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Country Programming

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ABSTRACT

This paper analyzes whether IDB-9 requirements surrounding the country programming process of the Inter-American Development Bank (IDB, or Bank) are being implemented fully and effectively. The country programming process includes two documents: the Country Strategy, which provides a multiyear overview of the Bank's work program; and an annual document that lays out lending allocations and the work program. The main requirements of IDB-9 related to country programming are that Country Strategies include development and macro-fiscal frameworks, that they build on these frameworks and country dialogue to align country programs to country needs, and that they reflect country demand for the Bank's lending and nonlending products. The annual programming document is then meant to implement the program laid out in the strategy to ensure that the projects funded by the Bank are in line with country needs.

OVE finds that the Bank's Country Strategies fulfill some but not all of the IDB-9 mandates. They provide a general description of the characteristics and development challenges in the country, including recent macroeconomic performance, as well as summary diagnoses of sector needs and possible areas of Bank intervention. But they do not generally articulate a strategic approach for the Bank in key sectors or discuss the implications of the macro-fiscal analysis on the role of IDB or the size of IDB lending allocations. They rarely discuss or build on past successes and failures of the Bank in selected areas of intervention, explore the Bank's comparative advantage, or fully incorporate relevant analytic work. They provide limited if any information on the NSG lending envelope or portfolio and thereby miss an opportunity to build on potential synergies between SG and NSG instruments. It is only by identifying the synergies between various Bank activities and instruments—including SG and NSG lending, technical cooperation, and analytic work—that the Bank can make the most of its resources and tap into its full comparative advantage.

With regard to the annual programming process, it is common for projects to be approved and undertaken in sectors that were not envisioned in the Country Strategy, and annual lending allocations do not necessarily accord with the lending envelopes included in Country Strategies. Indeed, the criteria used to determine lending envelopes and annual allocations are not transparent and appear to be closely correlated to past disbursements. In addition, the annual nature of the programming process puts time constraints on loan preparation that hurry the process and lead to year-end bunching of approvals—and possibly squeeze out time for needed analytic work as well as opportunities for careful discussion and review.

In light of these findings, OVE suggests that (i) the Board and Bank Management undertake an in-depth exercise to revisit the Country Strategy guidelines and consider carefully the appropriate role and structure of Country Strategies and Country Program Documents going forward; (ii) the methodology for determining both lending envelopes in country strategies and annual lending allocations in country programs be made more transparent and the Operational Program Report presented to the Board show how those annual allocations relate to IDB-9 priorities and country needs; and (iii) the programming

process be carried out on a rolling two-year basis (with the first year being binding and the second year showing notional allocations and work programs) to allow greater time for planning and executing loans and other Bank support.

PREFACE

The Inter-American Development Bank (IDB) is in a period of rapid change, responding to both the economic dynamism of the Region it serves and the increasing competition in the international financial marketplace. Over the past decade, countries in Latin America and the Caribbean have gained greater access to alternative sources of finance and an increasingly ability to generate and share knowledge among themselves. Like other multilateral development banks, IDB is seeking to adapt to this changing international landscape by ensuring that it is responsive to borrowing countries' needs and putting strong emphasis on effectiveness in its use of scarce resources.

In 2010 the IDB's Board of Governors approved the 9th General Capital Increase of the IDB (IDB-9). The IDB-9 Agreement laid out a series of reforms intended to strengthen the strategic focus, development effectiveness, and efficiency of the IDB to help it remain competitive and relevant in the years ahead. As part of that Report, IDB's Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation—to be presented to the Board of Governors in March 2013—to assess IDB's progress in implementing those reforms. The full evaluation is available at www.iadb.org/evaluation.

This paper is one of 20 background papers prepared by OVE as input to the IDB-9 evaluation. It seeks to determine whether one portion of the IDB-9 requirements has been implemented fully and effectively and to offer suggestions to strengthen implementation going forward. The overarching goal of this paper and the entire evaluation is to provide insights to the Governors, the Board, and IDB Management to help make IDB as strong and effective as possible in promoting economic growth and poverty reduction in Latin America and the Caribbean.

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This background paper was prepared by Carlos Elias and Jose Ignacio Sembler, under the guidance of Cheryl Gray and Diether Beuermann. All background papers were thoroughly reviewed and discussed within OVE and shared with IDB management for comments. The other background papers and full IDB-9 evaluation can be found at www.iadb.org\evaluation.

ACRONYMS AND ABBREVIATIONS

CPD	Country Programming Document
DEM	Development Effectiveness Matrix
FSO	Fund for Special Operations
GDP	Gross domestic product
IDB	Inter-American Development Bank
IDB-9	Ninth General Capital Increase
LAC	Latin America and the Caribbean Region
SG	Sovereign guarantee
NSG	Non-sovereign guarantee
OPR	Operational Program Report
VPC	Vice-Presidency for Countries
VPP	Vice-Presidency for Private Sector and NSG Operations
VPS	Vice-Presidency for Sectors and Knowledge

EXECUTIVE SUMMARY

The country programming process is key to ensuring that the Inter-American Development Bank (IDB, or Bank) is "doing the right thing." The result of the country programming process is the Bank's work program, including loans, technical cooperation projects, grants, and analytic work. A successful programming process results in a work program that is highly relevant in identifying and eliminating development bottlenecks.

The Bank's country programming process involves two documents: the Country Strategy, which provides a multiyear overview of the Bank's work program; and an annual Country Program Document, which adds specificity to the overall plans of the Country Strategy, laying out lending allocations and the work program. The most recent guidelines for these documents were approved by the Board of Directors in 2009.[1]

The main IDB-9 requirements related to Country Strategies are that they should include broad development frameworks and more specific macro-fiscal frameworks, draw on this analysis (and country dialogue around it) to align the country program to country needs, and reflect country demand for the Bank's lending and non-lending products. The development framework is intended to provide a medium-term roadmap for Bank actions, and the macro-fiscal framework is intended to provide an overview of the macroeconomic conditions of the country to help guide the determination of an overall Bank lending envelope that is consistent with macroeconomic sustainability. To encompass the full array of IDB products and country demand, the IDB-9 Agreement also mandates that the Country Strategy and programming process incorporate non-lending products and the Bank's non-sovereign guaranteed (NSG) lending. The IDB-9 Agreement then requires that the annual programming document implement the program laid out in the strategy to ensure that the projects funded by the Bank are in line with country needs.

OVE finds that the Bank's Country Strategies fulfill some but not all of the IDB-9 mandates. They typically provide a general description of the characteristics and development challenges in the country, including recent macroeconomic performance as measured by aggregated indicators such as GDP growth, poverty, prices, and trade. They also provide summary diagnoses of sector needs and possible areas of Bank intervention. But they do not generally articulate a strategic approach for the Bank in key sectors or discuss the implications of the macro-fiscal analysis on the role of IDB or the size of IDB lending allocations.[2] They rarely discuss or build on past successes and failures of the Bank in selected areas of intervention or meaningfully discuss the Bank's comparative

[1] GN-2468-6, Country Strategy Guidelines.

