

INTER-AMERICAN DEVELOPMENT BANK GROUP

Around 90% of IADB net flows are non-concessional resources provided from its “Ordinary Capital” window. This profile focuses on its concessional resources via the Fund for Special Operations (FSO) and the Intermediate Financing Facility (IFF).

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

Net ODA \$US mio (FSO and IFF)	534.3
Other Official Flows \$US mio (OC)	4,894.5

Source: OECD/DAC, 2005 data (table 5).

1.2. Future Quantity Intent

In January 2007, the IADB agreed to provide multilateral debt relief to post-completion FSO countries (Bolivia, Honduras, Guyana and Nicaragua) and Haiti once it reached its HIPC completion point. The cost of this debt relief is being funded internally from FSO resources and as a result there is to be a 25% reduction in total IADB loan allocations for Bolivia, Guyana, Honduras and Nicaragua (excluding Haiti which is to receive mainly grants). The effect of this is to reduce the IADB’s overall allocation of FSO resources from \$400 million per annum to \$288 million.

2) KEY AGENCIES/MECHANISMS

2.1 Agencies and Structures

Fund for Special Operations (FSO)

The FSO is the concessional financing window of the IADB, whose operations are limited to supporting the low-income member states of the IADB.

Intermediate Financing Facility (IFF)

The IFF is a fund used to offset, in part, the interest charges on loans granted in foreign exchange by the Bank from its capital resources. It provides funding to low- and lower-middle income countries.

Ordinary Capital (OC)

The OC is the largest lending window of the IADB, providing non-concessional loans.

Trust Funds (IADB, 2007a)

The IADB manages a multitude of special purpose funds created by bilateral donors. The mandates of these funds range from very specific to very broad. Most of the funds were created for the purpose of supporting technical assistance from the respective donor country, even though recently donors have had the tendency to

establish multi-donor trust funds (see IADB (2006a) for some examples). IADB (2004a) gives a good overview of trust funds as managed by the IADB.

2.2 Key Policies and Documents

Institutional Strategy (IADB, 2007b)

The strategy, which is meant to be a key instrument in increasing the bank's overall effectiveness, focuses on the themes of identity, purpose and trust. It points out that the bank's comparative advantage lies in areas where relationships, listening and sensitivity are important, as well as projects which require complex negotiations between many international and local actors. Additionally, it suggests that the bank should view itself as a 'learning bank' and should be willing to tackle new problems. Among its many recommendations are to implement a process for performance assessment, strengthen country focus, enrich country programming, and encourage regional dialogue.

New Lending Framework: Assessment Report and Recommendations (IADB, 2005)

This 2005 document assesses the bank's new lending framework in place since 2002. While agreeing that the bank should continue to lend in three ways (investment, policy-based, and emergency), it calls for more flexibility on disbursement periods and lending volumes, as well as a more flexible set of policies and procedures for investment loans.

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

FSO Allocations Used (2005 data)

Eligible Recipients	% of total ODA	US\$m
Haiti	48.97%	201.7
Nicaragua	20.64%	85.0
Honduras	15.22%	62.7
Bolivia	12.75%	52.5
Caribbean Development Bank	2.43%	10.0
Guyana ¹	0.00%	0

Source: IADB (2006b, p3, table 2.1)

¹ Guyana was allocated US\$ 103 million, but did not use any of its available funds in 2005

Overall IADB Approvals (2005 data)

Top 10 recipients	% of total ODA	US\$m
Mexico	28.66%	2,057.5
Argentina	15.02%	1,078.0
Venezuela	12.68%	910.2
Brazil	9.70%	694.9
Columbia	8.37%	601
Peru	4.81%	345
Uruguay	3.74%	268.3
Haiti	3.01%	216.2
El Salvador	2.94%	210.9
Costa Rica	1.91%	136.8

Source: IADB (2007c).

3.2. Allocation Criteria

3.2.1. *Pre-selection criteria*

FSO allocations are only available for the 5 poorest member countries (Haiti, Nicaragua, Honduras, Bolivia, and Guyana) and through IADB's contributions to the Caribbean Development Bank. IFF eligibility is determined by GDP per capita, with the cut-off for 2003-2004 at US\$ 2,193 (IADB, 2004b, p3).

3.2.2. *Allocation criteria:*

Allocation for concessional financing from the FSO or IFF is determined by population size, GDP per capita, debt service ratio, portfolio performance, and the IADB's Country Institutional and Policy Evaluation (CIPE) index. This has historically been rather different from that of IDA, but as of January 2007, it is in the process of being updated to bring it more into line with IDA.

In addition to the parameters provided by general operational policies and strategies, the IADB relies on 'best practice' case studies and papers incorporating 'lessons learned' to guide new lending (IADB, 2007d).

4) AID POLICIES

4.1. Concessionalality

For Bolivia, Guyana, Honduras and Nicaragua, the lower level of resources described above will be in the form of parallel loans, which is a blend of concessional FSO and non-concessional OC loans. The FSO portion will be a 40-year loan, with single repayment at maturity and an interest rate of 0.25%. The OC portion may be a 30-year loan, with 5.5 years grace period and 5.5% interest rate (DFI, 2007).

