Office of Evaluation and Oversight

Corporate Evaluation

Evaluation of the Fund for Special Operations During the Eighth Replenishment (1994-2010)-*Part II*

IDB
Inter-American Development Bank
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ABSTRACT

In October 2010 OVE presented the *Evaluation of the Fund for Special Operations during the Eighth Replenishment (1994-2010) – Part I* (RE-376), in anticipation of the replenishment of the Fund through IDB-9. The document focused primarily on the implications of the changing methodologies for allocating FSO resources. The objective of Part II of the evaluation is to complete the assessment of the performance of the Bank's concessional lending program focusing, as stated in Part I, on financial and developmental results.

The evaluation found that during the Eighth Replenishment the IDB remained the largest single source of concessional financing for the five poorest countries in the Region, despite a growing scarcity of resources. It was also the major source of debt relief through its decision to participate in the two debt relief initiatives which took place over the period: HIPC and MDRI. This came at a cost. In order to ensure the continued sustainability of the Fund, the number of beneficiary countries and after 2007 the levels of conditionality provided (except to Haiti) decreased significantly.

An analysis of aggregate and country level outcomes of FSO countries indicates substantial progress especially in infrastructure and social development over the period, but this progress has been insufficient to produce a significant reduction in the gap between FSO countries and the regional average. The outcomes are mixed and vary by country, but the one consistent finding is that the results in terms of poverty reduction have been disappointing relative to the regional average. FSO countries are unlikely to meet the first Millennium Development Goal by halving the proportion of the population living in extreme poverty. While the outcomes identified in the evaluation are not attributable to Bank projects, but rather to the countries' own development efforts, the importance of the Bank in terms of transfers of resources as well as its continued dialogue with country authorities, suggest it was an important development partner that contributed to these outcomes.

The analysis carried out in this paper demonstrates that the Bank's new self-evaluation system can be instrumental in the evaluation of the Fund in the future. Thus OVE recommends that:

a) The indicators contained in the IDB-9 Results Framework should be disaggregated, which will allow the Bank to track the evolution of regional development goals in the FSO countries, the IDB's output contribution to regional development goals and FSO's operational and development effectiveness.

b) Once the new Project Completion Report template is put in place, and ratings validated by OVE, project-level results for FSO countries should be reported on a regular basis.

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Executive Summary

This evaluation was led by Silvia Raw, under the general direction of Cheryl W. Gray. The team was composed by Jose Ignacio Sembler and Patricia Sadeghi.

ABBREVIATIONS

CIPE	Country Institutional and Policy Evaluation
CPIA	Country Policy and Institutional Assessment
DEF	Development Effectiveness Framework
DEO	Development Effectiveness Overview
DSF	Debt Sustainability Framework
ECLAC	Economic Commission on Latin America and the Caribbean *(Comisión Económica para Latinoamérica – CEPAL)*
EPBA	Enhanced Performance-based Allocation
FSO	Fund for Special Operations
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IDB	Inter-American Development Bank
IDB-9	IDB's Ninth General Capital Increase
IMF	International Monetary Fund
LAC	Latin America and the Caribbean Region
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
OC	Ordinary Capital
OVE	Office of Evaluation and Oversight
PCR	Project Completion Report
PRSP	Poverty Reduction Strategy Paper
RMS	Result Measurement System
SEQ	Social Equity Enhancing

EXECUTIVE SUMMARY

In October 2010 OVE presented the *Evaluation of the Fund for Special Operations during the Eighth Replenishment (1994-2010) – Part I* (RE-376), in anticipation of the replenishment of the Fund through IDB-9. The document focused primarily on the implications of the changing methodologies for allocating FSO resources. The objective of Part II of the evaluation is to complete the assessment of the performance of the Bank's concessional lending program focusing, as stated in Part I, on financial and developmental results. The focus on development results is likely to become increasingly relevant if additional capitalization of the Fund is sought in the future. According to the Bank's own financial projections, FSO will not have sufficient resources to sustain the lending program after 2020.

It is important to note at the outset that despite the importance of measuring development results, this exercise is limited by the fact that FSO has been treated exclusively as a specific source of funds, with reporting largely focused on approvals. FSO projects, like most Bank projects executed prior to the approval and implementation of the Development Effectiveness Framework (DEF) often lack metrics to measure results and impacts. Project Completion Reports, the main instrument for collecting data on outputs and outcomes are not fulfilling this role. In light of these constraints, this evaluation focuses on aggregate and country results, rather than project results.

During the Eighth Replenishment the IDB remained the largest single source of concessional financing for the five poorest countries in the Region, despite a growing scarcity of resources. It was also the major source of debt relief through its decision to participate in the two debt relief initiatives which took place over the period: HIPC and MDRI. This came at a cost. In order to ensure the continued sustainability of the Fund, the number of beneficiary countries and after 2007 the levels of conditionality provided (except to Haiti) decreased significantly.

From the point of view of the borrowing countries, FSO contributed to significant reductions in debt stock and debt service as a proportion of GDP. Loan disbursements remained an important source of funds, as evidenced by disbursements as a share of GDP and gross fixed capital formation. Loans encompassed all sectors, with a significant emphasis on transportation and social investment. Policy-based loans were used to support the implementation of Poverty Reduction Strategies associated with HIPC and public sector modernization efforts.

An analysis of aggregate and country level outcomes of FSO countries indicates substantial progress over the period, especially in infrastructure and the social sectors, but this progress has been insufficient to produce a significant reduction in the gap between FSO countries and the regional average. The outcomes are mixed and vary by country, but the one consistent finding is that the results in terms of poverty reduction have been disappointing relative to the regional average. FSO countries are unlikely to meet the first Millennium Development Goal in halving the proportion of the population living in extreme poverty.

While the outcomes identified in the evaluation are not attributable to Bank projects, but rather to the countries' own development efforts, the importance of the Bank in terms of transfers of resources as well as its continued dialogue with country authorities, suggest it was an important development partner that contributed to these outcomes.

The analysis carried out in this paper demonstrates that the Bank's new self-evaluation system can be instrumental in the evaluation of the Fund in the future. Thus OVE recommends that:

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b) Once the new Project Completion Report template is put in place, and ratings validated by OVE, project-level results for FSO countries should be reported on a regular basis.

ADMINISTRATION RESPONSE TO EVALUATION RECOMMENDATIONS

Recommendations	Administration response
The indicators contained in the IDB-9 Results Framework should be disaggregated, which will allow the Bank to track the evolution of regional development goals in the FSO countries, the IDB's output contribution to regional development goals and FSO's operational and development effectiveness.	
Once the new Project Completion Report template is put in place, and ratings validated by OVE, project-level results for FSO countries should be reported on a regular basis.	

I. INTRODUCTION

1.1 The 1959 Agreement that established the Inter-American Development Bank simultaneously created the Fund for Special Operations (FSO), designed to provide concessional financing to borrowing member countries. The simultaneous establishment of the institution and its concessional window was unique among multilaterals.[1] Since then the Bank has maintained its commitment to concessional lending. During the Eighth Replenishment (1994-2010), the period covered by this evaluation, the Bank approved 313 projects in the five poorest countries using concessional resources totaling US$8.3 billion.[2] However, IDB-9 only provides approximately US$200 million equivalent in new contributions to the FSO, designed to address natural disasters and other environmental emergencies.[3]

1.2 OVE has carried out two FSO evaluations. The first, *Oversight Note on the Performance Criteria for Allocating Concessional Resources* (RE-279), was presented to the Board of Directors in 2003 and provided a preliminary review of the new performance-related allocation criteria introduced in 2002. In October 2010 OVE presented the *Evaluation of the Fund for Special Operations during the Eighth Replenishment (1994-2010) – Part I* (RE-376), in anticipation of the replenishment of the Fund through IDB-9. This document also focused primarily on the implications of the changing methodologies for allocating FSO resources. This emphasis on the allocation methodology was viewed as particularly relevant to the Bank's decision-making on how to utilize new resources expected from IDB-9.

1.3 The objective of this evaluation is to complete the assessment of the performance of the Bank's concessional lending program[4] during the period of the Eighth Replenishment (1994-2010), focusing, as stated in Part I, on financial and developmental results. The focus on development results is likely to become increasingly relevant, if additional capitalization of the Fund is sought in the future. According to the Bank's own financial projections, FSO will not have sufficient resources to sustain the lending program after 2020.[5]

1.4 It is important to note at the outset that despite the importance of measuring development results, this exercise is limited by the fact that FSO has been treated exclusively as a specific source of funds, with reporting largely limited to lending amounts. FSO was not perceived to require a separate monitoring and evaluation system for projects. As a result, FSO projects, like most Bank projects executed prior to the approval and implementation of the Development Effectiveness Framework (DEF) often lack metrics to measure results and impacts. In light of this constraint, this evaluation focuses on aggregate and country results, rather than project results.

1.5 The paper is organized as follows: the next section presents the major features of FSO over the period of the Eighth Replenishment. Section III discusses the lending program over the period. Section IV discusses development results at the aggregate and country levels. The final section presents findings and recommendations. Selected findings of Part I of the evaluation are summarized where relevant.

II. MAIN CHARACTERISTICS OF FSO OVER THE EIGHTH REPLENISHMENT

2.1 The entire period of the Eight Replenishment was marked by problems in the financial sustainability of FSO, which threatened its lending capacity.[6] The initial pledge to replenish the Fund by US$1 billion equivalent did not materialize in its entirety and the scarcity of funds was compounded by the approval of fast disbursing policy-based loans. In 1998 an agreement was reached to enable the Fund to maintain its lending program: borrowing member countries agreed to convert US$2.5 billion of their FSO local currency holdings into US dollars over a period of 15 years and non-borrowers to accelerate the remaining encashment of pledged contributions. However, the Bank's participation in the Highly Indebted Poor Countries (HIPC) Initiative, the subsequent Enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) put a further strain on resources. As stated in the Report on the Ninth General Increase in Resources, *"Resources available for concessional lending… decreased substantially between 1994 and 2000. The decrease is even more marked after implementation of the debt relief initiatives…"*[7] In order to cope with the scarcity of resources, a number of changes were introduced to the rules governing FSO.

