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The longer term track of crafting a new institutional strategy that justifies a 9<sup>th</sup> capital increase is being steered by Echeverria, although various people throughout the Bank are assisting in the development of new sector strategies. Key components of the GCI proposal, which reportedly follows the design the 8<sup>th</sup> Replenishment document, include a retrospective on the goals of the 8<sup>th</sup> GCI, an independent demand analysis for IDB services, a proposal for a new institutional strategy, and a monitoring and evaluation framework for assessing performance based on a set of corporate performance indicators.

Somewhat ironically, the issue of governance at the IDB is not considered as much a concern as at the World Bank and the IMF. As borrowing country Directors emphasize, Latin American members already hold a majority share of the Board vote and participate in competitive elections for the Bank President. The 26 Latin American and Caribbean borrowing nations own 50.01% of IDB, with the US holding 30% of the bank's shares. China joined IDB earlier this year, becoming the bank's 48th member nation with a 0.04% stake.

To complicate the issues of transparency and accountability associated with the overall GCI proposal process, the IDB has initiated at least three parallel policy review processes. The Bank is consulting the public on a new proposal of its independent inspection mechanism (ICIM). Secondly, the Bank is reportedly formulating a climate strategy, which involves among other things the reorganization of SECCI as a standing Division within the INE. Thirdly, the Bank has quietly formed an external panel of advisors to assist in conducting a three year review of its social and environmental safeguards policy.

Unlike the World Bank, which prepares and releases an approach paper to structure and solicit input into these types of formal policy review processes, the IDB has provided virtually no public information on any of these processes, with the exception of the ICIM.

Meeting in **Santiago on July 2**, the IDB Board of Governors reviewed the initial technical documents presented by management on the need for a capital increase. The Governor's set a December 2009 deadline for the technical discussions on the capital increase and a replenishment of the Fund for Special Operations (FSO), the IDB's concessionary lending facility. The Board of Governors, made up of top financial officials from the IDB's 48 member states, will meet again in **Madrid on October 8** to continue to work on the issue. A ratification vote of the final GCI proposal by the Bank's governors would then be taken at the Ordinary Annual Meeting in March, 2009 (Cancun, Mexico).

Several additional relevant decisions were taken in Santiago, including the approval of Canadian proposal to allow the IDB a temporary increase in borrowing from the countries callable capital and other measures that would result in a \$6 billion cushion in additional lending in 2009 and 2010. Second, the IDB reallocated \$3 billion which had been set aside for emergency lending but was finding fewer than expected takers, to ordinary lending. Third, the 30% ceiling on policy lending was lifted, permitting the IDB to lend for budget support and other non-investment based instruments. The IDB also agreed to reduce the administrative rate charged for Bank services by 80%. Finally, the Bank announced a temporary increase in available funding for the five poorest member countries, including a decision to cancel debt to Haiti.

Despite efforts to shore up lending capacity for the coming years, the IDB's main message continues to focus on an urgent need for fresh capital. Not unlike the media message of Medellin, IDB management is claiming that balance sheet liquidity (equity to loan ratio) is constraining ability to disburse on current commitments. The