Up to now all four countries have been able to access solely concessional FSO resources. However, with this change the concessionalality of their future IADB borrowings will be reduced as they will now be borrowing a significant proportion of new resources on OC terms. The proportion of FSO and OC resources making up the new parallel loans from 2007-2015 will be country specific, as shown in the table below. For the four post-HIPC countries this means FSO resources will total approximately US\$ 88 million per annum. For Haiti, new resources will consist of up to \$50 million in annual grants for the years 2007-2010 and thereafter Haiti will have a maximum allocation of \$20 million in grants and \$20 million in FSO loans annually.

Lending Mix for Post HIPCs Under Debt Sustainability Framework as of 2007

Country	FSO allocation	OC allocation
Bolivia and Honduras	30%	70%
Guyana and Nicaragua	50%	50%
Haiti: 2007-2010	\$50 million in grants	
2011+	\$20 m in grants/ \$20 million FSO loans	

As mentioned, the IFF provides funds for reducing the interest rate on OC loans. In 2005, this meant seven loans had up to 5% of their interest paid for from the IFF, for a total of \$138 million (IADB, 2006a, p32).

The IADB also offers market-based loans from the Ordinary Capital (OC) resources (IADB, 2007e). The maturity of public sector OC loans varies from 15 to 25 years, with grace periods of up to 5 years, and variable market-based interest rates.

4.2. Types of Assistance

The FSO is authorized to disburse up to \$100 million each year between 2005 and 2008 for Policy Based Lending (PBL), whereas roughly \$300 million is available yearly for investment and emergency loans (IADB, 2005).

In 2005, \$89 million was spent on technical assistance throughout the bank. For the period 2007-10, \$30 million of FSO resources will be allocated to technical assistance and from 2010 to 2015 this will be \$20 million.

In 2004, the IADB conducted an evaluation of lending modalities that provides information on various instruments (IADB, 2004c). In addition, the IADB is to reduce the administration expenses born by the FSO to 15% of the total IADB administrative expenses through 2010, with a further reduction to 11.25% by 2015. The cost of this will average about \$75 million per annum.

Apart from the 5 low-income countries, which are eligible for concessional financing, the IADB delivers little programmatic assistance. Even in LICs, Programme Based Arrangements are small compared to project assistance. As a result, HIPCs give the IADB low scores for the proportion of programmatic assistance.

IADB technical assistance varies considerably in terms of whether it is country-led and genuinely builds country capacity. In terms of best practice among HIPCs, Guyana indicates high levels of capacity-building, and the IADB states that all of its TA to Bolivia and Nicaragua is aligned with the national development strategy (Paris survey indicator 4).

4.3. Channels of Assistance

All aid committed to central governments goes through the developing country budget and should therefore be recorded in budget documents. HIPCs confirm this, with Bolivia and Guyana stating all aid is on-budget, and Nicaragua and Honduras more than 75%.

NGOs with national government guarantees are eligible for IADB loans. The IADB also runs the Inter-American Investment Corporation (IIC), which provides loans, equity investments, and lines of credit to financial intermediaries and small and medium-sized companies in Latin America. In 2005, the IIC lent over US\$ 340 million (IIC, 2007).

4.4. Sectors and Projects

FSO Allocations

Sector	% of ODA (commitments)
Social and Administrative Infrastructure	20.11%
Of which: Education	5.87%
Health	6.46%
Water supply and sanitation	4.24%
Government and civil society	17.25%

Sector	% of ODA (commitments)
Economic Infrastructure	17.51%
Of which: Transport and storage	12.67%
Energy	2.29%
Production	12.88%
Of which: Agriculture	7.8%
Industry, mining, construction	3.95%
Trade and tourism	1.14%
Multi-sector	13.67%
Unspecified/Unallocated	2.02%

Source: OECD/DAC, 2005 data (table 5).

The two overarching goals of the IADB are poverty reduction and social equity, and sustainable economic growth. Within these broad objectives, the Bank has outlined several priority areas, such as social development, modernization of the state, competitiveness, regional integration, and the environment. Comprehensive operational policies for every sector can be found on the IADB website (IADB, 2007f).

Wherever possible all IADB commitments are made to support programmes and projects contained in country Poverty Reduction Strategies or sectoral programmes (into which the IADB often has itself made a major input as the largest lender to the countries).

IADB programming is determined by PRSPs and IADB Country Strategies. These are reconciled during a collaborative process of dialogue (IADB, 2007g).

HIPCs indicate that IADB sectoral alignment with PRSPs is quite high, with Guyana suggesting 100% alignment, and Bolivia and Nicaragua more than 75%.

4.5. Flexibility

IADB has considerable flexibility in principle to fill gaps and combat shocks through its policy-based loans and emergency support facilities. However, this is not entirely reflected in HIPC analysis, with only Guyana reporting high flexibility scores.

4.6. Predictability

IADB commitments are based on country strategy papers, which cover a 4-6 year period, thereby in principle providing a high degree of multi-year predictability. Though allocation of concessional funds is determined by allocation criteria for two-year periods, HIPCs indicate that IADB performs relatively well on multi-year disbursements.