[2] Country Strategies include lists of analytic work used to prepare Country Strategies. Most lists include Independent Macroeconomic Assessments, Debt Sustainability Analysis, Growth Diagnostics, or other documents that indicate that the Bank invests in analyzing the economies of countries in the region. From the information provided in the CS, it is not usually clear how the analysis is used in defining priorities for the Bank.

advantage. And although the Bank prepares relevant analytic work, country strategies in general do not use it to map out a strategic approach at the sector level.[3]

Country Strategies do not meet IDB-9 expectations in two other specific ways as well. First, they pay relatively little attention to non-lending activities, whether knowledge products or technical cooperation. Second, they provide limited if any information on the NSG lending envelope or portfolio. More generally, most provide very limited information on the role of the Bank's private sector lending in promoting development or the actual or potential synergies between sovereign guaranteed (SG) and NSG instruments.

OVE also find that the annual programming process fails to fully meet the requirements of IDB-9 because it does not necessarily follow the priorities and general program laid out in Country Strategies. It is common for projects to be approved and undertaken in sectors that were not envisioned in the Country Strategy, and annual lending allocations do not necessarily accord with the lending envelopes included in Country Strategies. Indeed, the criteria used to determine lending envelopes and annual allocations are not transparent and appear to be closely correlated to past disbursements. In addition, the annual nature of the programming process puts time constraints on loan preparation that hurry the process and lead to year-end bunching of approvals—and possibly squeeze out time for needed analytic work as well as opportunities for careful discussion and review.

In light of these findings, OVE suggests that the Board and Bank Management undertake an in-depth exercise to revisit the Country Strategy guidelines and consider carefully the appropriate role and structure of Country Strategies and Country Program Documents going forward. The general approach and requirements of IDB-9—using strategies to stimulate country dialogue and to identify the intersection of country demand and Bank capacity in support of development—are fully valid but need to be implemented efficiently and effectively. And the failure to date to implement some of the specific requirements—including the integration of non-lending activities and NSG lending—should be rectified. It is only by identifying the synergies between various Bank activities and instruments—including SG and NSG lending, technical cooperation, and analytic work—that the Bank can make the most of its resources and tap into its full comparative advantage.

In addition, OVE suggests that the methodology for determining both lending envelopes in Country Strategies and annual lending allocations in country programs be made more transparent, and that the Operational Program Report presented to the Board show how those annual allocations relate to IDB-9 priorities and country needs.

3 For example, the Country Strategy with El Salvador 2010-2014 was preceded by the preparation of an extensive report by the Bank, "*Hacia la generación de más oportunidades: fundamentos para una agenda de desarrollo económico y social en El Salvador*." This report presents a development agenda based on solving fiscal and macroeconomic imbalances resulting from the international crisis in 2007-2009, and makes proposals to address structural problems related to slow growth, human capital, productivity and competitiveness, infrastructure, and institutional strengthening. In each of these areas the report presents priorities and suggests interventions; however, the subsequent Country Strategy does not appear to reflect them.

Finally, OVE suggests that the programming process be carried out on a rolling two-year basis (with the first year being binding and the second year showing notional allocations and work programs) to allow greater time for planning and executing loans and other Bank support.

I. INTRODUCTION AND CONTEXT

1.1 For the Inter-American Development Bank (IDB, or Bank), the country programming process is key to ensuring that the Bank is "doing the right thing." The result of the country programming process is the Bank's work program—loans, technical cooperation projects, grants, and analytic work. A successful programming process results in a work program that is highly relevant in identifying and eliminating development bottlenecks. The design of a relevant work program does not guarantee success, as many factors come into play during execution of the work program—not least of them luck—but poor country programming guarantees missing opportunities to accelerate growth and to reduce poverty, the two overarching development goals of the IDB.

1.2 The IDB-9 Report mandated Bank reforms related to country programming:[4] "The Bank's annual programming document reflects the alignment of the project pipeline with the Country Strategy that provides the development framework, including the macro-fiscal framework, for the country."[5] IDB-9 also mandated that "the lending program will be based on the Bank's dialogue and programming process with its borrowing members. As such, Country Strategies and their updates will be the key documents to ensure that the Bank's priorities are aligned to country needs and to determine the extent and scope of the demand for Bank services, both financial and nonfinancial."[6]

A. Programming cycle

1.3 Traditionally the Bank's country programming process has been summarized in two documents: the Country Strategy, which provides a multiyear overview of the Bank's work program, and an annual document summarizing portfolio execution and approvals. The most recent guidelines for these documents were approved by the Board of Directors in 2009.[7]

1.4 The programming cycle as presented in the guidelines involves (i) updating country knowledge as an input for the preparation of the Country Strategy; (ii) Country Strategy preparation, including stakeholder consultations and approval; (iii) annual strategy implementation, summarized in the Programming and Portfolio Memorandum; and (iv) Country Strategy monitoring and evaluation (Figure 1). The Country Strategy should provide a medium-term roadmap for Bank actions by articulating goals, the strategic approach, and indicative interventions in thematic areas or sectors. The guidelines link this process to the

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4 "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank" AB-2764.

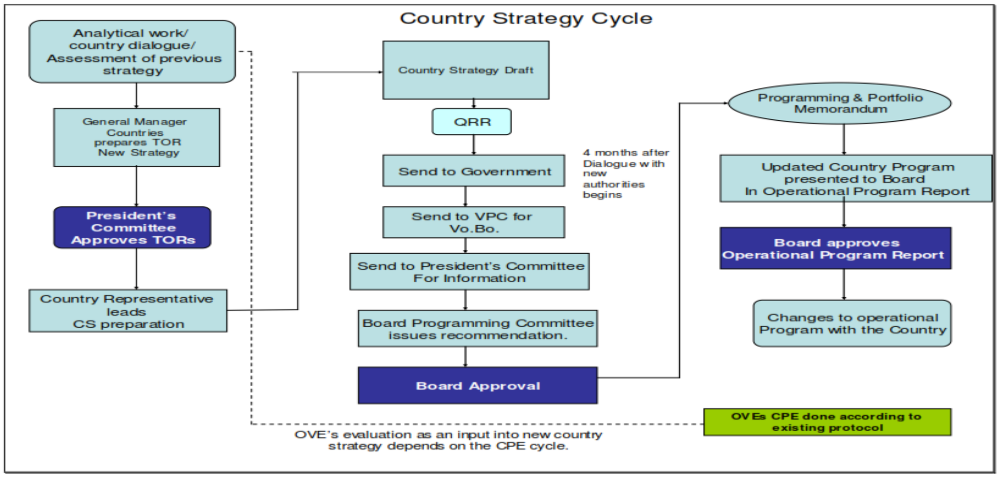
5 AB-2764, paragraph 4.9.

6 AB-2764, paragraph 4.16.

7 GN-2468-6, Country Strategy Guidelines.

political cycles of each country: the Bank is to prepare and agree on a new Country Strategy with every new government.