A. Changes in FSO rules

2.2 FSO's eligibility criteria, the degree of concessionality, and the formula for allocating resources have undergone several changes since the inception of the Fund; these were accentuated during the Eight Replenishment to address the scarcity of resources.[8] With regard to country eligibility, in contrast to the International Development Association (IDA), originally all IDB member countries were FSO-eligible, although preference was given to the least developed countries and those with limited access to capital markets. In terms of sectoral eligibility, since the late 1970s projects were required to assess final benefits to low income groups, prioritizing investments in social infrastructure, rural and urban development and agriculture. However, as the availability of concessional resources declined, the Bank moved away from funding specific operations in any country to providing resources for a limited number of countries in any sector. Resources were initially concentrated on the least developed D countries, but the Eighth Replenishment narrowed eligibility further, limiting the **exclusive** use of concessional resources to the five lowest income countries: Bolivia, Guyana, Haiti, Honduras and Nicaragua, classified as D2 countries (see Table 1).[9] No graduation mechanism was put in place.[10]

Table 1: FSO Countries: GDP per capita and Population (1994 and 2010)

Country	GDP per Capita (constant 2000 US$) (a)		Population (Total)	
	1994	2010	1994	2010
D2 Countries (with Haiti)	**769**	**1,029**	**25,731,965**	**34,066,276**
D2 Countries (without Haiti)	**867**	**1,194**	**18,007,275**	**24,073,029**
Bolivia	927	1,233	7,304,230	9,929,849
Guyana	817	1,201	726,552	754,493
Honduras	1,081	1,392	5,440,691	7,600,524
Nicaragua	641	948	4,535,802	5,788,163
Haiti	381	371	7,724,690	9,993,247
LAC	**3,526**	**4,629**	**458,388,497**	**572,657,339**

(a) Simple Averages
Source: World Development Indicators

2.3 The degree of concessionality was substantially reduced following several rounds of debt relief. The Bank's participation in the Multilateral Debt Relief Initiative (MDRI) launched by the G8 countries in 2005 required a change in the manner in which concessional resources were provided to ensure sustainability. Thus in 2007 the Bank implemented a "blended" structure combining FSO and Ordinary Capital (OC) resources directed at the four post-decision point HIPC countries. The specific ratio for each country, and thus the degree of concessionality, came to be defined by the risk of debt distress determined by the Debt Sustainability Framework (DSF) developed by the World Bank and the IMF. As shown in Table 2, at year-end 2010, this meant a reduced level of concessionality from 87.1% if countries had continued to receive exclusively FSO resources, to 48.8% for Guyana and Nicaragua and 33.5% for Bolivia[11] and Honduras.[12] Haiti, which only became eligible for HIPC in 2006, was treated in a unique fashion. Given the high risk of debt distress under the DSF framework, it became eligible for exclusive grant financing over the entire 2007-2010 period.

Table 2: Concessionality levels by country (Year-end 2010)

Country	Blend Structure		Concessionality
	FSO	OC	
Bolivia	30%	70%	33.5%
Guyana	50%	50%	48.8%
Haiti	Grants only		100.0%
Honduras	30%	70%	33.5%
Nicaragua	50%	50%	48.8%
Comparators			
Pure FSO	100%	0%	87.1%
Pure OC	0%	100%	10.6%

Source: FN-656-2.

2.4 The allocation methodology for FSO resources among eligible countries also changed substantially over the period of the Eighth Replenishment. Between 1994 and 2001, a needs-based approach was used with allocation determined by population and GNP per capita as proxies for need as well as equity, given the heterogeneity of the five eligible countries. In 2002, country and portfolio performance indicators were combined with the needs' indicators. The Country Institutional and Policy Performance Evaluation (CIPE), similar to the instrument used by IDA (Country Policy and Institutional Assessment or CPIA), was introduced to measure country performance. Since 2007, in the context of the Multilateral Debt Relief Initiative, the allocation methodology combines two elements: (i) the DSF, used to determine each country's debt-carrying capacity and thus the blend of FSO and OC resources used and (ii) the "enhanced performance-based allocation" (EPBA), which combines population, GNI per capita, portfolio performance and policy performance in an exponential formula to determine the distribution of resources among countries.[13]

2.5 Part I of this evaluation found that the introduction of performance based criteria contained an unintended bias against higher need countries: *ceteris paribus*, improvements in performance result in relatively smaller gains in the share of resources going to lower income and/or larger population countries. The new allocation formula also fails to provide incentives for improvements in policy or portfolio performance, by using levels relative to other countries rather than also rewarding within-country changes. The subjectivity and lack of transparency of the performance criteria were also highlighted by OVE. The IDB only publishes CIPE ratings four the four clusters cluster (economic management, structural policies, policies for social inclusion and equity and public sector management and institutions), while publishes the ratings for the 16 criteria that make up each of the clusters. Based on these findings, OVE recommended that within-country improvements in policy and institutional performance be factored into the allocation; that the performance indicators become more objective and data-based; and that the results of assessments be disseminated.

2.6 In conclusion, most of the changes in the eligibility, degree of conditionality and allocation methodology for FSO resources were driven by the need to allocate scarce concessional resources in the most effective way to maximize social and economic development. However, the Bank did not put in place a system to measure the effectiveness in the use of FSO resources either in the aggregate, at the country level, or at the project level. In the absence of a Bank-wide self-evaluation system to assess development effectiveness, which has only begun to be put in place in recent years, FSO reporting has been largely limited to the amount of resources utilized in any given period.

B. Results of the debt relief initiatives

2.7 While the debt relief initiatives contributed to a decline in FSO resources and triggered a significant decrease in concessionality, the Bank's actions were fully consistent with the mandates of the Eighth Replenishment. The justifications for concessional lending emphasized macroeconomic and especially debt considerations: "*…a) preventing the country's* (sic) *external debt situation from deteriorating further, which would cause adverse repercussions in economic growth and investment and, therefore, in social*

development programs; b) the likelihood that the net benefits generated by the projects financed with external resources may, for an initial period, not be sufficient to service the debt…; and c) the need to strengthen the incipient economic recovery which is beginning in these countries.”[14]

2.8 The cost to the Bank of the HIPC Initiative was US$1.7 billion in year-end 2010 present value (PV) terms. The corresponding figure for MDRI, also known as IDB-07 was US$2.9 billion in principal and foregone interest.[15] While the IMF and the World Bank led both initiatives, the IDB was in most instances the main contributor to debt relief for the five FSO eligible countries, as shown in Tables 3 and 4. In the case of the more recent MDRI, where in contrast to HIPC only multilateral agencies participate, the IDB accounts for 48% of the total assistance delivered; with the exception of Bolivia, its participation exceeds 50% of assistance to each of the beneficiary countries, reaching 66.5% in the case of Guyana.

Table 3: Committed Assistance under HIPC

HIPC	Commited Assistance in Net Present Value (NPV) Terms as of Decision Point			IDB/Total HIPC	Decision Point	Completion Point
	IDB	World Bank	Total HIPC Initiative (b)			
Bolivia (a)	477.1	197.4	1,330.0	35.9%	Feb, 2000	Jun, 2001
Haiti	60.4	52.8	140.0	43.1%	Nov, 2006	Jun, 2009
Honduras	133.8	97.8	556.0	24.1%	Jun, 2000	Apr, 2005
Guyana (a)	120.5	70.2	610.0	19.8%	Nov, 2000	Dec, 2003
Nicaragua	391.2	190.9	3,308.0	11.8%	Dec, 2000	Jan, 2004
HIPC (5)	**1,183.0**	**609.1**	**5,944.0**	**19.9%**		

(a) Also reached completion point under the original HIPC Initiative. The total assistance includes original debt relief.
(b) Including all donors
Source: "HIPC initiative and MDRI - Status of Implementation and Proposals for the Future of the HIPC Initiative" (IDA and IMF, 2011)

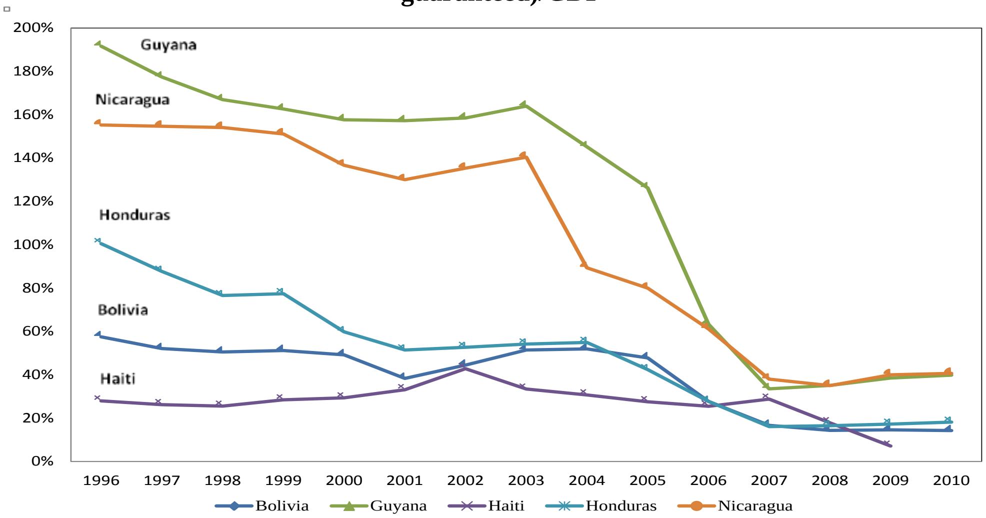
Table 4: Delivered Assistance under MDRI

MDRI	Delivered Assistance in nominal terms			IDB/ Total MDRI
	IDB	World Bank	Total MDRI Initiative	
Bolivia	1,050.2	1,554.7	2,816.0	37.3%
Haiti	492.3	470.2	959.0	51.3%
Honduras	1,367.1	1,214.2	2,714.0	50.4%
Guyana	469.9	193.7	707.0	66.5%
Nicaragua	989.5	791.1	1,904.0	52.0%
MDRI (5)	**4,369.0**	**4,223.9**	**9,100.0**	**48.0%**

Source: "HIPC initiative and MDRI - Status of Implementation and Proposals for the Future of the HIPC Initiative" (IDA and IMF, 2011)