According to Indicator 7 of the Paris survey, IADB has a high ratio of disbursements recorded by Government compared to disbursements scheduled by IADB: Honduras tops the list with 89% followed by Nicaragua and Peru with 87%. HIPCs also analyse that between 75% and 100% of disbursements are made in the intended fiscal year.

4.7. Conditionality

IADB policy-based lending often contains a considerable number of conditions. In principle, these are based on governments' own priorities rather than those of other

international organisations (Birdsall, 2003, p21). However, in some cases the IADB applies the same conditions as IDA/IMF, notably for emergency loans (IADB, 2001).

HIPCs indicate that IADB conditionalities are generally perceived as less constraining than those of the BWIs, especially in Guyana, and delays caused by conditionalities are relatively short (generally between 3 and 6 months)..

4.8. Policy Dialogue

The IADB plays a key role in the policy dialogue in FSO countries due to its large amounts of programme support and frequent status as the largest donor. HIPCs analyse it plays a strong role supporting government policy, especially in Bolivia and Guyana.

However, HIPCs also analyse that in general (but not always) the IADB has taken a position in the policy dialogue which has been relatively closely linked to that of the BWIs, especially where there is strong harmonisation with IDA.

5) AID PROCEDURES

5.1 Conditions Precedent

Bank staff prepares Country Strategies every four to six years. The timing used to be linked to national electoral cycles, but now the IADB tries to align more to PRS cycles. The country strategy sets out a framework for all Bank-financed operations. It contains: (i) An overview of the country's current economic situation, (ii) The Bank's development strategy for the country, broken down by sector, (iii) The Bank's expected program in the country for the coming two years (IADB, 2007h).

All IADB loans require a legal opinion. Several additional procedural conditions precedent must be met for project loans (Government of Guyana, 2006, p22; IADB 2007i): appointment and Terms of Reference of a Project Steering Committee; a project Special Account; a Project Executing Unit (PEU) with a Principal Project Coordinator.

In addition, a 10% counterpart funding contribution is required for loans (though not for policy-based loans), which can be paid from third-party loans or grants. The scale of counterpart funding varies with the proportion of policy-based in total lending (and is waived for grants), but in most countries applies to 50% of funding (only 1/3 in Guyana).

Parallel PIUs are in general used heavily for project-based aid. However, Paris indicator 6 shows that Bolivia has managed to integrate all such units into government structures.

5.2 Disbursement Methods

The IADB uses two main disbursement methods:

- 1) A combination of advance payments and replenishment to government, creating effectively a “revolving fund”. This involves submitting an Initial Withdrawal Application (IWA) to the IADB for funds to be placed into the Special Account, which is then replenished once funds fall below 25% of the initial deposit, subject

to the PEU submitting Statements of Expenditures (SOEs) showing that funds have been expended on eligible expenditures.

2) Direct payments to suppliers or service providers from the IADB to their bank.

According to HIPC, best practice regarding disbursement methods is found in Honduras and Nicaragua, which receive around 2.3 of their funding through revolving fund methods. Delays linked to disbursement methods are generally under 3 months, especially in Guyana.

5.3 Disbursement Procedures

The IADB does not use local Public Financial Management procedures for most of its aid: Paris survey indicator 5a finds best practice in Haiti (100%) and Colombia (90%). HIPC describe a high number of additional procedures that local authorities need to comply with, including separate financial reporting, accounting and auditing. Best practice is found in Nicaragua with only two additional procedures. Further information on IADB disbursement procedures is still being collected.

5.4 Procurement Procedures

IADB procurement can be made from any IADB member states (most OECD and Latin American countries) and given that most LAC imports come from these countries, such tying is not very restricting. There is no indication that the IADB is planning to change its tying policies. To encourage promotion of local industries, preference is given to domestic bidders applied when National Competitive Bidding is used (IADB, 2006c, p20). The general operational policies for procurement can be found in IADB (2006c).

According to HIPC, delays linked to IADB procurement generally do not exceed 3 months, but in some instances preparing bid documents and advertising can take longer. According to the Paris survey (indicator 5b), the IADB use local procurement systems most in Honduras (100%), Senegal (100%) and Colombia (90%).

5.5 Coordination

The IADB generally makes major efforts to coordinate with other donors, often leading the process of donor coordination in country and chairing donor Consultative Groups. It has a formal MoU harmonising procedures with the World Bank group, and makes major efforts to cooperate with and fund sub-regional organisations, for example providing funding to the Caribbean Development Bank and the Central American Bank for Economic Integration (IADB, 2007j).

In Honduras for example, the IADB has harmonized with a group of donors and the World Bank in support of the PRSP and SWAps in social sectors, agriculture, and water and sanitation. The group has agreed to share information, align instruments, perform joint assessments, align with the Government's budget cycle, and use national systems, where possible. This process is also taking place in Bolivia, where the IADB has helped government to create several SWAps and coordinate with all bilateral and multilateral donors (IADB, 2004d). Paris indicators 10a and 10b confirm this, with IADB missions and analytical work related to Bolivia all done jointly with other donors. Joint missions and joint analytical work has also been reported in Colombia.

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