after funding from other sources has been studied; iii) executed through the LMS system and complying the Bank financial and procurement policies, iv) the program should not support the Bank’s administrative or capital budget and no more than 20 percent of the funds should be earmarked for execution, administration, monitoring and ex-post evaluation. Between 2005 and 2012, the Bank allocated US\$458 million in special OC programs, with US\$95 million in 2012 alone. Allocations are found in the resolutions attached to the budget documents from 2005 (DE-121/04), 2006 (DE-140/05), 2007 (DE-138/06), 2008 (DE-172/07), 2009 (DE-218/08), 2010 (DE-232/09), 2011 (DE-247/10) and 2012 (DE-204/11). Approvals were significantly lower. As of end 2011, special OC TCs have been financed for 120 million.

33. In the creation of each fund, technical responsibility was assigned to a committee chaired by a sector division. See Annex III for the complete list of OC programs and committees, including committee chairs. See also <http://gcm>.

34. In 2008 the Bank approved a new TC policy (GN-2470-2) and a companion TC framework (GN-2469-2) so as to delineate the new Bank model for technical cooperation. Broadly speaking, the new framework proposed to increase the alignment to country and regional programming, to simplify TC execution, and to improve monitoring and evaluation. Among other measures, the new framework proposed the creation of new strategic thematic funds encompassing untied multi-donor thematic funds and the Special OC Programs. See GN-2470-2, p.1-2. The key characteristics of the new TC framework are: i) strategic thematic focus, ii) untied funding, iii) single window for access to TC funding, iv) standard and simplified procedures for TC approval and execution, v) broader delegation for TC approval, and vi) enhanced focus on monitoring and evaluation. See Figure 3, *Ibid*.

35. Only one special OC fund (RPG) exclusively finances regional projects and, since 2012, its allocation has been reduced to US\$5 million (DE-204/11). Another fund, FIRII, finances pre-investment for national and regional integration projects. FIRII has had an accumulated allocation of US\$41 million since 2006. Out of this, there have been approvals for about US\$29 million, leaving a remnant of US\$12 million in the fund. In the case of trust funds, only two trust funds are specifically for regional projects: the Aid for Trade Fund (OP-165) and the recently approved Regional Infrastructure Integration Fund (OP-590). However, as of 2012 these trust-funds have a combined total of just US\$9 million available (7.24 million

in Aid for Trade, and 2 million in the Regional Infrastructure Fund).

36. In the GCI-9 agreement (AB-2764 ¶3.26), Governors recommended that “*funding for the non-reimbursable technical cooperation [from the FSO] be transferred to the OC.*” According to the last concessional agreement, there were four national (National TCs, Action Plan C+D, SEP, CT/INTRA) and one regional program financed from FSO net income (CA-474). During 2011, Management created the “Small and Vulnerable Countries” (SVC) program (GN-2616-1) with two windows, one to replace the FSO-financed National TCs and the other to replace the Action Plan C+D. The MIF’s Social Entrepreneurship Program (SEP) was transferred to the OC Social Entrepreneurship Fund (GP-75-11) and the CT/INTRA fund was transferred to OC-financed CT/INTRA. The FSO-financed regional TC program has not yet been transferred to any OC fund.

37. Among the regional projects, there were 2 private sector operations that were transnational in the sense defined by this evaluation (RG0053- Uruguiana Gas Pipeline and RG0054 – Electric interconnection Argentina /Brazil). One of these projects was cancelled and the other is completed. These projects are excluded from the evaluation as the focus of the evaluation is on interventions that need public support as they have low rates of private returns, something that by definition does not occur in these two projects.

38. The role of the Bank in each of the sectors identified in Table 1 (Annex I) is explained in Table 4 in the same Annex.

39. In 2000, there was a consensus that regional development Banks had a value added in promoting the provision of regional public goods. In addition to the emphasis given by the Meltzer commission to regional public goods, reformers argued that international aid should “get back to basics, to ensure that aid really delivers public goods that otherwise will not be provided either by markets or recipient governments in the absence of the aid”. Cook, Lisa D. and Jeffrey Sachs, “Regional Public Goods in International Assistance” in Inge Kaul (ed), 1999, *Global Public Goods, International Cooperation in the XXIst Century*, UNDP, New York, p. 437. See also, Ferroni, Marco. “Regional Public Goods: The Comparative Edge of Regional Development Banks”. *Mimeo*. 2002.

40. Estevadeordal, Antoni et al. (eds.), 2002, “Regional Public Goods: From Theory to Practice”, Washington DC., p. vii. Emphasis added.

41. The ITF was created by France and Sweden and had three main mandates: first, it had to find an operational definition of global and regional public goods “*bridging the gap between the international academic discussion and policymaking and action;*” Second, it had to prioritize among the global and regional public goods for investment; to provide suggestions as to the optimal division of labor between all the participating institutions; and to explore alternatives to funding global and regional public goods. Finally, the ITF was asked to present recommendations and guidelines for policy-makers. See International Task Force on Global Public Goods. 2006. *Meeting Global Challenges: International Cooperation in the National Interest*. Final Report. Stockholm, Sweden. Annex 1

42. In September 2003 management submitted a first proposal (GN-2275). Between September and March, two other intermediate documents were presented (GN-2275-1 and GN-2275-2). In 2005, the Board approved a document regarding the funding for OC Special Programs (GA-220-4). This document established that special programs should be financed from OC rather than from the administrative budget as it was stipulated in GN-2275-3. The final approved document (GN-2275-5) simply clarifies the source of the funds for the initiative but it is otherwise identical to GN-2275-3.