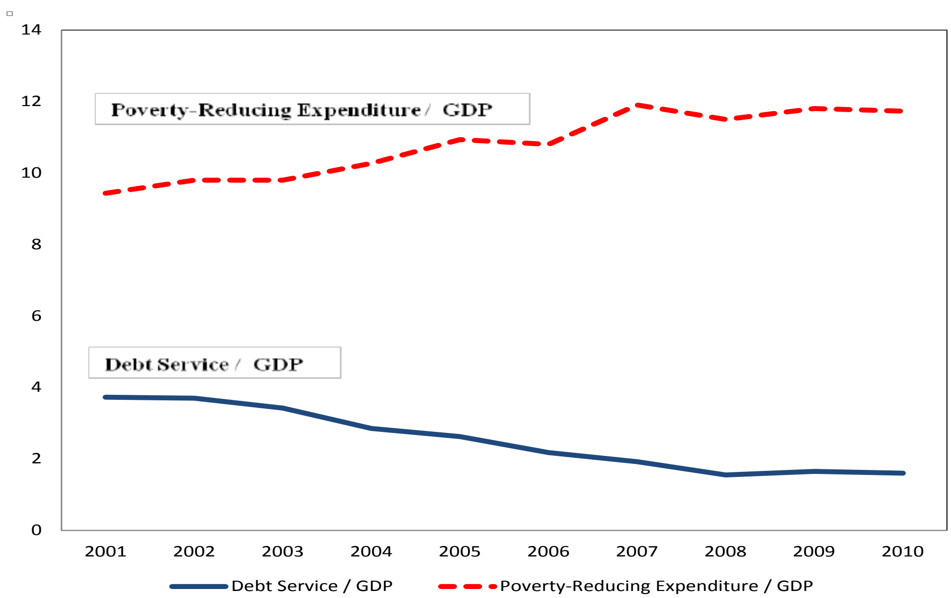
2.9 The direct benefits to the eligible countries can be captured in significant reductions of public debt and debt service as a percentage of GDP, as shown in Graphs 1 and 2.

Graph 1: External debt stocks (public and publicly guaranteed)/GDP



Source: World Development Indicators.

Graph 2: Average Poverty-Reducing Expenditure and Debt Service FSO Countries

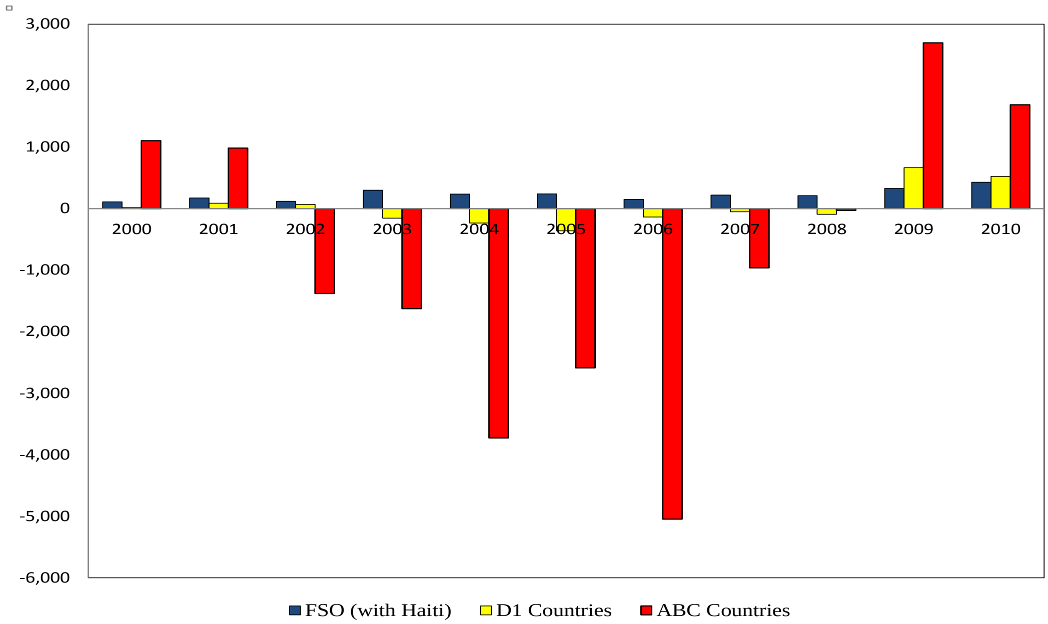


For disaggregated country data, refer to Annex, Graphs 1 and 2. Average Debt Service: Bolivia, Guyana, Honduras, and Nicaragua. Average Poverty-Reducing Expenditure includes: Bolivia, Honduras, and Nicaragua.

Source: HIPC initiative and MDRI - Status of Implementation and Proposals for the Future of the HIPC Initiative (IMF, 2011)

2.10 Debt relief also contributed to positive net cash flows from the Bank to the recipient countries. As shown in Graph 3, FSO-eligible countries represent the only group that consistently received positive net flows over the last decade, compared to both the D1 and the ABC countries, which experienced negative flows until 2009.[16]

Graph 3: Net Cash Flow - Countries' perspective (US$ million)



Source: Net Flow of Convertible Currencies by Country Report (Finance Department, IDB)

2.11 Beyond debt relief, both initiatives were also designed to contribute to poverty reduction in the recipient countries. The HIPC Initiative was explicitly tied to the preparation of a Poverty Reduction Strategy Paper (PRSP) and conditioned the use of the resources saved to expanding social expenditures. All countries increased poverty reducing expenditures as defined in the PRSPs in nominal terms and as a share of GDP, as shown in Graph 2.

2.12 The Bank supported the implementation of the PRSPs in Bolivia, Honduras and Nicaragua, primarily through policy-based loans.[17] However, the effectiveness of some of these increases has been questioned. In the case of Nicaragua, for example, in 2003 the World Bank found that *"[A] recent review of selected poverty programs in the Nicaragua PRSP portfolio shows that less than one-third of the resources programmed for the following five years (US$232 million) are likely to benefit the poor by addressing identified risks and vulnerabilities. About one-half of total investments in the program sample (US$372 million) either lack adequate supporting information to determine their pertinence, or need to be modified to improve effectiveness in addressing given risks or actually reaching the poor. Approximately 14% of expenditures over the period (US$114 million) will not benefit the poor at all."*[18] A similar assessment prepared for the PRSP Review in Guyana found that although "broadly-defined" social expenditures increased from 5.4% of GDP in 2000 to 7.5% in 2005, "basic" social expenditures (health, education and poverty-related programs) remained practically constant over the period at 3.6% of GDP.[19] In Honduras, OVE found that although the country managed to maintain high levels of social spending, the additional expenditures have fallen short of producing the desired results in poverty, health and education.[20]

2.13 The medium-term results of the debt relief initiatives remain inconclusive. While higher levels of debt can have a negative effect on social expenditure, the key question of whether debt relief is associated with more and better poverty reduction policies remains unanswered.[21] The results in terms of poverty attained by the FSO countries over the Eighth Replenishment are discussed in Section IV.

III. THE FSO LENDING PROGRAM

A. Magnitude of program

3.1 Over the period of the Eighth Replenishment, the IDB approved US$8.3 billion in projects to the FSO-eligible countries, consolidating its position as the largest provider of concessional financing to the poorest countries in the Region (see Table 5). This was complemented by US$132 million in non-reimbursable technical assistance financed by net income FSO.[22] The lending program represented 22% of the number and 6.5% of the total amount of the Bank program over the period. Approximately 73% of the total (US$6 billion) was approved between 1994 and 2007 and consisted exclusively of FSO resources. Once the blended structure was put in place in 2007, 61% of approvals were funded by OC and 39% by FSO. In addition, Haiti received US$398 million in grant funding between 2007 and 2010.

3.2 The distribution of resources among the eligible countries is also depicted in Table 5. Guyana received the lowest share of funds, reflecting its small-population size, which is the measure of need used in the allocation formula, but was the greatest beneficiary in per capita terms.

Table 5: IDB and IDA Concessional Approvals 1994-2010

Country	Total Approvals (US$ Million)			Approvals per Capita (US$ per Capita) (a)		
	IDB	IDA	IDB+IDA	IDB	IDA	IDB+IDA
Bolivia	**2,049**	1,210	3,259	**237**	140	377
Guyana	**772**	114	887	**1,046**	155	1,201
Honduras	**1,997**	1,526	3,524	**308**	236	544
Nicaragua	**2,112**	1,304	3,416	**405**	250	655
Haiti	**1,320**	626	1,946	**148**	70	218
Total / Average	**8,250**	**4,781**	13,031	**429**	**170**	**599**

(a) Using median value of Population (1994-2010)

Source: OVE using the IDB's datawarehouse and the World Bank portfolio.

3.3 From the point of view of the eligible countries, the relative magnitude of FSO lending is captured in Table 6. IDB yearly disbursements averaged approximately 1.8% of GDP over the period 1997-2010. IDB disbursements were particularly important to Guyana, where they averaged 3.6% of GDP and reached a maximum of 5.9% in 2005. IDB

concessional financing averaged the equivalent of 8% of Gross Fixed Capital Formation per year for the four countries excluding Haiti. This indicator too was especially significant for Guyana, where it averaged 14.9% and reached a maximum of 24.6% in 2005. Detailed public expenditure data for the period 1994-2010 for each of the countries is not available to quantify the relative magnitude of IDB financing at the sectoral level.