Figure 1. Country Strategy Cycle as Presented in the Country Strategy Guidelines of 2009



Source: Country strategy guidelines, Figure 2.1, GN-2468-6

1.5 According to the guidelines, the following are the key parameters for Country Strategies:

- Alignment with the political cycle to ensure country ownership of the Bank's work program.
- Identification of development objectives and specific sectors or thematic objectives.
- Identification of a results and monitoring framework, and links to the proposed work program as well as the portfolio of Bank projects in execution.
- Identification of risk factors, which would inform the definition of the resource envelope, and the selection of lending instruments.
- Definition of financial resources and, when appropriate, a base-case scenario and other scenarios, and the conditions that would trigger switching from the base-case scenario. The guidelines note the need for a debt sustainability analysis as an input for the definition of the financial envelope.
- Initial recommendations for the Bank's work program for the first two years, including sovereign guarantee (SG), non-sovereign guarantee (NSG), and technical cooperation projects and economic and sector work.
- Review of country systems to decide on their use in Bank operations, and identification of opportunities to strengthen country systems.
- Review of donor coordination and harmonization.
- Identification of opportunities to adjust the portfolio of projects in execution.

1.6 The guidelines note that the Programming and Portfolio Memorandum presents annual reports on the implementation of the Country Strategy and, importantly,

provides specificity to the parameters included in the strategy. It may discuss the following:

- New projects and justification of their consistency with the Country Strategy's objectives and expected results.
- The annual resource envelope and mix of instruments, and their consistency with the overall envelope presented in the Country Strategy.
- Portfolio results and contribution to overall Country Strategy objectives.
- Update of the results framework and risk factors.

1.7 The Country Strategy Guidelines indicate that staff are to track interventions and results systematically by monitoring interventions at entry, during implementation, and at exit. They suggest that a Development Effectiveness Matrix (DEM) be included in each Country Strategy to map the relationships between country objectives, Bank program objectives, and sector outcome indicators.

1.8 The Bank's programming process has evolved from that described in the 2009 guidelines. It still includes Country Strategies as envisioned in the guidelines, but the Programming and Portfolio Memorandum has been replaced by the Country Program Document (CPD), which focuses on programming and drops the review of the portfolio.

1.9 The selection of projects for a program is made in two phases. First the Bank and government agree on the list of sectors in which the Bank would be funding projects for the duration of the Country Strategy. Second, every year the Bank and government agree on the specific list of projects to be funded by the Bank—for most countries, government representatives and Bank staff reach formal agreement sometime before the end of one year or early in the first quarter of the new year—and the list is reported in the CPD. The last programming cycle of the Bank started for most countries in October/November 2011 and resulted in formal agreements between the Bank and the government by January 2012. The Bank's Operational Program Report (OPR), which summarizes the information presented in individual CPDs, was presented to the Board of Directors in April 2012.[8] The relevance of the OPR for Bank programming goes beyond summarizing the work programs of all countries: in its Annex III it presents a list of projects that is approved by the Board, and these projects qualify for simplified approval procedures. Country teams thus have a strong incentive to present as good a list of expected projects as possible in the CPD.

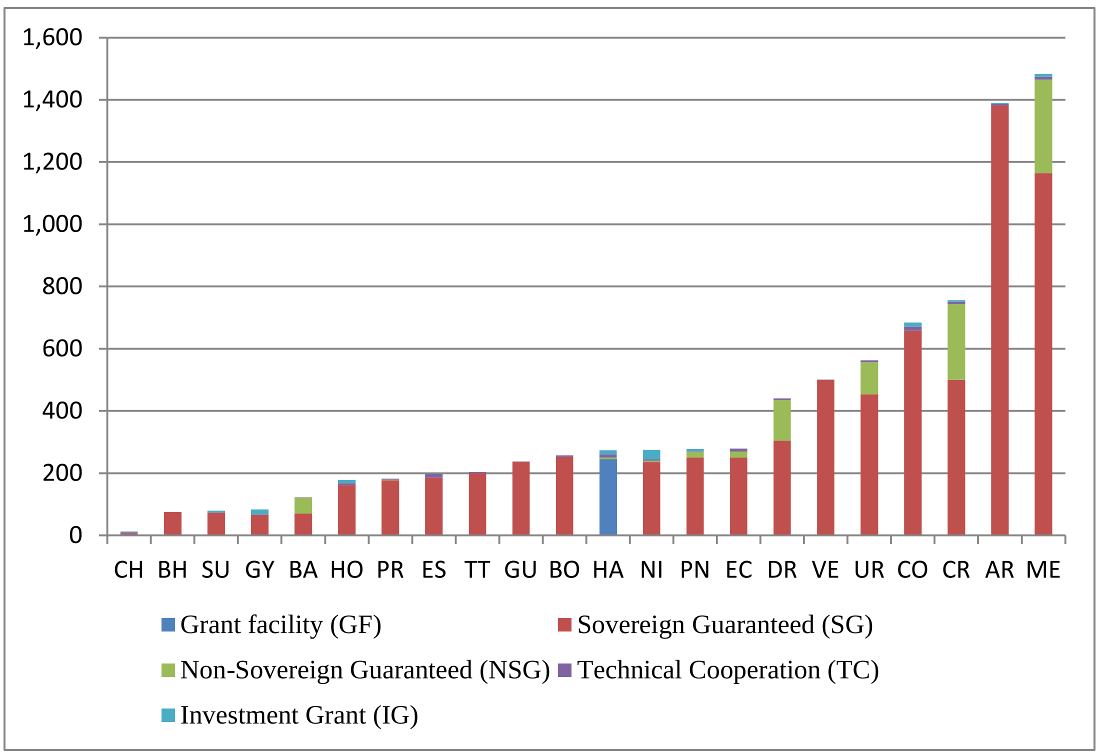
1.10 Like the definition of projects, the definition of the resource envelope is made in two phases. First, the Bank estimates an overall envelope for SG lending for the country over the period of the Country Strategy. Then every year the Bank estimates the annual individual allocation of resources for all countries. Although there is no formal document laying out the criteria and process for defining the

8 In 2012 only three countries did not follow this schedule: Brazil and Peru because they were in the final stages of preparing their Country Strategies, and Jamaica, which does not have a date for the preparation of the Country Strategy.

overall lending envelope, interviews with Bank staff indicate that decisions take into account the absorptive capacity of the country, historical lending and disbursement levels, the lending capacity of the Bank, and the demand from the authorities for Bank support. Table 1 in the Annex shows the Country Strategy envelope for all borrowing member countries of the Bank. These envelopes are indicative only, as the final allocation of funds is defined annually. Figure 2 presents the allocation of funds for 2012 by type of instrument for all countries (see also Table 2 in the Annex).