43. *Ibid.* Annex.

44. Among the main sources of information used are: i) high management call for proposals and guide for evaluation (CC-5947), ii) the RPG team issued specific guidelines (“[Guía para Jefes de Equipo de Proyecto – BPR](#)”), and iii) the discussion after the first round of proposals (AT-1323).

45. GN-2275-5, p. 20. The definition of regional public good was maintained throughout most of the evaluation period. In January 2012, Management presented an update of the definition of regional public goods in order to “*add clarity*” and reflect more accurately the type of RPG that the initiative “needs to promote in the context of the GCI-9 and its priorities.”

RPGs are now defined “as goods, services or resources that are consumed and produced collectively by the public sector and, if appropriate, the private sector in a minimum of three LAC countries.” ¶10, GN-2275-23, Jan 2012.

46. Section V, GN-2275-5. *Technically speaking there was a fourth criterion (i.e. demonstrate lack of effective institutions). As the initiative progressed, management de facto merged the “early stage” and the “lack of effective institutions” criteria into a single category, a practice that has recently been adopted officially. See GN-2275-23. Although the document states that “[m]anagement has applied these [eligibility] criteria over the past seven years and considers that overall, they: (i) are still valid; (ii) are adequate to identify eligible proposals; and (iii) therefore, do not need to be replaced” (¶13) it goes on to say to propose merging “the ‘early stage’ criterion with the criterion that eligible RPGs have to demonstrate insufficient institutional support for their production.” (¶24).*

47. “In the RPG literature, two countries can form a region (or subregion). However, following the mandates given by the Board of Directors, the projects funded through the Initiative must meet a more rigorous standard and include countries constituting a major subregion or the region as a whole. Therefore, in this initial stage, bi-national projects will not be eligible.” (¶1.16, CC-5947)

48. GN-2275-23. The general eligibility statement is in paragraph 15. Special cases are described in paragraph 25. Proposals need to show that: “i) the issue to be addressed is of strictly bi-national nature; (ii) the proposal fully justifies that the regional public good to be produced has the potential for an exceptionally high development impact; and (iii) the regional public good produced can be replicated in other contexts should similar circumstances arise.” (Par. 25).

49. GN-2275-5, par. 50. The definition and emphasis on “early stage” RPGs was not equally shared by all board members. In her statement attached to the Policy and Evaluation Committee minutes (PEA/03/26), Director Wedekull (Sweden) pointed out that “[w]e are not convinced that the proposed operationalization of the RPG into “earlier and later stage RPG” and “Club Goods” are appropriate methods. Rather than grouping examples of existing regional initiatives according to this classification, a more elaborated needs-based-analysis is required to help identify and analyze new and innovate areas for RPG interventions.”

50. GN-2275-5, ¶63.

51. “Letters of commitment to collective action from all of the participating organizations. “This letter should certify that the organization (i) is willing to dedicate financial and human resources as suggested in the proposal to support the implementation of project activities; and (ii) once the project has reached its objectives, it will participate in the process of collective action to further develop the RPG or – in the case of Type 2 proposals – join in the production of the RPG. The letters of commitment should be signed by those agencies in each participating country that will be responsible for the country’s participation in the RPG production.” (CC-5947, p. 3.36)

52. The citation comes from the discussion of GN-2275-6, PGA/05/25.

53. “Bank units will continue to be eligible to sponsor proposals. In the case of proposals to be executed by the Bank, the project will include an explicit strategy on how the Bank will gradually withdraw as an executor, transferring responsibility for promoting the RPG to the region; and the participating countries will request in writing that the Bank serve as the executor.” See GN-2383, page 5. However, the Bank participation was de facto halted after the first round of proposals (three projects) only to be resumed in 2011 (two projects).

54. The paragraph reads: “Eligible Applicants: departments of the Bank and organizations of its borrowing member countries as may request, through any such department, funding for projects to promote RPG generation. International public organizations with a global or hemispheric role, as well as their specialized agencies, are not eligible. Proposals presented by Non-Governmental Organizations (NGOs) should be accompanied by the non-objection from national authorities.” (GN-2575-3, Section III.3, p. 20).

55. The restriction that NGOs should have a non-objection letter from the government was not in the original proposal (GN-2275-2); it was introduced at the request of the board (see PEA/04/9 and GN-2275-4). The specific documents to attach with the proposal included a letter of commitment (see CC-5947).