Table 6: Relative Magnitude of FSO Lending (1997-2010)

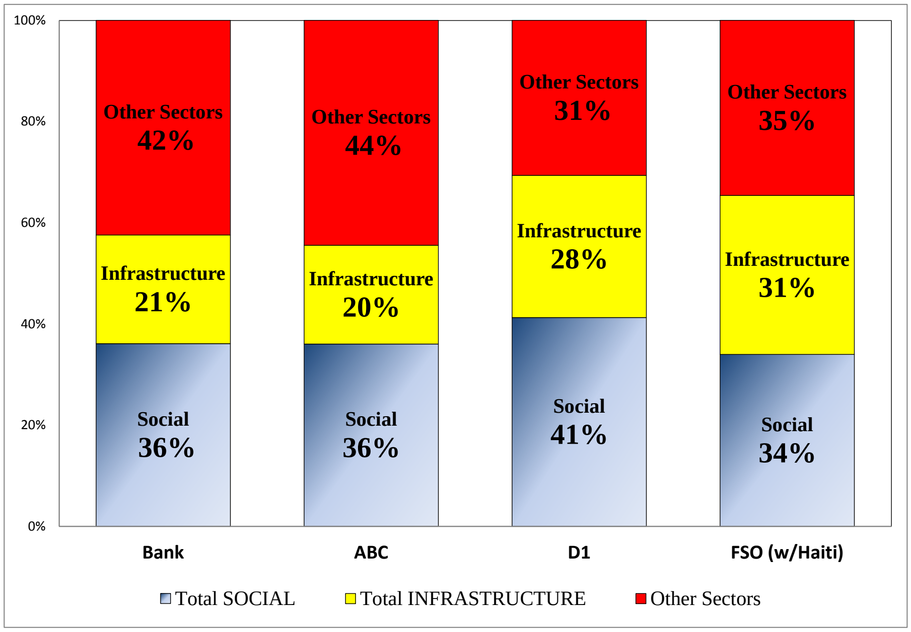
Index	Country	Period	Min	Max	Average
Disbursements / GDP	Bolivia	1997-2010	0.3%	2.4%	**0.9%**
	Guyana	1997-2010	0.4%	5.9%	**3.6%**
	Haiti	1997-2010	0.1%	2.6%	**1.3%**
	Honduras	1997-2010	0.2%	1.5%	**0.9%**
	Nicaragua	1997-2010	1.2%	3.1%	**2.2%**
Disbursements / Gross fixed Capital Formation	Bolivia	1997-2010	1.5%	18.6%	**6.0%**
	Guyana	1997-2010	1.5%	24.6%	**14.9%**
	Haiti	NA	NA	NA	**NA**
	Honduras	1997-2010	1.1%	5.7%	**3.3%**
	Nicaragua	1997-2010	4.0%	11.8%	**8.2%**

Source: World Development Indicators and OVE using the IDB's datawarehouse

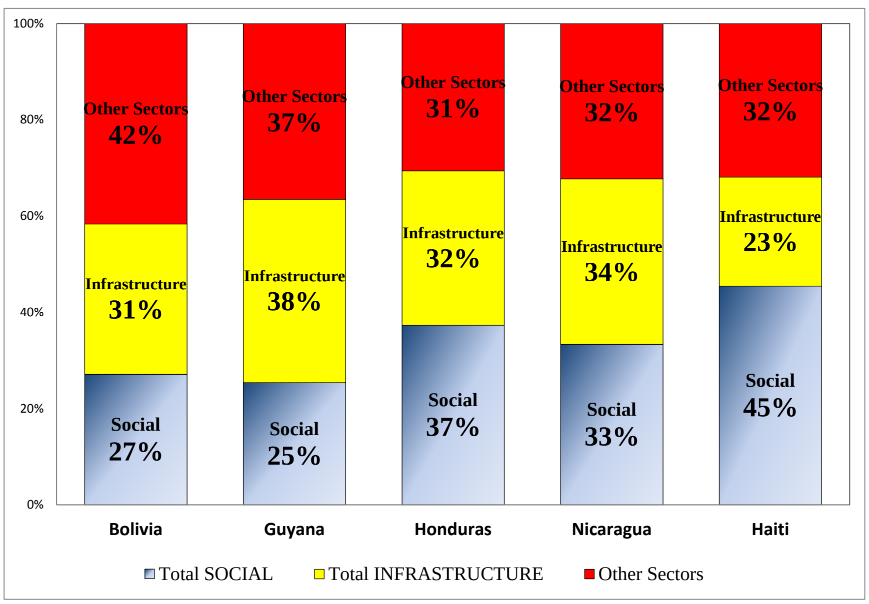
B. Sectoral distribution and poverty focus

3.4 As noted earlier, by the Eighth Replenishment FSO financing had already been de-linked from the type of projects to be financed, which in an earlier period mandated an analysis of project benefits to low-income groups, favoring social infrastructure and agricultural development, among others. In the period under analysis, a comparison of investment lending between FSO countries and other borrowing groupings is shown in Graphs 4 and 5. It suggests that FSO countries tended to use relatively inexpensive hard currency to finance the relatively larger infrastructure investments in energy and transport. The average FSO loan amounted to US$24.5 million, while transportation projects averaged US$42.5 million and energy projects US$ 31.6 million.

Graph 4: Sector Distribution of Investment Lending by Country Groups (Approval Amount 1994-2010)



Graph 5: Sector Distribution of Investment Lending for FSO Countries (Approval Amount 1994-2010)



Infrastructure (Transportation and Energy); Social (Education, Health, Social Investment, and Sanitation)

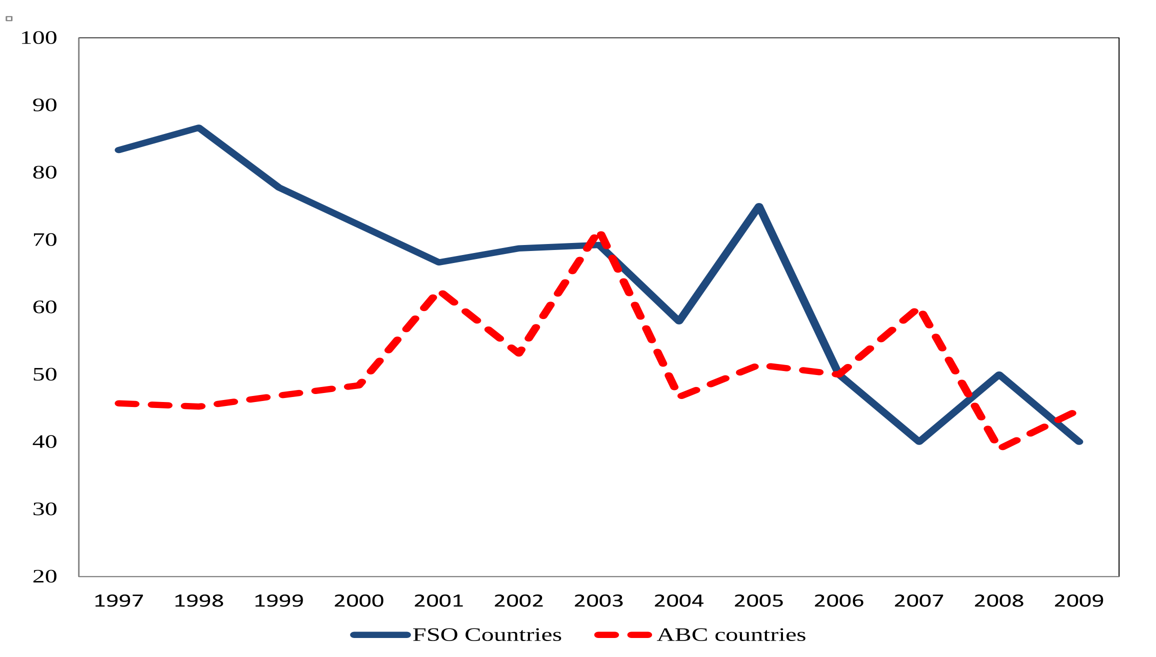
Other Sectors (Urban Development and Housing, Agriculture and Rural Development, Environment and Natural Disasters, Reform and Modernization of the State, Tourism, Financial and Capital Market Development, Industry, Information Technology and Telecommunications, Microenterprises, Multisector Credit and Preinvesment, Trade, Private Sector Development, and Science and Technology.
For disaggregated sector data by country, refer to Annex, Tables 3 and 4.

Source: OVE using the IDB's data warehouse

3.5 The amount lent for infrastructure shows a gradient according to country income levels, suggestive of greater infrastructure deficits: while this sector represented 21.5% of the total amount approved by the Bank over the period, it was 19.5% for ABC countries, 28.1% for D1 countries, and reached 31.4% for the FSO group. It was particularly significant for Guyana, where it represented 38.1% of total approvals. Haiti represents an outlier, with a much smaller share of infrastructure projects (22.6%) and a greater share of social sectors, including sanitation (45.4%). This picture does not change once policy-based lending is taken into account. While it leads to a significant increase in the share of reform and modernization of the state projects for all groupings, the gradient for infrastructure persists: 15.3% of overall Bank approvals, 13.9% for the ABC countries, 17.7% for the D1 countries and 26.1% for the FSO group. Reform and Modernization of the State also absorbed the bulk (44%) of technical assistance resources.

3.6 Perhaps more surprising is the trend in social equity enhancing (SEQ) investment projects, defined as a priority under the Eighth Replenishment. Between 1995 and 1997, the Bank adopted a geographic country classification, which considered all projects in FSO countries as poverty targeted investments (PTI) and thus SEQ. Once this was eliminated, the trend in SEQ projects for the Bank as a whole and for FSO countries can be carried out. As shown in Part I of this evaluation and in Graph 6, while no apparent trend exists for the proportion of SEQ projects approved by the Bank, the proportion for FSO countries shows a declining trend.

Graph 6: Proportion of SEQ Investment Projects



Source: OVE using the IDB's data warehouse

IV. RESULTS

A. Methodological considerations

4.1 The lack of specific objectives, expected results and targets for the FSO lending program (other than approvals) as well as the absence of a specific monitoring and evaluation system pose constraints to the evaluation. Reporting of outcomes over the period 1994-2010 is constrained by weaknesses in Project Completion Reports (PCRs), which are widely acknowledged. The collection of data on project outputs on a systematic basis only began after the DEF was put in place, and it is in its early stages. Moreover, no benchmarks for the Bank lending program as a whole are in place to compare the relative performance of FSO recipients; neither is a methodology that could attribute differences to the source of financing.

4.2 In light of these constraints, the evaluation looks at aggregate and country level outcomes and assesses whether the gap between the FSO countries and the regional average has narrowed over the period of the Eight Replenishment. The methodology is adapted from IDA's Results Measurement System (RMS), adopted in the context of IDA's 13th Replenishment in 2002 and enhanced in 2006.[23] The RMS measures results at two levels:

a. **Aggregate country outcomes**. The system automatically tracks economic and social development indicators at the country level over time, and presents the aggregated IDA country results with those for the respective Region. The indicators are grouped in four selected areas: growth and poverty reduction, governance and investment climate, infrastructure for development, and human development. It is critical to note that the results are not attributed to IDA. These outcomes are designed to reflect the countries' own development efforts, supported by a range of development partners. No attempt is made to tie the identified outcomes to specific IDA projects. The assumption is that IDA "has been at the forefront of supporting these results though financing, policy dialogue, and knowledge and analytical work."[24]

b. **IDA contributions to country outcomes**. The system assesses IDA's operational and organizational effectiveness as a proxy for its contribution to country outcomes. This exercise looks at ratings for country strategies and projects, including quality at entry indicators, monitoring and project completion reports. These ratings are validated by the Independent Evaluation Group (IEG). They are complemented by the presentation of aggregate core outputs in four key sectors (health, education, roads transport and water supply), based on projects in the active portfolio.