1.11 The process for defining NSG projects is more ad hoc, and it is often argued that because of the demand-driven nature of engagement with private sector clients it is not possible to program NSG lending in advance. For this reason, at the beginning of the annual programming cycle, the Bank allocates 80-85% of total annual available Bank lending resources to individual countries for their SG allocation, and the balance is reserved for NSG loans without a country-specific allocation. While funding for SG projects is defined at the country level at the beginning of the annual programming cycle, funding for NSG projects is defined only for the whole Bank. NSG projects at an advanced stage of project development, for which either approval is imminent or the project has a firm commitment from the client, may be included in the OPR.

Figure 2. 2012 Lending Envelope by Type of Instrument (US$ million)



Source: OPR 2012.

B. IDB-9 requirements

1.12 The main requirements of IDB-9 related to Country Strategies were that they include broad development frameworks and more specific macro-fiscal frameworks, and draw on this analysis (and country dialogue around it) to align the country program to country needs and reflect country demand for the Bank's lending and non-lending products. The development framework is intended to provide a medium-term roadmap for Bank actions. Identification of development challenges in a country can help to articulate the Bank program's goals, strategic approach, and indicative interventions—both lending and non-lending products—to achieve those goals in specific thematic areas or sectors. In this context, the macro-fiscal framework is intended to provide an overview of the macroeconomic conditions of the country to help guide the determination of an overall Bank lending envelope that is consistent with macroeconomic sustainability. To encompass the full array of IDB products and country demand, the IDB-9 Agreement also mandated that the Bank's NSG lending be incorporated in the Country Strategy and programming process.

1.13 The appropriate role for a country strategy is a subject of ongoing debate in IDB and other multilateral development banks. This debate is particularly relevant in Latin America and the Caribbean (LAC), where countries are growing and becoming more sophisticated and capable, and where they are increasingly able to tap global capital markets for financing. The approach in IDB-9 recognizes that the Bank's activities are—and must continue to be—demand-driven. It also recognizes that IDB is a development bank, and in this role it has a responsibility to promote economic development. For this reason, Bank-funded activities, though demand-driven, need to be anchored in a development framework that ensures effectiveness and value-added for the Bank's ultimate client, the people of the LAC Region.

C. Methodology

1.14 To assess the Bank's efforts to meet the mandates of IDB-9, this evaluation reviews the content of Country Strategy and CPDs and compares the strategic plan presented in Country Strategies with the realized work program reflected in the CPDs. OVE also gathered information from interviews with Bank staff, reviews of OVE's country program evaluations, and data on approvals of Bank-funded projects. The only external source of data used for the analysis is the World Bank DataBank, which provides information on many of the development indicators of relevance to the analysis (databank.worldbank.org). The Country Strategies reviewed for the analysis are those approved after the approval of IDB-9: Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Haiti, Honduras, Mexico, Panama, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

II. FINDINGS

A. Country strategies

2.1 OVE finds that the Bank's Country Strategies fulfill some but not all of the IDB-9 mandates. Country Strategies typically provide a general description of the characteristics and development challenges in the country, including recent macroeconomic performance as measured by aggregated indicators such as GDP growth, poverty, prices, and trade. They also provide summary diagnoses of sector needs and possible areas of Bank intervention. But they do not generally articulate a strategic approach for the Bank in key sectors or discuss the implications of the macro-fiscal analysis on the role of IDB or the size of IDB lending allocations.[9] They rarely discuss or build on past successes and failures of the Bank in selected areas of intervention or meaningfully discuss the Bank's comparative advantage. And they do not always build on relevant analytic work undertaken by Bank specialists.[10]

2.2 Country strategies do not meet IDB-9 expectations in two other ways as well. First, they pay relatively little attention to nonlending activities, either knowledge products or technical cooperation. Second, they provide limited if any information on the NSG lending envelope or portfolio. More generally, most provide very limited information on the role of the Bank's private sector lending in promoting development or the actual or potential synergies between SG and NSG instruments.[11]

2.3 Some selected Country Strategies are described below for illustrative purposes.

- ***Bolivia 2011-2015*** (GN-2631-1). The first section of this strategy provides the country context; briefly notes some general characteristics of the country, such as its population, poverty indicators, and recent macroeconomic results; and concludes with some general remarks on the work program of the new government. Annex IV discusses macroeconomic risk factors, reviewing the government's economic program, estimating near-term fiscal deficits and financing needs, and emphasizing the vulnerability of the economy to changes

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9 Country Strategies include lists of analytic work used to prepare them. Most such lists include Independent Macroeconomic Assessments, Debt Sustainability Analysis, Growth Diagnostics, or other documents that indicate that the Bank invests in analyzing the economies of countries in the Region. From the information provided in the Country Strategy, it is not usually clear how the analysis is used in defining priorities for the Bank.

10 For example, the Country Strategy with El Salvador 2010-2014 was preceded by the preparation of an extensive report by the Bank titled "*Hacia la generación de más oportunidades: fundamentos para una agenda de desarrollo económico y social en El Salvador*." This report presented a development agenda based on solving fiscal and macroeconomic imbalances resulting from the international crisis in 2007-2009, and makes proposals to address structural problems related to slow growth, human capital, productivity and competitiveness, infrastructure, and institutional strengthening. In each of these areas the report presents priorities and suggests interventions, which, however, do not appear to be reflected centrally in the subsequent Country Strategy.

11 For further discussion, see IDB-9 background paper on Private Sector Development.

in export prices.[12] The strategy mentions that a debt sustainability analysis and a macroeconomic sustainability assessment have been prepared, though results and their link with the Bank's program are not mentioned (though Bolivia is a HIPC country and received large debt forgiveness from the Bank in 2007). The lending allocation to Bolivia is driven by the amount of resources available to the country from the Fund for Special Operations (FSO), and the mix of FSO and ordinary capital. The strategy does not include an indication of the likely size of loans or types of lending instruments.

The Bolivia strategy presents the sectors selected for Bank interventions, proposing an extensive work program in transportation, water and sanitation, energy, early childhood development, health, education, public governance, indigenous people, and climate change. For each one of these sectors the document presents a brief analysis of issues and suggests broad areas of Bank support. For example, the strategy presents the main issues and institutional setup in the water sector and suggests interventions to expand water and sanitation service coverage and solid waste collection services. It does not discuss whether the Bank will focus on certain cities or regions, on water or sanitation or both simultaneously, on strengthening the regulatory framework or more technical issues, and on how lending will be complemented with knowledge products and technical cooperation or coordinated with the work of other donors.

- ***Brazil 2012-2014*** (GN-2662-1) and ***Mexico 2010-2012*** (GN-2595-1). Large countries with strong demand for Bank support present different challenges—for example, they have federal, state, and municipal governments that face different development issues and demand specialized support from the Bank. In Brazil, the Bank's portfolio in 2010 included 105 loans in execution for a total amount of US$8.56 billion, of which subnational agencies represented 70% of the total. The Bank's exposure to Brazil was almost one-quarter of total Bank exposure in November 2011. Yet for Brazil the IDB is a small creditor, its debt accounting for about 0.5% of Brazilian GDP. The Country Strategy lays out a very broad array of sectors, with almost no focus or prioritization: social protection, health, education, labor markets, transportation, water and sanitation, energy, urban development, citizen security, public management, fiscal management, environmental and rural management, climate change, productive and capital market development, science technology and innovation, tourism, and country systems. Similarly, the Country Strategy for Mexico presents a long list of sectors with brief diagnostics and suggested areas for Bank interventions.