56. GN-2275-23.
57. GN-2275-5, par. 57. Also Annex III, par. 5., par. 74
58. PEA/03/26
59. PGA/08/8
60. In the first discussion of the second call for proposals at the programming committee of management “[t]he President and some Managers suggested that the selection process should take into consideration those areas/sectors that the Bank would like to promote/support. INT in response pointed out that in approving the initiative, the Board had argued against the strategic targeting of specific sectors in favor of a strictly demand-driven process. RES concurred with this approach, stressing the importance of promoting and rewarding regional operational capacity (collective action) for RPG development.” (CPA/06/2)
61. In the discussion of GN-2275-2, “[m]anagement confirmed that the Board would receive copies of all proposals submitted for funding under the program and would have the final say in selecting and prioritizing the winning proposals.” PEA/04/9.
62. Minutes of the discussion of document AT-1323 (PGA/05/15).
63. GN-2275-5, par. 73.
64. [“Guía para Jefes de Equipo de Proyectos BPR,” IDBDOCS, 1888955.](#)
65. Most of the projects had three layers of governance: i) Directors Committee (DC): a senior official committee that ensured the absorption of the public policy and that took the key decisions during project execution; ii) an executive committee (EC) that took the technical decisions over the project and approved the reports submitted to the DC, iii) the executing agency that managed the financial aspects of the project and was responsible with respect to the Bank. Some projects also had a group of technical advisors.
66. See “Guía para Jefes de Equipo de Proyectos BPR,” *Op. Cit.*, p.6
67. The eligibility conditions are: Identification of the RPG (must be identified in the project proposal), public nature of the good (non-rivalry, non-excludability), regional nature of the good (shared regional benefit and collective action), early stage (not the repetition of previous executed activities, and it paves the way for future related actions and benefits), proposal (the proposal should have been received in time and it should have included the no-objection and commitment letters), executing agency eligibility.
68. A few sectors did not follow this pattern. For instance, in capital markets, three out of four proposals submitted were approved. On the other hand, in health only 18 percent of the proposals were approved. Other sectors show a similar pattern. In the case of Environment, Energy and Natural Disasters almost 25 percent of the proposals (14) were about biodiversity topics, being these categories one third of the projects approved in the sector. In the Reform and Modernization of State sector the creation or improvement of regional indicators accounts for the 20 percent of the proposals (nine) and the projects finally approved (two). Health projects tended to be related to surveillance and data collection. In the case of knowledge and education the proposals concentrated on interventions to improve education quality and also several projects for the development of academic networks (Clara, Arranca, Caribnet) (seven proposals and two approvals).
69. For the complete table refer to Table 5 in Annex I.
70. Not all the proposals mentioned in this paragraph were approved. For instance, the Boll Weevil proposal was not approved.
71. About 72 percent of the total proposals could be assigned to a single Bank region.
72. Indeed, for the projects approved to Central America, about 40 percent were executed by specialized agencies from the Central American Integration Schemes (SICA, PM Secretariat).
73. The reasons why participation in the Caribbean is lower seemed to be related to two elements: i) the excessive demands of the RPG business model on the scarce time of public servants. This seems to be a greater constraint in the Caribbean than Latin American countries. Also, this would be consistent with the tendency to execute projects through the existing CARICOM bodies rather than involving national countries directly; ii) the wide availability of other technical support. Canada has recently approved a regional technical cooperation

program for the Caribbean region for 200 million. Similarly, the European Union has an indicative program of grants from the EDF-X for 165 million euro for the period 2008-2013.

74. Indeed, only one RPG had an executing agency from the regional integration scheme of the Southern Cone (Secretaría del Mercosur). This RPG, however, was never signed and was eventually cancelled.

75. CC-5947. The initiative's initial expectation was that the proposals should be almost like a draft of the plan of operations. In practice, many of the proposals did not contain all the necessary information, increasing the costs of preparation. See GN-2383, Lesson 1 and Lesson 6.

76. GN-2383. Management argued that *"the Initiative requires that the Bank dedicate additional resources both at the evaluation stage and during the project approval and implementation."*; As a consequence, the board of executive directors allowed the use of up to 3.5 percent of the resources to *"finance the contracting of consulting services to provide external support to the Bank at the promotion stage, at the evaluation and scoring level, and for the supervision of the Initiative's performance"*. (DE-122/05). As per mandate of the Board of Executive Directors, the special OC programs (GA-220-12) cannot be used to support the administrative or capital budget of the Bank.

77. Note that even if sharing lessons was explicitly conceived as part of the RPII mandate (p. 7), it has only a weak link with the theoretical characteristics of a public good as "knowledge".

78. Another example is RG-T1206 (Chagas).

79. *"The Executive Directors stressed the value of integrating the RPG Initiative with the Bank's new regional integration strategy"* (PGA/11/03).

80. PGA/12/1

81. For projects above the threshold approval it was established approval by short procedure. Resolution DE-122/05.

82. Resolution DE-44/08. See GN-2470-2 and GN-2469-2.

83. Originally, RPGs had a differentiated programming procedure. The proposed process implied that after the prioritization made by INT, a list of proposals would be agreed upon with the Board of Executive Directors. After the decision of the proposals to finance was reached, a team would be assigned to produce a plan of operations for each of the approved proposals. Once a year, the Board of Executive Directors would approve the projects as a package. After approval by delegation was introduced, project preparation and approval became similar to that of other TCs of the Bank, save for the selection process.

84. For instance, in Chagas project, the original budget was US\$1.5 million. After the discussion of the recommendation for financing, the project was approved for US\$0.9 million. In the management discussion preceding the approval, the suggestion that the chagas program should be reduced was raised. More specifically, *"[o]ne Manager suggested that, if any of the 2005 proposals needed to be cut, the Bank should consider cutting a [sic] chagas disease control program, in which PAHO was already heavily engaged."* (minutes of meeting CPA/06/2, programming committee of management). When the Chagas project closed it had completed all the programmed activities while it disbursed only 43 percent of the original amount requested from the IDB and 73 percent of the amount approved.