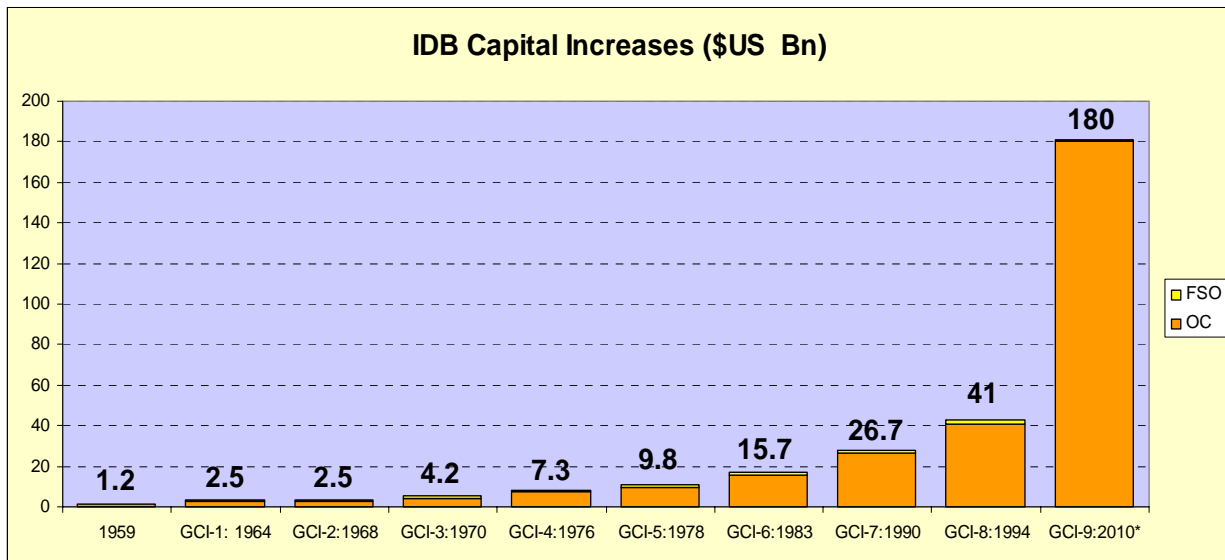


### III. CIVIL SOCIETY PARTICIPATION: A PRECEDENT OR POSTSCRIPT TO GCI-9?

In April 1994, the IDB Governors approved an 8<sup>th</sup> Replenishment of \$41 billion that was intended to be the final capital increase. Due to the policy reforms that were tabled after public pressure from civil society and an unprecedented debate about Bank standards influenced by donor countries, the 8<sup>th</sup> Replenishment incited optimism. Civil society organizations warned against internal efforts to weaken the fragile environmental oversight function, demanded greater transparency and accountability. The GCI-8 ushered in a Bank reorganization that decentralized the Bank into regions and was conditioned upon a series of new reforms in environment safeguards, transparency commitments and a new independent inspection mechanism. The optimism that came with GCI-8 lasted several years as the details of the agreements reached on new safeguards, the inspection panel, transparency and participation.

To put the GCI-9 in perspective, consider that the last IDB capital increase was intended to allow enough space for the Bank to lend at an average of \$8 billion in perpetuity. The maximum increase between any two GCIs, with the exception of the first in 1964, was 66% (GCI-7). The proposed GCI-9 would represent a 320% capital increase over the prior “final” 1994 replenishment.

Beginning with steps to exclude civil society from open debate about the IDB legacy in Medellin and then not disclosing many of the background documents to the GCI, President Moreno and Bank management have so far pursued what may be the most far reaching policy reform deliberation for the IDB with no provision for public participation. Consistent with the pattern of closing space for authentic public involvement in key Bank decisions that began with the 2007 realignment, the IDB is proceeding on a fast track with few accountability mechanisms in place.



**Figure 4. IDB Capital Increases**

A Board condition for the GCI is the elaboration of an institutional strategy that clearly explained the rationale for the capital increase. After nearly a year into the current GCI review process, the public has yet to see a full proposal for a new institutional strategy for the IDB that justifies such an unprecedented extension of public trust on an convincing explanation of how the Bank will distinguish itself from a private, commercial bank by being able to demonstrate effective, sustainable development results.

Prior to the Santiago Governor’s meeting, ten civil society organizations submitted **two issue briefs** to IDB's management and board of directors, making a number of policy proposals that are drawn from internal reports





the end of August. More specifically, the announced timeline was to complete capitalization plans by the end of 2009.