- ***Panama 2010-2014*** (GN-2596). This strategy is one of a few that attempts to narrow the focus of interventions and provide more specificity to the Bank's work program. It identifies three development goals to guide sector selection:

[12] The annex recommends that the country establish a formal saving mechanism to facilitate countercyclical fiscal policy and design policies that facilitate private investment and diversify the productive structure, though these issues are not included as topics for Bank projects or country dialogue.

strengthening public finances, funding basic infrastructure, and facilitating access to social services. It then selects six sectors—public finance, transport, water and sanitation, energy, education, and health—and includes a brief diagnostic, proposals to address key issues, and associated risks for each. Though not necessarily a fully-fledged development framework, the information is specific and suggests choices. For example, in education the Bank's investments are to focus on rural areas, indigenous peoples, and expanding supply and improving quality in preschool, first, second and third grades and in mathematics and language. The Country Strategy also includes, in an annex, a list of knowledge products in selected sectors, and it provides a brief analysis of the impact of Bank lending (which it proposed to frontload during the period) on the fiscal position of government.

- ***Peru, 2012-2016*** (GN-2668). The recently approved Country Strategy for Peru also makes an attempt to focus—in this case on closing the urban-rural gap in coverage of social services and economic opportunity. The strategy proposes "development combos"—multidisciplinary programs that deliver packages of goods and services to rural communities—and larger SG loan size.

- ***El Salvador 2010-2014*** (GN-2575). A few Country Strategies mention the objectives of NSG lending. This strategy briefly notes that Bank NSG products will be used to address the impact of market failures that limit small and medium-sized enterprises' access to finance. It mentions Multilateral Investment Fund (MIF) support for youth training activities. This is one of the few Bank strategies that identify a NSG focus in a sector or area of intervention, although it provides no additional information on how to operationalize NSG support, and the DEM does not include indicators to measure implementation of NSG activities. No Country Strategy reviewed for this evaluation includes information about the NSG lending envelope, and most provide only limited information on NSG activities.

- ***Chile 2011-2014*** (GN- 2642-1). The Country Strategy for Chile is unusual in that the country seeks knowledge products but has no demand for loans. Chile's economic and social development is among the highest in the Region. The country does not need resources from the Bank to finance public spending, but it does seek to tap into the Bank's knowledge, and it also offers the opportunity of transferring knowledge to other borrowing member countries in such areas as public and fiscal management, in which Chile has significant expertise. The Country Strategy does not, however, fully articulate an approach to provide specialized support to Chile while transferring knowledge from Chile to other countries in the Region. Instead, it presents analysis and hints of projects in a number of sectors, including labor markets, climate change, transport and road safety, innovation science and technology, public sector management, trade and integration, government financial management and procurement, and citizen security. In spite of the explicit acknowledgement that the country does not need loans, the Country Strategy is presented as if the Bank's most important contribution is in addressing the

problems of the selected sectors with loans. Given the emphasis on knowledge products, it is disappointing that the Country Strategy does not present proposals for knowledge products for the country.

2.4 Despite the issues with individual strategies, most Bank staff consider Country Strategies to be important: 82% of Bank operational staff surveyed for this evaluation consider Country Strategies to be very or somewhat important in defining the direction of the Bank in a country (Table 1), and 68% of surveyed staff indicate they have read the strategy for the countries they work on (Table 2). In both cases the results in VPC are highest and those in the Vice-Presidency for Private Sector and NSG Operations (VPP) lowest, which is not surprising given that VPC prepares Country Strategies and VPP's NSG activities are not typically included in them.

Table 1. Staff Views on Importance of Country Strategies

In your professional experience at the Bank, how important are the Country Strategies in defining Bank direction in a country?	**VPC**	**VPS**	**VPP**	**Total**
Very important	60%	33%	24%	41%
Somewhat important	31%	44%	52%	41%
Of minor importance	7%	20%	21%	16%
Not important	2%	3%	2%	2%

Source: OVE staff survey (see IDB-9 background paper).

Table 2. Staff Familiarity with Country Strategies

Have you read the most recent Bank country strategy for the country(ies) that you have worked on over the last 3 years?	**VPC**	**VPS**	**VPP**	**Total**
Yes	73%	71%	40%	68%
I have read parts of the strategy(ies)	18%	19%	29%	20%
I have a general idea of the contents	5%	5%	12%	6%
No	4%	4%	19%	6%

Source: OVE staff survey (see IDB-9 background paper).

2.5 One reason for the lack of strategic focus in Country Strategies may be incentives both within and outside the Bank. Staff interviewed for this evaluation underscore the fact that incentives among Bank staff and in client countries tend to favor broad scope and lack of specificity in country strategies. Within the Bank, all sectors would ideally like to have a role in every Country Strategy. And client countries would like as much flexibility as possible to determine the areas and forms of Bank engagement. The result in most cases is a Country Strategy that has little prioritization and even then is not necessarily followed in subsequent annual country programming (as discussed below). Table 3 presents information on the sectors included in the Country Strategies for all 26 borrowing members of the Bank. The number of planned sectors tends to be large, and often more sectors are added later.

Table 3. Number of sectors in country strategies

Country	CS period	Number of sectors planned in the Country Strategy	Number of sectors with approved projects since strategy approval (excluding regional integration and other)	
			Loans	All projects (loans and TC)
Argentina	2009-2011	13	15	15
Bahamas	2010-2014	5	2	8
Barbados	2009-2013	4	7	8
Belize	2008-2012	na	8	11
Bolivia	2011-2015	8	6	12
Brazil	2012-2014	13	6	8
Chile	2011-2014	8	4	10
Colombia	2012-2014	11	5	8
Costa Rica	2011-2014	6	3	9
Dominican Republic	2010-2013	9	10	11
Ecuador	2008-2011	na	12	16
El Salvador	2010-2014	6	10	13
Guatemala	2008-2011	na	9	14
Guyana	2008-2012	na	8	12
Haiti	2011-2015	6	6	11
Honduras	2011-2014	5	6	12
Jamaica	2006-2009	na	10	14
Mexico	2010-2012	9	11	15
Nicaragua	2008-2012	na	13	15
Panama	2010-2014	6	9	13
Paraguay	2009-2013	10	10	16
Peru	2012-2016	10	3	6
Suriname	2011-2015	8	4	6
Trinidad and Tobago	2011-2015	8	5	8
Uruguay	2010-2015	10	9	12
Venezuela	2011-2014	4	2	5
Average		8.0	7.4	11.1

Source: IDB Country Strategies and Bank systems, approvals of projects up to July 24, 2012.