85. For instance, the project about the investor-state dispute settlement (RG-T1515) originally envisioned that it would encourage countries to take advantage of the reciprocity of these agreements. However, upon approval, the countries moved towards the idea that a regional center for dispute settlement should exist. Most of the project was actually devoted to estimating the conditions under which the center would be created. Another example is RG-T1207.

86. An indicator is considered adequate if it is SMART: Specific: precise and unambiguous; Measurable: the indicator is susceptible of measurement, calculation, or computation, and amenable to independent validation; Attributable: the indicator is capable of being attributable to the program; realistic: the indicator is accurate and related to objectives of the program; time-bound: a specific time (or several times depending on expected and the moni-

toring and evaluation plan) to measure the indicator is set. See the section on Evaluability in the Annex V.

87. According to OVE's 2010 (RE-364) evaluation, less than 7 percent of the TCs that were required to have a PPMR actually had one. Also, only 34 percent of the TCs had a result framework.

88. See Annex IV: Surveys.

89. Office of the Auditor General, Audit Report: Functional Audit, Management of Technical Cooperations Grants and Institutional Arrangements, June 15, 2009

90. The evaluation has considered operationally similar TCs to all those operations that have a similar execution time and that are not executed in HQ. The evaluation defined a "common support" between the highest and lowest execution time for an RPG (72 and 24 months). All TCs that fall within that range are considered operationally similar. In addition, given that the dynamics of bank-executed and country-executed TCs are different and that most of the RPGs are executed by the countries, the comparisons will be made between country-executed TCs.

91. Median times from approval to signature are 4.2 for RPGs, 2.7 for National TCs, 3 for Regional TCs, National or Regional MIFs.

92. The median times from approval to first disbursements are 9.7, 9.1, 8.8, 8.5 and 8.6 for RPGs, National TCs, Regional TCs, National MIF and Regional MIF projects. The averages are 11.4, 11.3, 10.8, 9.8 and 10.2 for the same groups. However, given the high number of outliers and the reduced number of observations, the median is in this case more informative.

93. This is based on a small sample of closed projects that did not experience any significant cancellation (12 projects). RPGs take 42.6 months against 41.6, 46.1, 56.1 and 55.9 for National TCs, Regional TCs, National MIFs and Regional MIFs. Given the few observations available for RPGs, the analysis is not conclusive.

94. TCs in alert are 13.5, 14.8 and 20 percent of RPGs, National and Regional TCs. Warning rates are 8.5, 16.7 and 20 for the same groups. TC Alert Report, VPS, April 2012.

95. Only one project was completely cancelled as it was never signed (RG-T1506). Three other projects cancelled more than 25 percent of the funds (RG-T1507, RG-T1204 and RG-T1206). Three of them (RG-T1506, RG-T1204 and RG-T1206) had an execution unit change from the proposal to the actual execution.

96. Indeed, out of the 13 projects that are in alert or warning, three have experienced a change in executing agency.

97. For instance, in RG-T1514

98. For instance in RG-T1207 and RG-T1266 .

99. For instance RG-T1689

100. The Bank keeps historical data on team leaders only since 2009. As a consequence, OVE used information from INT complemented with the Bank systems to construct a dataset of team leaders for the 73 operations approved between 2005 and 2010. About half of the projects had two team leaders and another 10 percent of the projects had three or more team leaders

101. See the original proposal by The Nature Conservancy (TNC), Fundación Vida Silvestre Argentina (FVSA), Wildlife Conservation Society (WCS) from Bolivia, and the executing agency—and smallest of all participating NGOs—Fundación para el Desarrollo Sustentable del Chaco (Paraguay). ([link](#)) The word "indigenous" was used only once in the original proposal of 32 pages. Instead, the approved plan of operations ([link PO](#)) uses the word "indigenous" 36 times in 25 pages, about 1.5 times per page. All the NGOs—but the executing agency—withdraw from the project. See Memo from Management ([link](#)).

102. Furthermore, about 80 percent of the national focal points of the project coincided with this diagnosis. Source RPG Survey INT, for team leaders, focal points, EA coordinator and fiduciary specialists. The results are the combined results of option "inexperience of the execution agency" and "initial planning and staffing of the execution agency". The figures are 82, 78, 78 and 65 for Team Leaders, Focal Points, EA coordinator and fiduciary specialists.

103. Only 40 percent of the surveyed by the INT team have signaled it as the reason for

the difference in the dynamics of the participating countries.

104. The LMS categories do not really allow a proper distinction of expenditures related to the governance structure. There were essentially three investment categories related to project administration (“coordinación técnico administrativa”, “evaluación”, “auditoría final”). These projects sum disbursements for US\$333,241.58. There is one investment category (“Gastos Comunes a Todos los Componentes”, US\$115,888.3) that includes mostly the honoraria and travel expenditure of the technical committee and the executive committee. We exclude from the disbursements in this category the amounts budgeted for meeting logistics (US\$20,000) and webpage development (US\$12,000). The total expenditure related to the project coordination and governance reaches then US\$417,129.88, or roughly 63.1 percent of the total amounts disbursed.

105. This is based on a revision of a sample of procurement plans from RPGs and other comparable regional TCs.

106. This may explain why RPGs tend to generate more workload as compared to other TCs. According to SISCOR, RPGs receive about the same correspondence National TCs and about thirty percent more than Regional TCs. RPGs not executed in HQ generate receive a median of 61 notes, this compares with 65 and 45 notes of comparable country-executed National TCs and Regional TCs. MIF projects generate between 100 and 120 notes.