4.3 The approach taken in the RMS bears many similarities to the IDB-9 Results Framework. In fact, IDA's system is cited among others used by the Bank in constructing its own framework. IDA's aggregate country outcomes are mirrored in IDB-9's regional development goal indicators, except that the latter are organized according to the Bank's own sectoral priorities and more reflective of LAC realities. In both cases, the outcomes are not attributable to the projects financed by the banks. The IDB also identifies its own

contribution to country outcomes through the definition and measurement of two sets of indicators. The first consists of projects' sectoral output indicators that contribute to the regional goals. The second consists of a set of operational effectiveness indicators based on the DEF to which the Bank is held accountable.[25]

4.4 The IDA and similar IDB-9 methodology are replicated here for FSO aggregate and country level outcomes. The evaluation uses similar indicators employed by IDA and selected regional development goals identified in the IDB-9 Results Framework, based on data availability for the period of the Eighth Replenishment or since 1990, the baseline year for the Millennium Development Goals. In contrast to both IDA and the IDB, the analysis then explicitly assesses whether the economic and social progress experienced by FSO countries has narrowed the gap with the Region. While overall progress or gains in specific sectors are not attributable to FSO, the importance and relative weight of FSO in each country as the major development partner can be interpreted as a proxy for the IDB's contribution to the countries' own efforts.

4.5 The focus on development gaps within the R finds support in one of IDB-9's overarching objectives: *"To pursue equity and sustainable development in the LAC region as a whole, it is essential to address the needs of the less developed and small countries. Just as the countries in the region lag behind those of the developed world and the most dynamic emerging countries in several dimensions, there are also significant intra-regional development gaps. Countries such as Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay have a per capita GDP that is only a quarter of the regional average, and their poverty rates are nearly twice as high as the average for the region as a whole.. These gaps are reflected in most indicators of social welfare and access to services."*[26]

4.6 However, it is not possible to replicate the second part of the exercise carried out under IDA and the IDB-9's results framework, which would entail measuring project outputs over the period under evaluation as well as other indicators of IDB's operational and organizational effectiveness validated by OVE. While the Bank has made significant progress in the development of its self-evaluation system, this was not available for the Eight Replenishment. There is a wide consensus that the existing project completion report (PCR), the key instrument for reporting on outputs and outcomes, is not adequately fulfilling this role.[27] This evaluation uses the DEM, available since 2008, as an *ex ante* indicator to compare projects in FSO countries to the Bank average in terms of evaluability.

B. FSO aggregate country outcomes

4.7 In general, FSO countries made substantial progress over the period of the Eighth Replenishment, but results vary by country and in many cases this progress was insufficient to significantly reduce the gap between them and the regional average. Table 7 shows indicators of progress in the four areas mentioned above: growth and poverty reduction, governance and investment climate, infrastructure for development and human development. The Table does not include Haiti, given the huge gap between its indicators and those of the other FSO countries, a gap that undoubtedly increased after the 2010 earthquake. Tables 5-9 in the Annex show the results disaggregated by country, including Haiti.

Table 7. Indicators of progress in FSO countries and the Region

FSO (without Haiti)	FSO (a)			LAC (Bank) (b)			Relative Ratios (c)		GAP LAC - FSO		Data Period (Initial and Final Level) and Information Source
	Initial Level	Final Level	Progress	Initial Level	Final Level	Progress	Ratio (Initial Level)	Ratio (Final Level)	Absolute Gap Reduction?	Relative Ratio Reduction?	
Growth and Poverty Reduction											
GDP per capita (constant 2000 US$)	866.6	1193.7	YES	3526.2	4628.8	YES	4.07	3.88	NO	YES	1994 and 2010 **(WDI)**
Population Living in Poverty - National (d)	71.2	61.6	YES	45.8	34.0	YES	0.64	0.55	NO	NO	FSO: (Bolivia:1997-2007; Honduras: 1997-2007; Nicaragua: 1993-2005), LAC: 1994-2007 **(ECLAC, 2010)**
Extreme Poverty - National **(MDG)** (d)	50.6	36.2	YES	25.9	17.7	YES	0.51	0.49	YES	-	1990 and 2008 **(ECLAC, 2010)**
Investment Climate and Governance											
Time required to start a business (days)	53.5	33.3	YES	75.5	68.6	YES	1.41	2.06	YES	YES	2003 and 2010 **(WDI)**
Cost to start a business (% of income per capita)	117.2	68.7	YES	68.0	43.0	YES	0.58	0.63	YES	YES	2005 and 2010 **(Doing Business)**
CPIA - Structural Policies (Cluster B) (1=low to 6=high)	3.75	3.63	NO	Not Available							2005 and 2010 **(World Bank)**
CPIA - Public Sector Management and Institutions (Cluster D) (1=low to 6=high)	3.35	3.20	NO								2005 and 2010 **(World Bank)**
Infraestructure for Development											
Telephone lines and Mobile cellular subscriptions (per 100 people)	3.5	94.4	YES	10.3	123.9	YES	2.95	1.31	NO	YES	1994 and 2010 **(WDI)**
Electric power consumption (kWh per capita) (d)	302.78	565.4	YES	1050.2	1712.5	YES	3.47	3.03	NO	YES	1994 and 2009 **(WDI)**
Electric power transmission and distribution losses (% of output) (d)	23.7	19.1	YES	18.6	15.3	YES	0.79	0.80	YES	-	1994 and 2009 **(WDI)**
Roads, paved (% of total roads)	10.6	11.5	YES	29.4	30.8	YES	2.77	2.68	NO	YES	1994 and 2001 **(WDI)**
Social Development											
Human Development Index (0-1)	0.54	0.62	YES	0.62	0.70	YES	1.14	1.12	-	-	1995 and 2010 **(UNDP)**
Mortality rate, under-5 (per 1,000) **(MDG)**	67.5	33.9	YES	44.8	27.3	YES	0.66	0.81	YES	YES	1994 and 2010 **(WDI)**
Mortality rate, infant (per 1,000 live births) **(MDG)**	50.7	27.5	YES	35.2	20.4	YES	0.69	0.74	YES	YES	1994 and 2010 **(WDI)**
Maternal mortality ratio (modeled estimate, per 100,000 live births) **(MDG)**	252.5	165.0	YES	139.2	99.9	YES	0.55	0.61	YES	YES	1995 and 2008 **(WDI)**
School enrollment, primary (% net) **(MDG)**	88.7	90.5	YES	91.1	92.3	YES	1.03	1.02	YES	-	1999 and 2009 **(WDI)**
Proportion of pupils starting grade 1 who reach last grade of primary **(MDG)** (d)	63.0	82.1	YES	80.1	89.9	YES	1.27	1.09	YES	YES	Level 1992-1999 and Level 2004-2008 **(ECLAC, 2010)**
Improved water source (% of population with access) **(MDG)**	78.75	87.75	YES	85.2	91.2	YES	1.08	1.04	YES	-	1995 and 2008 **(WDI)**
Improved sanitation facilities (% of population with access) **(MDG)**	49.25	57.25	YES	72.8	78.6	YES	1.48	1.37	YES	YES	1995 and 2008 **(WDI)**

For detailed country data, refer to Annex. Initial Level and Final Level based on data availability (Country Level and Average LAC)
(MDG): Millenium Development Goal
(a) Simple Average: Bolivia, Guyana, Honduras, Nicaragua)
(b) Simple Average IDB's countries.
(c) Relative ratio (year t) = LAC value (year t) / Country value (year t)
(d) Data not comparable for Guyana
Sources: WDI (World Development Indicators), Doing Business, UNDP (United Nations Development Programme), ECLAC (Economic Comission for Latin America and the Caribbean)

1. Growth and poverty reduction

4.8 Over the period of the Eighth Replenishment, between 1994 and 2010, the GDP per capita of FSO countries in constant 2000 US dollars increased by 38% compared to growth of income per capita of the Region of 31%. However, faster growth was insufficient to reduce the absolute income gap between FSO countries and the Region, but did reduce the relative gap somewhat: the GDP per capita for the Region was 4 times that of the FSO countries at the beginning of the period, falling to 3.9 times by the end.

4.9 The results in terms of poverty reduction are less favorable, especially taking into account that this was one of the goals of both the Eight Replenishment and the HIPC Initiative. The poverty rate in the FSO countries decreased by 15% over the period, while the comparable figure for the Region as a whole was 26%.[28] Thus, there was an increase in both the absolute and the relative gap in poverty between FSO countries and the Region. At the end of the period, the poverty rate in FSO countries was 1.8 times that of the Region (61.6% vs 34%).

4.10 The FSO countries were able to reduce extreme poverty at the higher rate of 28%, but this was also below the 32% reduction in the regional average. As a result, there was a narrowing of the absolute gap for the percentage of people living in extreme poverty, but the relative gap increased slightly.

4.11 The performance of the countries was heterogeneous. Bolivia made the smallest gains in the reduction of extreme poverty, only 13%, insufficient to reduce the absolute gap with the regional average. Nicaragua outperformed the other FSO countries and the regional average, reducing extreme poverty by 34% between 1990 and 2008.

2. Investment climate and governance

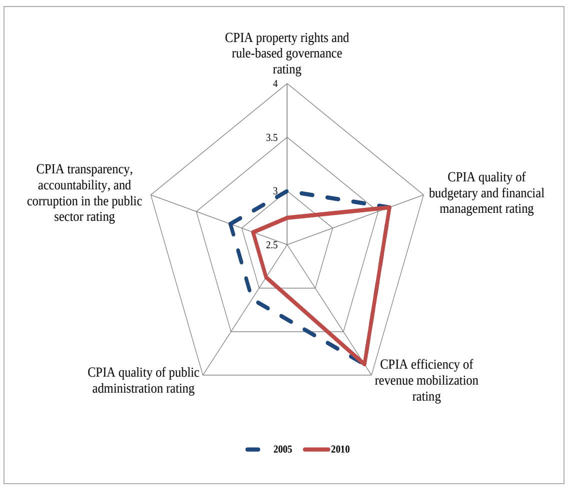
4.12 Selected indicators for both investment climate and governance are less objective than in other areas, and tend to be presented as composite indices that cannot be compared over time. Thus, the analysis focuses primarily on policies and institutions, based on IDA's CPIA ratings, which as noted earlier are disclosed for each of the performance variables [29] At the cluster level, CPIA and CIPE ratings are highly correlated. Country-specific indicators are shown in Annex Tables 10 and 11.