2.6 One area in which Country Strategies and CPDs excel is in presenting information about the status of country systems and identifying areas for future support.[13] For example, the Suriname strategy notes important gaps in public investment

[13] For more in-depth information on the Bank's support of country systems, see the IDB-9 background paper on country systems.

management, budget planning and execution, financial management, internal controls, external audits, and procurement. It also notes that an assessment to be prepared in 2014 will evaluate progress and map future actions to improve country systems. The Trinidad and Tobago strategy notes problems in procurement related to the existence of special purpose enterprises that escape the purview of the Central Tenders Board, and notes that the Bank is providing support to update legislation, develop standard bidding documents, and design an e-procurement system.

2.7 In sum, the Bank has only partially met the IDB-9 requirements regarding Country Strategies. The strategies contain an analysis of development challenges and macro-fiscal issues but it tends to be summary in nature. Country Strategies rarely present trade-offs, analysis of the Bank's past experience or comparative advantage, or links between the macro-fiscal analysis and the envelope for Bank lending. They do not include NSG activities or analysis of synergies between the Bank's public and private sector arms. There are strong incentives, both in the Bank and in the country, to include a wide array of sectors in the strategy, thus reducing the Bank's ability to focus its resources to ensure significant impact.

2.8 The Bank's 2009 Country Strategy Guidelines are aligned with the IDB-9 mandates, but do not appear to be fully followed in practice in a number of areas:

- "Guidelines are expected to yield a more country specific strategy; one that provides for a consistent approach while allowing differentiated application in response to country circumstances" (para. 1.3).
- "…including an envelope of financial resources and non-financial products that the country can expect from the Bank" (para. 2.7)
- "The CS is results focused, as opposed to instrument focused. Through the CS the Bank articulates its intention to support specific country goals (including level of financing) and outlines the pipeline for the first two years of the strategy, leaving decisions about the content of the remainder of the operational program (which tends to have a very tentative character at the strategy design stage) to the programming process" (para. 3.2).
- "The DEM will eventually be supported by an IT application that is both used to input the Country Strategy information (document and supporting analytical work) at the time of approval and to track implementation. The future IT application will need to be interconnected to the systems listed above (or their future equivalents), in order to keep track of implementation of the strategy in a comprehensive and on-time format" (para. 2.10 of Results Framework).
- "The CS will be monitored by pulling information from the Bank's existing systems to: (i) map completed project results to country strategy objectives; (ii) map new projects to country strategy objectives; (iii) report, on a pre-established frequency, on progress in country strategy outcome indicators; and (iv) monitor risk and changes in objectives caused by country circumstances such as those brought about by exogenous events" (para. 2.16 of Results Framework).

- "Similarly, the cost of implementing the strategy will be tracked to ensure that results are obtained in a cost-effective way. This will provide a baseline for country-specific costs for different instruments and products" (para. 2.17 of Results Framework).

2.9 A key issue going forward is how specific Country Strategies should be in laying out results frameworks that link Bank inputs to results at the country level. Recent Country Strategies include detailed results frameworks that draw to some extent from the goals in the IDB-9 results framework. Yet it is unclear how much meaning and influence these results frameworks have in practice. However, as Table 4 shows, 70% of respondents to OVE's staff survey find the results frameworks in country strategies to be useful for their work, with the highest positive responses for VPC staff (the vice-presidency that prepares the strategies) and lower positive responses for staff of the Vice-Presidency for Sectors and Knowledge (VPS) (which use the results frameworks as input for project preparation).

Table 4. Staff Views on Usefulness of Results Frameworks in Country Strategies

How useful is the results framework in the Bank Country Strategy for your work?	VPC	VPS	VPP	Total
Very useful	40%	24%	17%	28%
Somewhat useful	46%	40%	33%	41%
Of minor usefulness	11%	27%	36%	23%
Not useful	3%	9%	14%	8%

Source: OVE staff survey (see IDB-9 background paper)

B. Country Programming Documents

2.10 The work program presented in Country Strategies is general, and it is not possible to precisely map those general statements to specific projects approved by the Bank. However, it is possible to show the correspondence between sectors selected in the strategies and projects approved by the Bank. The comparison reveals that the Bank routinely includes projects that were not originally included in areas selected in the Country Strategy (see Table 3). For example, the Country Strategy for the Dominican Republic proposed Bank interventions in 9 sectors, and by July 2012 the Bank had approved projects in 11; the strategy for Uruguay proposed interventions in 10 sectors and the Bank approved projects in 12; and the strategy for Mexico proposed interventions in 9 sectors and the Bank approved projects in 15.

2.11 This is confirmed at the project level by OVE's survey of Bank operational staff, about two-thirds of whom reported that they have worked on projects in a country not originally included in the country strategy. This result is consistent across VPC, VPS, and VPP (Table 5).

Table 5. Projects in Sectors not Included in Country Strategies

What share of the projects that you have worked on over the past 3 years were in a sector that was not originally included in the Bank country strategy?	VPC	VPS	VPP	Total
None	35%	33%	36%	34%
Fewer than 10%	28%	20%	26%	23%
10-50%	16%	24%	21%	21%
More than 50%	7%	14%	10%	11%

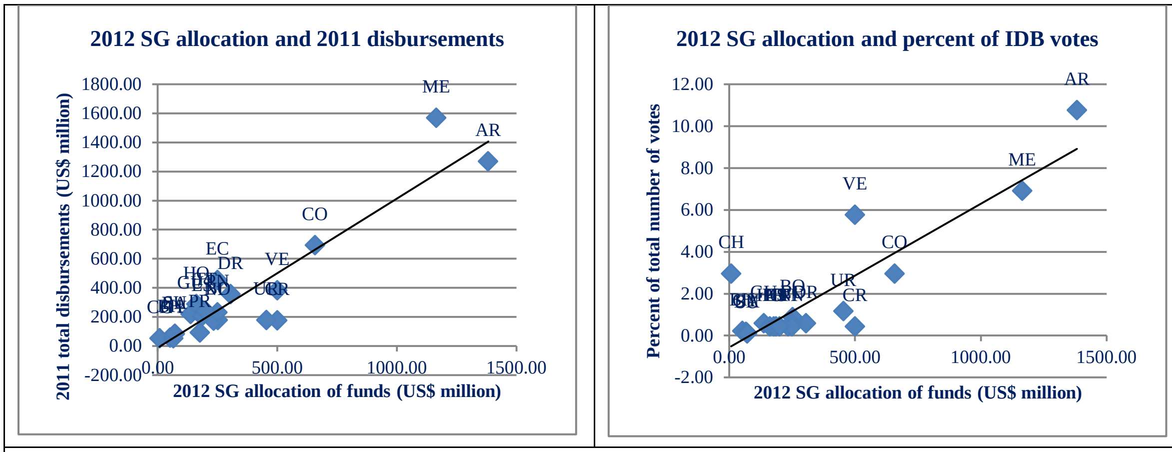
Source: OVE staff survey (see IDB background paper).