107. This was noted in the request for increase of the amount approved for project RG-T1265, AT-1405-1, p.2.3. In that case, it was estimated that for the incorporation of 9 new countries, an increase of US\$750,000 in the budget would be required. The document also states that the average RPG has an increase in about 3 members (p.2.1, footnote). Assuming the same cost factor, an increase in US\$250,000 would be needed for the average RPG. Taking into account that the average RPG is approved for about US\$800,000, this implies an increase in budget of 31 percent.

108. For instance, issues with the addition of new countries were raised in projects RG-T1269 and RG-T1680.

109. Cf. GN-2275, par. 53 “[I]n contrast to RTC projects (many of which are discrete activities undertaken in a limited time frame), the new initiative emphasizes activities that produce results over a longer implementation period.” For the operational times and costs, throughout this section we have compared RPGs against 356 National TCs and 84 regional TCs that have similar execution time at design.

110. See OVE 2012 Survey on Regional TCs and Regional Public Goods in the Annex IV.

111. Evaluation of the Bank’s Processes for Managing Technical Cooperation (RE-364), Office of the Auditor General, Audit Report: Functional Audit, Management of Technical Cooperations Grants and Institutional Arrangements, June 15, 2009

112. AUG and OVE noted the asymmetries between the incentives to approve and execute TCs in general. According to AUG, “the Bank does not have adequate or sufficient incentives for TC supervision although incentives do exist for approvals”. Similarly OVE noted “an emphasis on approval processes instead of execution.” (p.5.12).

113. AUG states that “[d]ue to the lack of resources [...] supervision becomes inadequate and project implementation slow or non-existent”. Office of the Auditor General, 2009, p.9. With respect to incentives, the auditor states that “TCs are not consistently included in Supervision Plans and, until recently, were not included in the e-performance exercise”. Ibid. p. 10.

114. According to OVE’s staff survey, only 5 percent of RPGs are related Bank loans, compared to (60 percent) National TCs or (20 percent) for RTCs.

115. OVE structured interviews, 55 percent of the interviewees.

116. After the acceptance of the proposal, the project was assigned to a Bank sector, which would then be responsible to produce the operation plan and supervise the execution of the operation.

117. Results from OVE’s 2010 survey to Country Representatives. (RE-364)

118. On average, RPGs spent about US\$4,400 during execution or roughly US\$1,000 per year of execution. These figures exclude staff expenditures. The figures were 1900, 2500, 2100 and 4400 for comparable national, regional, national MIF and regional MIF.

119. As of April 2012, 18 projects had been completed after spending executing most of the resources, two projects cancelled almost all the amounts approved and one project was cancelled. Fourteen projects have executed more than 75 percent of the resources.
120. GN-2275-5, Annex.
121. The sample is composed by all the finished projects (excluding the cancelled ones) that together sum to 18 operations.
122. “RG-T1201: Management of the Trinational Selva Maya Ecosystem (ME-GU-BE)”. The operation started executing after long delays and carried all its activities in slightly over one year. Most of the activities carried out were not completed. OVE estimates that it achieved less than 25 percent of the outputs committed. This refers to the fulfillment of the activities listed in the results framework. According to Management, Selva Maya did produce some 32 products.
123. This includes all active operations with closing date in 2012 and more than 50 percent of the total amount executed. The sample includes 11 operations.
124. RG-T1268 (Program to Eradicate the Cattle’ Screworm in Mercosur Countries), the RG-T1504 (Regional Framework against Trafficking of People), the RG-T1511 (Accreditation of Architecture and Engineering Programs in Central America), and the RG-T1272 (Central American Protocol for Procurement and Quality Control of Medicines), and RG-T1515 (Settlement of Disputes).
125. In the case of Social Security, Argentina (ANSES) took the leadership. In the case of screwworm project, the leadership came from Uruguay. One example of strong South-South cooperation occurred in the social security project, where support was granted to the least advanced country in the preparation and digitalization of the social security schedules.
126. From the 18 completed RPGs, at least six aimed at incorporating some of the results of the project to the national legislation. Concrete examples of these cases are the “BPR 13: Plan Trifinio Tri-national Commission”—where some municipalities of the region were expected to approve ordinances related to water management, the “Common Framework for Population Census in CARICOM”—in which at least 7 country members were expected to implement the framework on their national legislations, or the “Regional Disaster Risk Management for Sustainable Tourism in the Caribbean”—in which the framework was expected to be adopted by the countries that sit at the CDERA’s boards at the end of the project.
127. This is the case of RG-T1203 (Central America Climatic Data Base), RG-T1518 (Central American System for Disaster Management), RG-T1269 (Micro SME Regional System for the Public Policy Design), and RG-T1154 (BPR 27: Improvement of the Public Debt Management and Knowledge), RG-T1206 (Chagas).
128. The Chagas RPG (RG-T1206) has closed and it is uncertain whether the Comisión Nacional de Zoonosis will take the responsibility of updating it. As of April 2012, the webpage was still functional. In the case of the Debt operation (RG-T1154) the website was not accessible anymore.
129. The Bank had approved an investment loan for Bolivia which was only vaguely referenced to by the Chagas RPG. Also, the Bank—in partnership with JICA—has funded a number of TCs for Central American countries (El Salvador, Honduras).
130. The other countries were Argentina, Brazil and Paraguay. The Bank had supported foot-and-mouth disease through operation TC0112079 in 2003.
131. The CLARA Academic Network and the Central America System for Disaster Management are examples of this: CLARA’s physical infrastructure was financed with European funds, and the EU has not approved new concessional resources for this project; in the case of the System for Disaster Management, the key actors in the area were not included since the beginning on the project, so they are not involved in the sustainability of the data base. In both these projects lack of funds are likely to jeopardize sustainability in the future.
132. See the background studies on IIRSA, PPP-PM, SIEPAC and Trifinio in the Annex VI. Also, see the sector note on trade and financial integration, which covers infrastructure integration, in Annex VIII.
133. See Calderon and Servén, 2010, “Infrastructure in Latin America”, Policy Research