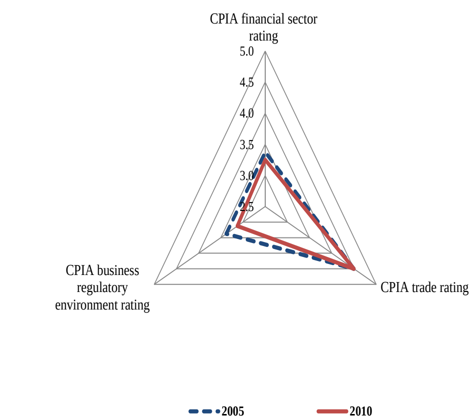
4.13 With respect to the investment climate, the number of days it takes to start a business is significantly lower that the regional average, while the cost is significantly higher, but both improved over the period. However, between 2005 and 2010 there was a slight decline in selected policy areas that affect the investment climate. The results are derived from the evolution of of IDA's CPIA rating for Structural Policies, which declined from an average of 3.75 to 3.63 (out of a maximum of 6). As shown in Graph 7, among its components, the rating for the policy framework for trade remained constant at 4.5, indicating average tariffs below 16%, only exceptional and temporary cases of discriminatory internal taxation and limited allegations of corruption in customs administration. The rating for policies and regulations affecting the financial sector declined slightly, from 3.38 to 3.25. The level indicates banking sector vulnerability to

shocks in the medium term, and underdeveloped but growing size and reach of financial markets. The regulatory business environment rating fell slightly from 3.38 to 3.13, indicating the persistence of complex licensing requirements for many activities, inadequate regulations on ownership and financial disclosure and rigid employment regulations.

4.14 With respect to governance, the Public Sector Management and Institutions cluster's average rating declined from 3.35 (out of 6) in 2005 to 3.20 in 2010. As shown in Graph 7**,** the ratings for the quality of public administration and efficiency of revenue mobilization remained constant, at the levels of 3.63 and 3.88 respectively, indicating that policies and prioritis are broadly reflected in the budget, but expenditures deviate from budgeted amounts by 10-20%; accounts are audited in a timely and professional manner, but few meaningful actions are taken. In terms of revenue mobilization, a significant amount is generated by low distortion taxes. Indicators associated with property rights and rule based governance, quality of public administration, and transparency, accountability and and corruption in the public sector were all rated below the average for the public sector management cluster and declined over the period.

Graph 7: Cluster D: Public Sector Management and Institutions and Cluster B: Structural Policies - Average FSO (without Haiti): 2005 and 2010 (CPIA)





Source: World Bank

3. Infrastructure for development

4.15 As previously discussed, investments infrastructure, including transportation and energy, absorbed the largest share of FSO resources among the different sectors over the period under evaluation. However, there are few adequate outcome indicators for infrastructure, and data on outputs are not readily available. Electric power consumption per capita increased dramatically in the FSO countries, 82% over the period, while a measure of the efficiency of service, transmission and distribution losses, decreased by 19%. The increase in consumption was insufficient to reduce the absolute gap with the Region, though the relative gap declined somewhat: the average per capita consumption of the

Region, which represented 3.5 times that of FSO countries in 1994, fell to three times by 2009.

4.16 The number of telephone lines and mobile subscriptions per capita increased by over 4,000% in the FSO countries, compared to 1,553% in the Region as a whole; in this case the absolute gap between the two groups widened, but the relative gap was reduced.

4.17 Transportation was the main sector financed by FSO resources, amounting to over US$1.3 billion in investment lending over the Eighth Replenishment, excluding Haiti. The percentage of total roads paved, a standard sector indicator, increased by 8% over the period in the FSO countries versus 3% for the Region, but this too was insufficient to reduce the absolute gap between the two and there was only a marginal reduction of the relative gap. A better indicator, paved coverage (km per squared km), is not available. Despite the Bank's strong presence in this sector, the development impacts of the projects are difficult to quantify. As noted in OVE's Evaluation of IDB Action in Highway Development, "*[V]irtually all operations mention competitiveness improvements, regional and national integration, and more rapid socioeconomic development as their development objectives. However, absent any model to meaningfully correlate project activities to proposed development objectives and lacking appropriate indicators, the approved operations have low evaluability.*"[30]

4. Social development

4.18 The Human Development Index (HDI) can be used to provide a broad view of overall social and economic development. Not surprising, if the analysis is restricted to Latin America and the Caribbean, the five FSO countries have the lowest values, although Guatemala's ranking is second only to Haiti. All FSO countries experienced progress between 1995 and 2010, but this proved to be insufficient to change their ranking within the Latin America Region.

4.19 FSO provided US$1.3 billion in investment lending for health, education and social investment projects over the period. Many of the social development goal indicators are also MDG indicators. In health, most of the countries in the Region experienced dramatic improvements in infant and under-5 mortality, which stood at very high levels during the beginning of the period. The improvements in the FSO countries surpassed those of LAC, resulting in a reduction of both the absolute and relative gap. However, the rates of infant and under-5 mortality in Bolivia, respectively 41.7 and 54.2 per thousand live births, remain very high. Nicaragua's rates, respectively 20.3 and 24, are now below the regional average.

4.20 In education, net enrolment in primary school also increased faster in the FSO countries, reaching 90.2% compared to 91.5% in the Region. The proportion of pupils who start first grade and reach the last year of primary school also increased more rapidly in the FSO countries, leading to a reduction in the absolute gap relative to the Region.

4.21 There have also been significant increases in the percentage of the population with access to an improved water source and improved sanitation facilities in the FSO countries,

where IDB investment financing amounted to US$408 million. This led to a reduction in both the absolute and relative gap with the regional average. However, in both cases much remains to be done. The 2008 figure of 58% of the population with access to improved sanitation facilities in FSO countries still remains 15 percentage points below the level attained by the Region in 1995.

5. The Millennium Development Goals

4.22 The stated goal of the MDRI was to provide support to HIPC countries to reach the MDGs. An analysis of progress toward attaining the MDGs provides both a measure of success of MDRI and a convenient summary of where the countries in the Region stand in terms of human development. There are several limitations to carrying out this analysis, including the paucity of baseline data for 1990, unreliable or conflicting data, and different methods used to ascertain whether regions and country are likely to meet targets. Moreover, for certain goals targets have not been set in a precise manner. In an attempt to solve some of these problems, the data and judgments in this section are drawn from the 2010 United Nations Report, *Achieving the Millennium Development Goals with Equality in Latin America and the Caribbean: Progress and Challenges*, prepared by the Economic Commission on Latin America and the Caribbean (ECLAC), which reflects a technical consensus among different agencies to derive internationally comparable data. ECLAC's findings are presented in Table 8**.** It is important to note that its judgments reflect the pre-crisis period.

Table 8: Overview of Progress towards the Millennium Development Goals

Country	Actual Level / Progress MDG (*)	Goal 1			Goal 2	Goal 3	Goal 4	Goal 5	Goal 7	
		Target 1.A	Target 1.C		Target 2.A	Target 3.A	Target 4.A	Target 5.A	Target 7.C	
		Extreme poverty	Underweight	Undernourishment	Completion of primary education	Women in national parliaments	Child mortality	Maternal mortality	Access to safe drinking water	Access to sanitation
LAC	Actual Level	moderate	moderate	moderate	high	moderate	moderate	high	alta	baja
	Progress MDGs	**On Track**	**On Track**	**Not on Track**	**Not on Track**	**Not on Track**	**On Track**	**Not on Track**	**On Track**	**On Track**
Haiti	Actual Level	very high	very high	very high	-	very low	very high	-	very low	very low
	Progress MDGs	**No data**	**Not on Track**	**Not on Track**	**No data**	**Not on Track**	**Not on Track**	**No data**	**Not on Track**	**No progress**
Nicaragua	Actual Level	very high	high	very high	low	low	moderate	high	low	very low
	Progress MDGs	**Not on Track**	**On Track**	**Achieved**	**Not on Track**	**Not on Track**	**On Track**	**On Track**	**Not on Track**	**Not on Track**
Bolivia	Actual Level	very high	high	very high	very high	very low	very high	-	low	very low
	Progress MDGs	**Not on Track**	**On Track**	**Not on Track**	**On Track**	**Not on Track**	**Not on Track**	No data	**Achieved**	**Not on Track**
Honduras	Actual Level	very high	very high	high	low	moderate	high	-	low	low
	Progress MDGs	**Not on Track**	**On Track**	**On Track**	**Not on Track**	**Not on Track**	**Not on Track**	No data	**On Track**	**On Track**
Guyana	Actual Level	high	very high	moderate	low	moderate	very high	very high	high	moderate
	Progress MDGs	**No data**	**On Track**	**Achieved**	**No progress**	**No progress**	**Not on Track**	**No data**	**Achieved**	**On Track**

(*) **Achieved** (The country has already met the target or is very close to meeting the target); **On Track (**The country is on track and will reach the target if prevailing trends persist); **Not on Track (**The country is not on track and will not reach the target if prevailing trends persist); **No data** (The country has made no progress towards the target or there has been a setback); **No progress (**Missing or insufficient data)

Source: Achieving the Millennium Development Goals with equality in Latin America and the Caribbean: Progress and challenges (ECLAC, 2010)

4.23 **Eradicate extreme poverty and hunger**. The Latin America and the Caribbean Region is on track to meet the first goal, the eradication of extreme poverty and hunger, attained by halving the percentage of the population living in extreme poverty and the prevalence of underweight children under five years of age. Among the FSO countries, none are on track in halving extreme poverty, although Nicaragua has made substantial progress. However, even if all the countries were to meet the target, the extreme poverty rate would remain very high, above the 20% mark.[31] All countries are on track in halving the prevalence of underweight children, though in this case too, it will still remain very high in Honduras and Bolivia.