2.12 The annual nature of the programming cycle may lead to negative outcomes in some cases. Because the programming process is an annual exercise, the definition of investment priorities, the selection of appropriate Bank instruments, and the design of projects need to be compressed into 12-15 months for most projects. In some cases, delays in project preparation result from changes in priorities, or from the inclusion of new projects after the CPD has been approved and included in the OPR. The ideal scenario under current rules is for the project team to receive resources for project preparation in September-October, with the expectation of approving the project before the end of the following year. Even for those teams the time allotted for project preparation may be challenging when preparation demands significant investment in collecting primary data and analyzing it. In many cases teams have to compromise on the quality of design to meet the approval target date, and they plan on introducing tasks as part of execution that would more appropriately fit in the design process. In addition, this process leads to bunching operations for approval at the end of the programming cycle.

2.13 As explained earlier, funding allocations are determined annually in the CPD and do not necessarily conform with the funding envelopes laid out in Country Strategies. OVE's analysis indicates that the overall annual allocation of resources per country, the funding envelope, is highly correlated with the previous year's disbursement performance and is also correlated with the country's ownership share in the Bank (Figure 3). The allocation does not appear to be influenced by the nature of the country's development challenges or other social and economic indicators.[14]

[14] The results derive from a regression of total funding allocations in 2012 per country on disbursements in 2011; and of SG allocations in 2012 per country on disbursements in 2011 and country ownership of the Bank as of December 31, 2011. The analysis uses data for all countries except Brazil, Peru, Jamaica, Haiti, and Belize. Brazil, Peru and Jamaica were excluded because the 2012 OPR does not provide information about allocations for these countries. Haiti was excluded because of the exceptional Bank approach in providing only grant support though the Grant Funding Facility. Belize was excluded because the country did not receive an allocation in 2012. The analysis included other country variables, but their inclusion did not result in any statistically significant estimate.

Figure 3. Relationship between Countries' 2012 SG Allocations, 2011 Disbursements, and Ownership Shares



Source: OPR 2012 and IDB systems

III. SUGGESTIONS GOING FORWARD

3.1 In light of the findings described above, OVE suggests that the Board and Bank Management undertake an in-depth exercise to revisit the Country Strategy guidelines and consider carefully the appropriate role and structure of Country Strategies and CPDs going forward. The general approach and requirements of IDB-9—using strategies to stimulate country dialogue and to identify the intersection of country demand and Bank capacity in support of development—are fully valid but need to be implemented efficiently and effectively. And the practice to date of not fully integrating nonlending activities and NSG lending should be reconsidered. It is only by identifying the synergies between various Bank activities and instruments—including SG and NSG lending, technical cooperation, and analytic work—that the Bank can make the most of its resources and tap into its full comparative advantage.

3.2 In addition, OVE also suggests that the methodology for determining both lending envelopes in Country Strategies and annual lending allocations in country programs be made more transparent, and that the Operational Program Report presented to the Board show how those annual allocations relate to IDB-9 priorities and country needs.

3.3 Finally, OVE suggests that the programming process be carried out on a rolling two-year basis (with the first year being binding and the second year showing notional allocations and work programs) to allow greater time for planning and executing loans and other Bank support.

LIST OF PERSONS INTERVIEWED

Tracy Betts, Division Chief Strategy Monitoring, SPD/SMO

Morgan Doyle, Sector Senior Advisor, VPS/VPS

Fidel Jaramillo, Country Representative in Peru

Patricia Torres, VPC/CAN

Roberto Vellutini, Vice President for Countries

Selected Executive Directors and staff

Annex: Tables and Figures

Table 1. CS envelope for all countries (US$ million)

	Envelope			CS period
	SG	NSG	TOTAL	
AR	1,800	NA	NA	annual*
BH	195.0	NA	NA	2010-2014
BL	52.0	NA	NA	2008-2012
BO	1,260.0	NA	NA	2011-2015
BR	**			
BA	200.0	NA	NA	2009-2013
CH	120.0	NA	NA	2011-2014
CO	2,556.0	NA	NA	2012-2014
CR	1,100.0	NA	NA	2011-2014
DR	1,445.0	NA	NA	2010-2013
EC	1,200.0	NA	NA	2008-2011
GU	1,535.0	NA	NA	2008-2011
GY	113.0	NA	NA	2008-2012
HO	648.0	NA	NA	2011-2014
HA	1,086.0	NA	NA	2011-2015
JA	**			
ME	5,800.0	NA	NA	2010-2012
NI	399.4	NA	NA	2008-2012
PN	990.0	NA	NA	2010-1014
PE	**			
PR	1,000.0	NA	NA	2009-2013
ES	1,080.0	NA	NA	2010-2014
SU	300.0	NA	NA	2011-2015
TT	1,500.0	NA	NA	2011-2015
UR	1,797.0	NA	NA	2010-2015
VE	3,600.0	NA	NA	2011-2014

Source: OPR 2012
Notes: * The last CS was approved for the period 2004-2008. Subsequent CS updates note an annual indicative amount of US$1.6 billion.
** The CS for Brazil and Peru was in preparation by the time of the publication of the 2012 OPR. The CS for Jamaica's approval is uncertain.

Table 2. 2012 allocation of funding per country (US$ million)

	GRF	SG	NSG	TC	IG	TOTAL
AR	-	1,382.0	-	5.0	2.9	1,389.9
BH	-	52.0	-	-	-	52.0
BL	-	-	-	-	-	-
BO	-	252.0	-	5.3	-	257.3
BR	-					**
BA	-	70.0	52.0	0.7	-	122.7
CH	-	8.0	-	2.1	2.7	12.8
CO	-	658.0	-	13.3	12.7	684.0
CR	-	500.0	244.0	7.0	5.4	756.4
DR	-	305.0	130.0	5.6	-	440.6
EC	-	250.0	20.0	8.7		278.7
GU	-	237.3	-	0.4	-	237.7
GY	-	66.2	-	1.4	16.4	84.0
HO	-	162.2	-	5.7	10.4	178.3
HA	245.0		5.0	10.4	14.0	274.4
JA	-					**
ME	-	1,165.0	300.0	8.9	9.5	1,483.4
NI	-	235.4	5.0	3.3	31.5	275.2
PN	-	250.0	18.5	2.3	7.5	278.3
PE	-	**				**
PR	-	177.0	2.0	3.3	-	182.3
ES	-	186.0	-	11.6	-	197.6
SU	-	72.0	-	2.5	4.8	79.3
TT	-	200.0	-	3.9	-	203.9
UR	-	454.3	102.5	6.0	-	562.8
VE	-	500.0	-	1.6	-	501.6

Source: OPR 2012

Management Comments

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

Mid-Term Evaluation of IDB-9 Commitments
Background Paper: Country Programming
Management Comments

Mid-Term Evaluation of IDB-9 Commitments
Background Paper: Country Programming
Management Comments

I. INTRODUCTION

1.1 Management welcomes this evaluation of the implementation of the IDB-9 requirements related to the country programming process of the Bank. The findings presented by the Office of Evaluation and Oversight (OVE) in this background paper will contribute to the Bank's efforts to carry out more effectively the country programming process.