Working Paper 5317, World Bank (link). These authors have analyzed the issue and concluded that “...while Latin America was roughly on par with non-LAC MICs in 1981-5, by 2001-5 its road density has barely grown and, as a consequence, it is now well below that of middle-income countries, and even further below East Asia’s [...] on the whole Latin America has made major progress in infrastructure development. The availability, quality and accessibility of infrastructure services have improved considerably in the last quarter century. Still, the region lags behind other middle-income-countries, and even further behind East Asia, in almost all dimensions (quantity, quality and accessibility of services) and infrastructure sectors (telecommunication, electric power and roads). While details vary, overall much of the lag developed in the 1980s at the time of the public sector’s retrenchment in the midst of macroeconomic instability. In some dimensions (particularly telecommunications), a partial catch-up has taken place since the mid-1990s, so that Latin America’s gap vis-à-vis the other country groups has narrowed somewhat, but in most dimensions it remains considerable.”

134. For a discussion of IIRSA and PPP/PM see Annex VI and the specialized OVE evaluations RE-338 (IIRSA) and RE-350 (PPP/PM).

135. PPP was built around two pillars: productive integration and competitiveness, and social and environmental development. The axis of productive integration and competitiveness included power grids, transportation, telecommunications, and trade and competitiveness. In turn, when launching the PPP, the core of social development and environmental initiatives included the Human Development, Sustainable Development, Natural Disaster Prevention, and Tourism. In 2008, the Plan Puebla Panama was redefined as Mesoamerican Project (PM). However in practice, the investment effort of the PPP initiative focused on infrastructure integration of transport networks and electricity in Central America.

136. The participation of Multilateral Financial Institutions (MFIs) leading the coordination mechanism is grounded on economic theory. Indeed, in the specialized literature, the convening power and credibility makes MFIs ideally suited to help reducing transaction costs, overcoming lack of coordination, or helping design and enforce cost-sharing mechanisms that would ensure the provision of the public good.

137. Both in IIRSA and PPP/PM, MFIs had a role in the governance structure. In the case of IIRSA, together with CAF and FONPLATA was a member of the Technical Coordination Committee of IIRSA (CCT). In the case of PPP/PM, IDB was a member with CABI and CAF of a committee of multilateral financial institutions.

138. International Agencies can help solve some of the problems arising from asymmetric information, strategic bargaining, high coordination costs and lack of enforcement mechanisms. Thus, (Laffont and Martimort, 2003, see full citation in Annex VIII) conclude: “Given the difficulty of giving the power to propose the mechanism for building the project to any single government, the natural actors in charge with doing become the international agencies (such as development banks), which can also provide technical expertise and financial assistance.” The international agency “acts as a benevolent mediator in the bilateral bargaining between countries, reducing transaction costs and bridging informational gaps more easily”. Similarly, (Schiff & Winters, 2002) also conclude that “International organizations - such as the World Bank - have often helped achieve agreements that might not have been possible otherwise. They can use their credibility, technical expertise, broader perspective, neutrality and financial resources to broker and enforce deals outside the set that is feasible for the countries acting alone”. (See Annex VIII: Background paper on regional public goods in trade and finance by Guillermo Perry)

139. Five out of six RPGs financed interventions directed at improving management of natural resources (water, biodiversity, and ecosystems) or the formation of an integrated information system of territorial and climate data.

140. 11 out of 16 operations approved were devoted to these sectors.

141. Out of the 16 feasibility studies approved under IIRSA, most refer to studies (12) of national transportation projects. The remaining four finance bi-national infrastructure integration.

142. In the corresponding OVE evaluations, the office analyzed the methodologies and instruments utilized until 2008. However, the analysis of the operations approved since 2008 reveals that the methodological challenges to the *ex-ante* project evaluations of IIRSA and PPP

projects remains.

143. For the complete case study, please refer to the Annex.

144. In 1998, the concessional window of the IDB had to be restructured in order to make it sustainable. See AB-1960; also there is a brief discussion of the depletion of FSO in chapter 2 above.

145. See: i) “La Integración Energética Mesoamericana. Desafíos Institucionales y Regulatorios”. Revisión del Informe de mayo de 2010 en base a las conclusiones del Seminario de Evaluación Estratégica de la Integración Energética mesoamericana de San José de Costa Rica, 25 de agosto de 2010; ii) Informe de Terminación de Proyecto PCR Sistema de Interconexión Eléctrica para los Países de América Central – SIEPAC Fecha: 08 de diciembre de 2010. iii) La Integración Eléctrica Centroamericana. Informe Final (BID/Manuel Dussan) iv) Evaluación y Perspectivas del Proceso de Integración Eléctrica Mesoamericana PROYECTO SIEPAC Génesis, Desafíos y Oportunidades Borrador 5 de abril de 2011.