4.24 **Achieve universal primary education.** Access to primary education in the Region has been widespread since the 1990s, and net enrolment in primary school reached 95% in 2007. However, advances in progression and retention rates have been much slower, measured by the percentage of children entering first grade who reach the last grade of primary education, though not necessarily complete it. The Region is not expected to meet this target, which reached 93% in recent years (2004-8). Neither are several of the FSO countries, including Nicaragua (70.8%) and Honduras (61.7). The corresponding figure for Bolivia, 96.4% is quite high, but it must be interpreted with caution, as the indicator does not reflect the number of children who never entered school.

4.25 **Promote gender equality and empower women**. Women have experienced significant progress in the Region, and by 2007, parity in access to primary, secondary and tertiary education had been achieved in most countries. In fact, gender disparities in primary school education favor girls in most countries, including Nicaragua and Honduras. However, in countries with a strong indigenous presence, such as Bolivia, the gender disparity tends to favor males.

4.26 The Region does not fare as well on another measure on gender equality, the proportion of seats held by women in the national parliament. Although LAC ranks favorably compared to other regions in the world, once the Caribbean is excluded only 16% of all members of parliament are female. Neither the Region nor any of the FSO countries are on track to meet the target.

4.27 **Reduce child mortality and improve maternal health**. In terms of child and maternal health, the Region is on track to meet the target of reducing the under-five mortality rate by two-thirds, and has achieved reductions more quickly than other regions. However, among FSO countries, only Nicaragua is on track to meet this target. The reduction of the maternal mortality ratio by three-quarters appears highly unlikely both for the Region as a whole and the FSO countries in particular. However, caution must be used in looking at trends in this indicator, given large measurement errors caused by under-reporting or misclassification of deaths, and under-reporting of births. Validated methodologies, such as reproductive age mortality surveys, have been applied to few countries. Despite these caveats it is important to emphasize that in several FSO countries, maternal mortality ratios remain at unacceptably high levels, exceeding 100 per thousand live births, including Guyana (280) and Bolivia (190).

4.28 **Halve the proportion of people without sustainable access to safe drinking water and sanitation.** In the Region, the situation is better in relation to access to increased drinking water than for sanitation. However, there is a strong disparity between urban and rural areas, as well as within urban areas, given the high percentage of urban populations living in slums. The Region is on track to meet the water and sanitation targets, though the situation is better with regards to the former. Bolivia and Guyana have already reached the water target, while Nicaragua is not on track. Honduras and Guyana are on track to meet the sanitation target. However, in all cases, problems of coverage, quality, disinfection, interruption of service and treatment of urban wastewater remain of concern.

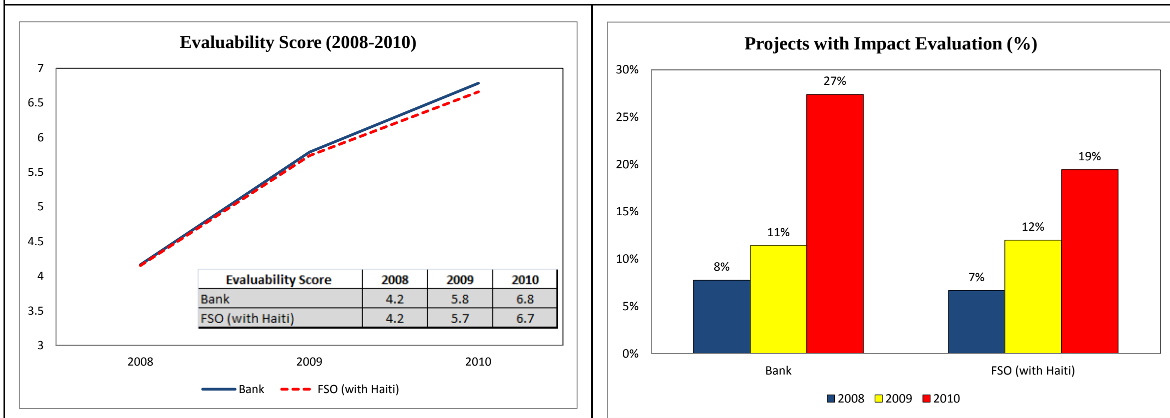
C. IDB's effectiveness in FSO countries

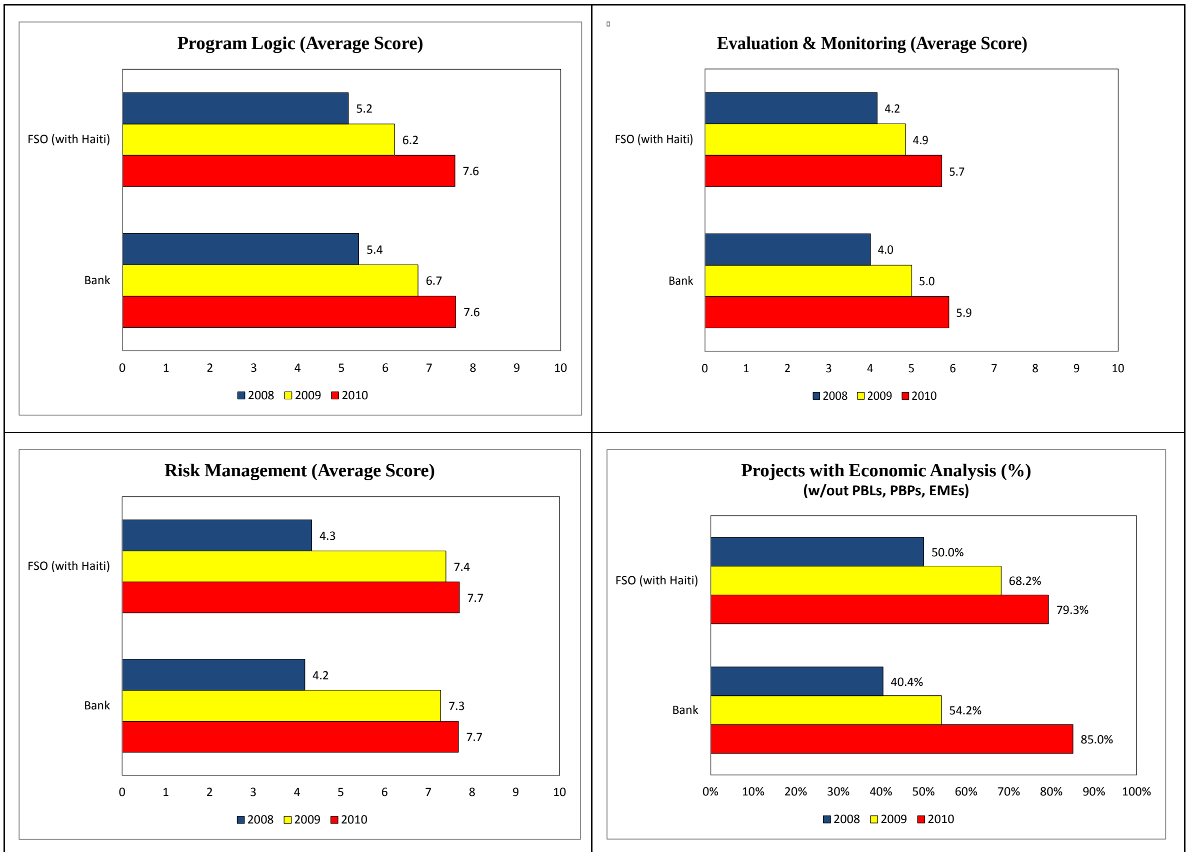
4.29 As noted earlier, reliable data on the outputs and outcomes of Bank projects are not available for the period of the Eighth Replenishment. However, potential effectiveness can be assessed using data from the Bank's Development Effectiveness Overview (DEO) covering the years 2008-10. The Development Effectiveness Matrix (DEM), which has been a focus of the Board of Directors is defined as a measure of the effectiveness of the Bank's products, and thus can be interpreted as one of several proxies for IDB's operational effectiveness. The data allows comparisons of the *ex ante* evaluability of all Bank projects with FSO-financed projects. The ratings obtained from the DEOs have not been validated by OVE, though there is no reason to think there are systematic differences between FSO and non-FSO countries in this regard.

4.30 In fact, the data show no significant differences between the DEM ratings for projects in FSO countries and all Bank projects. As shown in Graph 8, the average evaluability score is practically identical for the Bank and for FSO-financed projects, and exhibits the same trend over the last three years. The same applies to key components of evaluability: program logic, evaluation and monitoring and risk analysis. Both scores and trends for FSO countries (including Haiti) are identical to those of overall Bank approvals. The percentage of projects with economic analysis was significantly better in FSO projects than for the Bank as a whole in 2008; the percentage improved for both groups in the subsequent years, but by 2010, the FSO countries had fallen behind. FSO-financed projects also fare worse in the area of impact evaluation; while comparable in earlier years, in 2010 19% of projects in FSO countries had impact evaluations planned, compared to 27% for the Bank as a whole. This might reflect the scarcity of FSO resources, as loans remain the most important source of financing for impact evaluation.

4.31 The finding of no significant differences in DEM scores between FSO countries and the Bank average is consistent with findings in Part I of this Report, namely that despite limited technical capacity and weaker institutions on FSO countries, there were no significant differences in project preparation and average total execution times between the two groups.

Graph 9: Evaluability 2008-2010





Source: OVE using SPD's database.

V. Conclusions and Recommendations

5.1 During the Eighth Replenishment the IDB remained the largest single source of concessional financing for the five poorest countries in the Region, despite a growing scarcity of resources. It was also the major source of debt relief through its decision to participate in the two debt relief initiatives which took place over the period: HIPC and MDRI. This came at a cost. In order to ensure the continued sustainability of the Fund, the number of beneficiary countries and after 2007 the levels of conditionality provided (except to Haiti) decreased significantly.

5.2 From the point of view of the borrowing countries, FSO contributed to significant reductions in debt stock and debt service as a proportion of GDP. Loan disbursements remained an important source of funds, as evidenced by disbursements as a share of GDP and gross fixed capital formation. Loans encompassed all sectors, with a significant emphasis on transportation and social investment. Policy-based loans were used to support the implementation of Poverty Reduction Strategies associated with HIPC and public sector modernization efforts.