1.2 Management wishes to thank OVE for the constructive dialogue throughout the evaluation. We are pleased to see that some of our comments to the earlier draft of the paper have been incorporated in this final version.

II. OVERALL FINDINGS AND SUGGESTIONS

2.1 The background paper provides good insights into the actual role and purpose of Country Strategies and Country Program Documents, adding to the ongoing dialogue between Management and the Board of Directors as to the path forward.

2.2 Management particularly agrees with the paper's conclusions that Country Strategies and Country Program Documents excel in presenting information about the status of country systems and identifying areas for future support.

2.3 Management shares OVE's view about the difficulties in determining attribution at the country level and would like to point out that the results matrices in the Country Strategies and Country Program Documents simply track progress towards the development objectives in a particular sector or area of Bank involvement; they are not intended to measure attribution of Bank-supported interventions to country-level development outcomes. Management fully agrees that these matrices could be simplified, if the Board should so determine.

2.4 While we value the findings of OVE's review, Management would like to clarify a few issues that are essential to understanding the role of Country Strategies, the flexible and dynamic nature of the annual programming exercise and the demand-driven character of the Bank:

i. Management wishes to stress that the "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank" (IDB-9 Report) refers briefly to Country Strategies and Country Program Documents, while the scope of OVE's evaluation seems to go beyond the implementation of the requirements contained in such references. Management believes that both Country Strategies and Country Program Documents are consistent with IDB-9 requirements and the Board-approved Country Strategy Guidelines. It is also worth noting that both documents put a particular emphasis on "evaluability", OVE's main recommendation at the time of the framework's implementation.

ii. With regard to OVE's suggestion that "*the Board and Bank Management undertake an in-depth exercise to revisit the Country Strategy Guidelines and consider carefully the appropriate role and structure of Country Strategies and Country Program Documents going forward*", Management welcomes the opportunity to continue to improve the Country Strategies and Country Programming Documents, and the processes by which they are prepared. Nevertheless, Management believes that such an exercise would be useful only if carried out after a significant number of the Country Strategies approved under the current framework have been completed and evaluated. The kind of insights provided by OVE's Country Program Evaluations (CPEs) would be critical elements to inform Management and the Board's views and encourage consensus on the role and content of Country Strategies and Country Program Documents.

iii. As for the suggestion to ensure that *"the methodology for determining both lending envelopes in Country Strategies and annual lending allocations in country programs be made more transparent and the Operational Program Report presented to the Board show how those annual allocations related to IDB-9 priorities and country needs"*, Management believes that the current framework already addresses OVE's concerns. The lending envelopes contained in Country Strategies are only indicative. They are also subject to the Bank's financial capacity, and consistent with the budget and Long-Term Financial Projections (LTFP) processes. Such envelopes are determined taking into account the country's financing needs, projected IDB flows to the country, the result of a macroeconomic or debt sustainability analysis, the Bank's financial capacity to meet actual demand and any applicable lending constraints (such as, FSO or MSA-related constraints).

2.5 The annual country allocations are determined following criteria similar to those described in "Resource allocation for disbursement in 2010 and methodology" as well as the process described in *"LTFP and Programming: Room for Flexibility"*, which was agreed to by the Board of Directors. An operational program for the Bank consistent with such annual country allocations is reported to the Board at the beginning of each year as part of the Operational Program Report, a document required by the Country Strategy Guidelines. The processes to determine the Country Strategy's financial envelope and annual country allocations have been explained to Executive Directors and country authorities in technical briefings and bi-lateral meetings.

2.6 The Country Program Documents and the Operational Program Report indicate how each operation contributes to the IDB-9 Lending Program Priority Targets and Sector Priorities. In conclusion, Management believes that the current framework already addresses OVE's suggestion.

2.7 Finally, Management considers OVE's suggestion to carry out the programming process "*on a rolling two-year basis (with the first year being binding and the second year showing notional allocations and work programs."* worth exploring. However, Management would like to note that implementing such an exercise would require changing other corporate processes, namely the budget and the LTFP processes. Also,

carrying-out a tentative SG programming exercise with notional allocations and work programs would force the Bank to resume old practices that were criticized by OVE and the Board in the past, such as presenting tentative, multi-year lists of projects to be approved in the absence of formal agreements with the borrowing member countries and approved parameters by the Board of the Bank to guide programming in the subsequent years (i.e. Budget and LTFP). Given the demand-driven nature of non-sovereign guaranteed (NSG) operations, programming on a two year basis could create false expectations as many NSG projects included in the program are never approved. Management also notes that the feasibility of a multi-year programming exercise would depend upon each borrowing countries' interest in, and ability to, adapt to such an option.

III. LOOKING FORWARD

3.1 Management looks forward to working with the Board of Directors to follow up on OVE's suggestions as it seeks to further improve the quality and relevance of the country programming process to the Bank's clients.

ANNEX I: FACTUAL CORRECTIONS

1.1 Paragraph 1.11: OVE's statement with respect to SG/NSG allocation does not describe the actual process. The allocation of resources between the SG and NSG windows for any programming year is agreed within Senior Management and reflected in the LTFP document presented to the Board. There is no predefined percentage of total lending volume for each window.

1.2 Paragraph 2.5: OVE's statement that current Country Strategies have little priorization is based on an assessment of the number of sectors included in the Country Strategies (see table 3). Management wants to point out that: 1) On average the number of sectors contained in Country Strategies approved under the current framework decreased by 30%; 2) there are only three countries in respect to which the number of sectors remained unchanged; and 3) only in one country it could be argued that the number of sectors increased. These figures are based on a reasonable interpretation of what constituted a "sector" in the old Country Strategies, which is a subjective concept given the very broad scope of the "pillars" used in the prior methodology. When in doubt, Management chose to err on the conservative side.

1.3 Paragraph 2.10: OVE's indication that projects not aligned with Country Strategies areas are routinely approved is based on a survey conducted among Bank employees (see Table 5) and, to a minor extent, a comparison of the number of sectors included in a Country Strategy and the number of sectors in which projects have been approved since Country Strategy Approval (see table 3). This analysis should have been based on the number of projects approved during the Country Strategy period that, according to the respective DEMs, were not aligned with the Country Strategy. An alternative approach to this analysis could have taken into consideration the alignment of the operations contained in the Bank´s annual Operational Program with the respective Country Strategies (see Table 3 contained in the 2012 Operational Program Report, document GN-2661-4, and Table 4 contained in the 2013 Operational Program Report, document CP-3463-1, for additional information). Pursuing an Operational Program with 100% alignment seems at odds with the flexible and dynamic nature of the annual programming exercise and the demand-driven character of the Bank (see Summary of the Deliberations and Minutes of the Meeting of the Programming Committee of the Board of April 9, 2012: *"Given the flexible, dynamic nature of the programming exercise, the Executive Directors said it was natural for changes to arise in the country program documents (CPDs) and indicative pipeline during the course of the year as a result of country dialogue. Furthermore, the operational program should not aim for total alignment with the country strategies, since country priorities could shift."*)