146. COSEFIN, *Plan de Inversiones y Financiamiento para Centroamérica, Panamá y la Republica Dominicana* (PIFCARD)

147. The bounded area defined to the incorporated in the trinational management plan covers approximately 7,500 km² (45% in Guatemala, 40% in Honduras and 15% in El Salvador), which encompasses not only a huge biodiversity, but also three watersheds. Most prominent of these is the River Lempa watershed, shared by the three countries (16% in Guatemala, 32% in Honduras and 52% in El Salvador), which is the main source of water for El Salvador. As for the other two rivers, river Motagua’s flows towards Guatemala and Rio Ulúa’s flows towards Honduras. The area includes 8 municipalities in El Salvador, 15 in Guatemala and 22 in Honduras. The population living in the area was estimated to be 572,000 in the end of the 80s and has now increased to about 700,000.

148. The area is Montecristo massif located in the border between the three countries. It is also home to the “punto Trifinio” that is the point where the three national borders meet.

149. These operations were approved between 1999 and 2001 and were completed by 2006.

150. CA-0034 was approved under a single Plan of Operations to be carried out by the Tri-national commission. Since the beginning, however, it comprised three individual sub-loans; one for each country—that was to be represented by the corresponding Ministry or Environmental/Agricultural Agency. It was established a single, centralized accounting and financial management to be carried out by the Tri-national Unit.

151. GTZ provided grants for El Salvador (US\$750,000) and Guatemala (US\$500,000). A concessional loan from the Nordic development fund complemented investments in Honduras (US\$3 million).

152. The Government of El Salvador used some funds (US\$3.1 million) from a different loan (*Programa Nacional de Medio Ambiente*, PAES) to support execution. (see [PCR](#)). The Nordic funds were finally not signed although there are no mentions to them in the PCR (See [Solicitud de Reestructuración](#)).

153. IDA (International Development Association), ADF (Asian Development Fund) and AfDF (African Development Fund) are the concessional windows of the World Bank, Asian Development Bank and the African Development. They were all based on the concessional window of the Bank—the Fund for Special Operations (FSO)—that had been created in 1959. The financial conditions of all these windows are much more concessional than an average loan. For instance, a bullet FSO loan (similar to IDA/ADF/AfDF) would have a concessionality of 87 percent—meaning that the grant element of the loan is 87 percent of the total. The concessionality of an OC loan is barely 10.5 percent (AB-2646-1). Note that the concessionality calculations are inversely related to the discount rate as the concessional nature of the loans mostly comes from the long maturities and grace periods. The figures reported here are illustrative and correspond to a rather low discount rate of 4.91 percent.

154. In 2003, IDA-13 earmarked—on a pilot basis—200 SDR million (US\$297 million) for regional projects. The calculation is based on the SDR valuation as of December 31st, 2003. See [IMF \(SDR Valuation Dec. 31st, 2003\)](#)

155. ADF-X (2009-2012) Donor Report ([link](#))

156. See African Development Bank, “Fostering Regional Integration in Africa: An Evaluation of the Bank’s Multinational Operations, 2000-2010: An Approach Paper”, March 2011. ([link](#)) Operations in ADF, AfDF and IDA-16 figures are all denominated in SDR—in the case of AfDF it is Units of Accounts (UA) which are pegged 1 to 1 to SDR. The conversion to USD was done using the exchange rate (1 SDR= US\$1.54576) prevalent on May 3rd, 2012. For IDA-13 we used the exchange rate as of December 31st, 2003.

157. IDA-15 Mid-Term Review (2009) ([link](#)); 39 percent was in power, 23 was in transportation—including trade facilitation—and 11 percent in information and communication technology—which were mostly composed by infrastructure projects. The remaining 27 percent is distributed in agriculture (e.g. transnational pests, research centers) and water resources management (20 percent) and the remaining in finance (e.g. disaster risk insurance). The Africa region in the World Bank roughly corresponds to sub-Saharan Africa.

158. GMS (Greater Mekong Subregion) and CAREC (Central Asia Regional Economic Cooperation) are the two most active regional programs of ADB. GMS has been a historic program of that Bank. These two programs shared similarities to IDB’s transnational programs (IIRSA/PPP-PM) in terms of the Bank involvement and the prevalence of national projects.

159. According to the most updated figures for the ADF. “ADF and Regional Cooperation”, 2006 ([link](#))

160. All these institutions have a structure that is similar to the Bank’s with their highly concessional window—the equivalent of our FSO—and the Ordinary Capital window. Whenever we refer to the concessional window we mean IDA, ADF and AfDF for the World Bank, Asian Development Bank and the African Development Bank. Similarly the IBRD in the World Bank is equivalent to the OC window in the Regional Development Banks. Out of all the other MDBs, only the ADB has a significant non-concessional lending program for regional projects (55 percent of the overall program). Both WB and AfDB finance regional projects almost exclusively from their concessional windows (IDA, AfDF) or from concessional funds under administration (GEF).