5.3 Country-level outcomes indicate substantial progress over the period, especially in infrastructure and social development, but this progress has been insufficient to produce a significant reduction in the gap between FSO countries and the regional average. The outcomes are mixed and vary by country, but the one consistent finding is that the results in terms of poverty reduction have been disappointing relative to the regional average. FSO countries are unlikely to meet the first Millennium Development Goal by halving the proportion of the population living in extreme poverty.

5.4 While the outcomes are not attributable to Bank projects, but rather to the countries' own development efforts, the importance of the Bank in terms of transfers of resources as well as its continued dialogue with country authorities, suggest it was an important development partner that contributed to these outcomes. However, over the period of the Eighth Replenishment it is not possible to document the specific Bank contributions to country outcomes. Since its inception FSO has been treated only as a specific source of funding, and thus not perceived to require a separate monitoring and evaluation system that could document whether its scarce resources are being used effectively.

5.5 The analysis carried out in this paper demonstrates that the Bank's new self-evaluation system can be instrumental in the evaluation of the Fund in the future. Thus OVE recommends that:

a) The indicators contained in the IDB-9 Results Framework should be disaggregated, which will allow the Bank to track the evolution of regional development goals in the FSO countries, the IDB's output contribution to regional development goals and FSO's operational and development effectiveness.

b) Once the new Project Completion Report template is put in place, and ratings validated by OVE, project-level results for FSO countries should be reported on a regular basis.

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1. The International Development Association (IDA) was established in 1960. The Asian Development Bank's concessional window was created in 1973, seven years after the Bank's establishment. Similarly, the African Development Bank was established in 1964 and its concessional window in 1972.
2. These figures include loans to Bolivia, Guyana, Honduras, Nicaragua and Haiti. After 2007 the total includes loans using a blend of FSO and Ordinary Capital (OC) to the first four countries and 19 grants to Haiti.
3. IDB-9 provides US$479 million in new contributions to FSO, of which US$281 million are transferred to the Grant Facility. See "Fund for Special Operations and IDB Grant Facility - 2011 Long-Term Financial Projections" (FN-656-2, 13 April 2011).
4. As in Part I, the evaluation covers the lending program; it does not include the Intermediate Financing Facility (IFF) or the non-reimbursable technical cooperation program financed with FSO resources.
5. FN-656-2.
6. For a more detailed discussion of the financial evolution of the Fund, see FN-656-2.
7. "Report on the Ninth General Increase in Resources of the Inter-American Development Bank" (AB-2764, 21 May 2010), paragraph 2.6.
8. See: Departamento de Planificación Estratégica y Presupuesto (DPP), "Reseña Histórica del FOE y de la FFI: Recursos Concesionales del BID" (Marzo 2000).
9. The D countries included the five D2 countries mentioned as well as the D1 countries: Belize, Dominican Republic, Ecuador, El Salvador, Guatemala and Paraguay. These countries and Jamaica remained eligible for IFF.

10. In contrast, for the D2 countries a GDP per capita below US$2,430 in constant 2005 dollars is set as the eligibility for IFF.
11. Bolivia became eligible for a 20% FSO/80% OC blend in 2012.
12. FN-656-2. Figures were calculated using the IMF methodology and a discount rate of 4.91%. Concessionality changes over time as discount rates change and as the interest rate on OC loans and the respective spread changes.
13. Part I of this evaluation (RE-376) examines the changes in allocation formula and their implications in detail.
14. "Proposal for Concessional Resources for the Eighth Replenishment," (GN-1763-9, 19 February 1993).
15. "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation and Proposals for the Future of the HIPC Initiative," (IDA and IMF, November 8, 2011), p. 63.
16. Bolivia constituted the exception within the FSO group; it experienced negative flows between 2006 and 2008.
17. These included Bolivia: Support for the Poverty Reduction Strategy (BO-0203) for US$40 million approved in 2001; Honduras: Implementation of the Poverty Reduction Strategy (HO-0185) for US$30 million approved in 2001; and Nicaragua: Social Policy Reform (NI-0169) for US$30 million approved in 2002.
18. Quoted in "Country Program Evaluation (CPE): Nicaragua 2002-2007," (RE-344, 8 September 2008), p. 31.
19. "Country Program Evaluation (CPE): Guyana: 2002-2006" (RE-331-2, 22 September 2008), p. 25.
20. "Country Program Evaluation (CPE): Honduras: 2001-2006" (RE-328, 26 April 2009), pp. 20-21 and 30.
21. The theoretical and empirical evidence on the relationship between debt and development, including both the need to free up resources to increase social spending and the growth-reducing effects of high debt are discussed in Chapter 10 of IDB, Living with Debt: How to Limit the Risks of Sovereign Finance (2007).
22. The non-reimbursable technical cooperation program financed by FSO is not dedicated to FSO countries, though they get preferential treatment. The amount approved for FSO countries over the period represented 19% of total approvals; 44% of the total was for reform of modernization of the state. See Annex, Tables 1 and 2.
23. Changes to the RMS have been adopted under IDA-16, including introduction of additional aggregate country indicators and greater emphasis on measures of aid effectiveness. Some of the changes proposed are already incorporated in the IDB-9 Results Framework.
24. Report from the Executive Directors of the International Development Association to the Board of Governors, "IDA16: Delivering Development Results" (March 2011).
25. For more details, see AB-2764, Annex 1: "IDB Results Framework 2012-2015," (May 20, 2010).
26. AB-2764, paragraph 3.10.
27. See OVE's recent evaluation, "Review of the Project Completion Reporting System for Sovereign Guarantee Operations" (RE-417, July 2012).
28. ECLAC omits poverty figures for Guyana, as not internationally comparable. Based on the 1992 and 2006 Household Income and Expenditure Surveys (HIES), the respective moderate poverty figures for Guyana were 43.2% and 36.3%, while extreme poverty rates were 28.7% and 18.6%. See "Guyana Poverty Reduction Strategy Paper 2011-2015."
29. IDA's CPIA ratings are also used instead of FSO's CIPE because it contains more observations.
30. OVE, "IDB Action in Highway Development," (RE-368, May 2010), p. ii.
31. Guyana may be on track; see endnote 27.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EVALUATION OF THE FUND FOR SPECIAL OPERATIONS DURING THE EIGHTH REPLENISHMENT (1994-2010) – PART II

MANAGEMENT COMMENTS

EVALUATION OF THE FUND FOR SPECIAL OPERATIONS DURING THE EIGHTH REPLENISHMENT (1994-2010) – PART II (DOCUMENT RE-409-1)

MANAGEMENT COMMENTS

1.1 Management would like to thank the Office of Evaluation and Oversight (OVE) for the second part of the evaluation of the Fund for Special Operations (FSO) during the Eight Replenishment. Below are Management responses to the two specific recommendations.

Recommendations	Management Response
The indicators contained in the IDB-9 Results Framework should be disaggregated, which will allow the Bank to track the evolution of regional development goals in the FSO countries, the IDB's output contribution to regional development goals and FSO's operational and development effectiveness.	In order to track the regional development goals in the FSO countries, Management will disaggregate those indicators for which data are available and will report on them in the annual Development Effectiveness Overview (DEO). This can be done specifically for the outputs reported in Table 3 of the 2012-2015 Results Framework (RF). The information collected by the PMR on this outputs at the project level can be aggregated at the country level. Management will disaggregate some of the operational efficiency and effectiveness indicators in Table 4 of the RF for FSO countries: i) the four indicators related to Country Strategies and loans´ effectiveness; ii) the two indicators that measure the TC´s effectiveness whenever they can be linked to a single country (since the vast majority are of a regional nature); iii) the three effectiveness indicators that measure Partner Satisfaction whenever the response rates allow a valid disaggregation; and iv) for all efficiency indicators; with the exception of the three human resources related indicators. Because most of the regional development goals indicators (Table 2) are based on data from external sources, such as the MDG, which do not necessarily provide a country breakdown, Management is not in a position to disaggregate them to assess the performance of the FSO countries.
Once the new Project Completion Report template is put in place, and ratings validated by OVE, project-level results for FSO countries should be reported on a regular basis.	As stated in Management's response to OVE's recommendation resulting from the review of the Project Completion Reports (PCRs), Management will disseminate completed projects´ results through the DEO. Data for the FSO countries will be highlighted if they are included in the representative sample of PCRs validated by OVE.

1.2 Management would like to point out that while the comparison with regional averages is useful for the analysis, concluding that the results in terms of poverty reduction for the FSO countries have been disappointing relative to the regional average does not seem appropriate in the context of an evaluation of the FSO since the Fund's objective is primarily concerned with the reduction of poverty in the eligible countries as opposed to closing the poverty gap between those and other more advanced countries.

1.3 With regards to the recommendations made by OVE in the first part of the evaluation that are mentioned in paragraph 2.5, and as commented by Management at the time of said evaluation, Management has taken measures to make the performance indicators more data-based and objective. In 2010, the Board of Directors (Board) approved Management's proposal to introduce quantitative indicators in the Country Institutional and Policy Evaluation (CIPE). Moreover, applications of the Enhanced Performance Based Allocation (EBPA) will start to utilize the Performance Index (PI) to determining the portfolio indicator of the performance element of the EPBA. The PI's advantage is that it entails a quantitative approach to track the achievement of a project's outputs. The recommendation to factor within-country improvements in policy and institutional performance in the assessment was also discussed at the time of the first evaluation. Management argued that such recommendation ignores the underlying rationale for policy-driven aid allocation, namely that a marginal dollar of concessional resources will be most effective in the best policy environment – i.e. the one with the best absolute policies, not necessarily the fastest improving policies. Likewise, information on improvements in policies is already captured in levels, as the current level in any given policy reflects both historical levels and changes since the last review. Finally, regarding the dissemination of the results of the assessment, and as discussed during the Proposal for the allocation of FSO resources for the 2011-2012 period, Management will present to the Board a proposal for the disclosure of the score of the CIPE variables in the context of the next allocation exercise.

1.4 Regarding the decline in the proportion of project classified as SEQ (social equity) in total FSO projects during the period of evaluation, it is important to separate issues of classification from actual results and performance. Is there specific evidence showing that countries with a higher proportion of SEQ-classified projects actually have performed better in reducing poverty than those with less? Classification could be misleading; there are projects not classified as SEQ that may or may not have had impacts on social equity.