161. The 2-to-1 rule of IDA/AfDF was meant to ensure country ownership in the face of scarce concessional resources. ADF had a slightly lower threshold: they required that the national allocation plus the counterpart assigned to the regional project be at least 20 percent of the total amount. However, in practice, projects often covered about one third of the cost through the national allocation, similarly to the IDA/AfDF rule. In 2008, ADF management recommended to update the requirement to fit more closely with the IDA/AfDF rule. ([link](#)).

162. In the case of IDA, only regions with mostly IDA-eligible countries (namely, Africa) have used the regional window extensively (60 percent of the projects). In the WB-LAC, the same pattern holds true. Of the seven regional projects in portfolio, five involved the small island states of the OECS that are IDA-eligible. See QAG Review, *Op. Cit.* This excludes four projects financed through the GEF that do not have the same eligibility restrictions that IDA. In the AfDB there was a marked concern about this asymmetry, especially since the scarcity of grant funds to give alternative support to non-eligible countries that want to engage in regional projects.

163. On these grounds, the rule was recently reformulated. Some countries have an allocation that is so small that if they engaged in regional projects—often costly infrastructure projects—, the national allocation could be totally consumed by it; Even if the regional envelope contributed to just one third of the overall investment. For that reason, the AfDF has introduced a ceiling for the maximum possible contribution for a regional project for countries that have small AfDF allocations (10 percent of the national allocation). ([AfDB Link](#)). In the case of IDA, the eligibility conditions for accessing the regional envelope have recently changed: a ceiling was introduced in IDA-15 replenishment of 2007 (20 percent of the national allocation). In IDA-16 (2010), eligibility conditions were further relaxed to allow financing for binational projects from the regional envelope. ([IDA Link](#)).

164. In the IDB, so far, only the SIEPAC project has been originally conceived as a regional loan to a company (EPR) that was jointly owned by the six Central American countries. It was the impossibility of some countries to guarantee a loan made to a regional firm that

led to the reformulation of the project in 2001—which converted the original SIEPAC loans (1001/OC-RG and 2/SQ-RG) into a number of national loans.

165. Other multilaterals have reported fiduciary challenges to managing regional projects as well. Fiduciary challenges were identified both in the 2007 IEG evaluation (IEG, “The Development Potential of Regional Programs”) and the 2010 QAG (World Bank, Regional Projects: A QAG Learning Review, March 17, 2010). In particular, regional projects were more likely to have both procurement and financial management problems; these were related to—among other things—lack of coordination of the individual field offices managing the different segments of the regional project (2.34). The report refers to the “recurrence of complaints on the topic of procurement”. p.16.

166. World Bank, Regional Projects: A QAG Learning Review, March 17, 2010, p. 22.

167. A case in point is the water RPG for Trifinio. It identifies water as the central public good but focuses on teaching children the value of water. The central aspect of water in a transnational basin is that the benefits (water quality, lower sedimentation in the hydropower stations) are all realized downstream. The RPG did not include the Salvadorian electricity authorities (who owned the three hydropower stations on the Lempa river) nor it included Salvadorian water authorities (since the Lempa River is the main source of fresh water to El Salvador and, particularly, its capital city San Salvador).

168. This is not a new phenomenon: in justifying the use of FSO for financing a regional program for CABEL in 1970, the project team argued that “[i]ntegration projects require a special incentive, since the countries tend to assign higher priority to the use of their resources for projects of interest and benefit on the national level” (PR-452, 1970, par. 5.25). A similar reference appear in other regional projects of that time (see PR-673-A, ¶ 4.30)

169. This is valid assuming that the probability of change between the countries is not related (independent events).

170. The inadequacy of the existing financial instruments was pointed out by OVE (RE-338, RE-350) and management in the first draft of its recent strategy (GN-2565, 6.12).

171. FIRII was approved in March, 2005 with an endowment of US\$20 million from the Special Program/Donations from the Bank’s Ordinary Capital. Initially, FIRII funds were offered as contingency for loans finally approved as a result of the pre-investment. However, lack of demand for those funds inspired the redefinition of its nature, which increased its concessionality level. In February 2006 the contingency clause was removed and the funds were applied in a non-reimbursable manner. See also footnotes 32 and 35 above.

172. These figures were reported for “comparator institutions”. GN-2565, p. 22.

173. IDA, 2006, IDA-14 Midterm Review of the IDA Pilot Program for Regional Projects. Par. 63

174. AfDB, 2008, Strategic and Operational Framework for Regional Operations, 2008. While the ADB does not have explicit studies on the costs of regional projects, Management of ADB informed OVE that regional projects have a higher budget allocation for preparation and supervision.

175. World Bank, 2010, p.5.

176. The main SIEPAC loan (CA0035) required 36 months of extension over the original disbursement expiration date as opposed as 8.1 and 8.8 months for energy projects Bank-wide and in central America respectively.

177. This has already been done (e.g. CDB) in exceptional situations.

178. The MIF has had some experience with simplified institutional capacity assessments in the past.

179. Note, however, that these benefits should be evaluated against the implied additional workload for FMP and LEG. Some steps are being done in this direction as the recent operational guide for financial management (OP-274-2) establishes that regional technical cooperations will be supported from the preparation stage.

180. GN-2629 has the new operational guidelines for TCs. Appendix 11 contains a proposal for the New Monitoring and Evaluation system. It is not yet clear how this would be implemented.