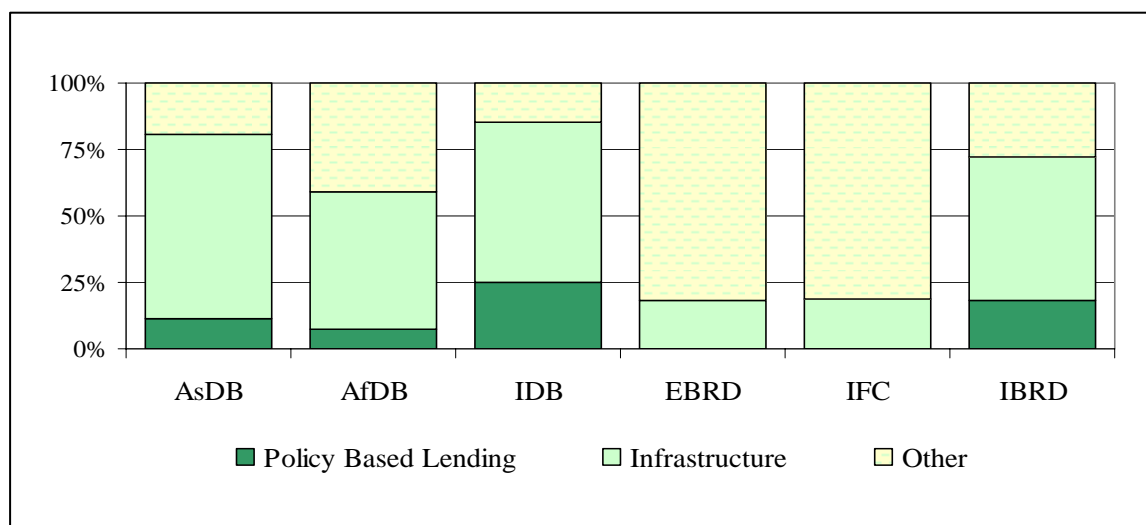
Given this proposed timeline that has already frontloaded the deliberation process with virtually no public oversight, it is obviously late to be rolling out a consultation and information sharing mechanism. The IDB's general lack of accountability and tendency toward secrecy already undermine the credibility of any such mechanism and will complicate Bank plans to recover this credibility if deliberations over the scope of the GCI will conclude in December.

A second concern has to do with the coherence of any GCI consultative process. There is no indication that the IDB has considered how to integrate several simultaneous policy review processes into one coherent consultation about broad institutional strategy. Some have already observed problems associated with generating civil society engagement on a review of the Bank's inspection panel mechanism. Few are informed about the hasty creation of a climate policy without proper public consultation or apparent intent to open it up during the GCI process. Footdragging in the initiation of a scheduled review of the Bank's Environmental Safeguard policy, including the establishment of another external review panel, will almost certainly prevent the analysis of the Bank's environmental performance to properly inform the proposed institutional strategy before the conclusion of the draft. Combined with a lack of accountability regarding the effectiveness of an expensive structural reorganization, many questions remain regarding how the IDB will provide adequate information to ensure that any GCI consultation is in fact more than a sideshow in the rush to capture public funding.

Finally, the IDB has signaled that a core governance instrument, the civil society advisory councils (or CASCs), which were mandated to function in 2007 by President Moreno, are not adequately consolidated to channel the public consultation process. By June 30, 2007, President Moreno promised that all Country Offices would have functioning civil society advisory committees (CASCs). Not only has this deadline been missed in as many as half of the Bank's borrowing countries, but there is no indication that the CASCs in some of these countries will be functional in time to play a role in the GCI consultation. If after years of failing to achieve commitments by Bank staff around structuring a mechanism to consult civil society in many country offices, the lacking credibility in any new global consultation process launched late and under complex circumstances should be understandable.



In terms of complementarity with the other MDBs, the Santiago GCI document employs weak criteria to distinguish and rationalize the growth strategies of both the World Bank and the IDB, among other multilateral and regional development Banks in Latin America. The World Bank is touted as the knowledge bank in subjects where the economies of scale are global. The IDB, on the other hand, has a comparative advantage in the support of development projects where the focus is presumably regional.



**Figure 5. Composition of MDB Lending in 2008 (AsDB is 3 Yr. Ave.)**

The IDB has suggested five institutional priorities in a new institutional strategy: Social policy for equity and productivity; Infrastructure for competitiveness and social welfare, Institutions for growth and social welfare, Competitive regional and global international integration, and Environmental protection, climate change response and enhanced food security. Yet there are few specifics in the Santiago GCI proposal that provide demonstrable evidence of an IDB track record that distinguishes it from the World Bank investments in many aspects of social investment, infrastructure, institutions or environment (*See Indicator 4 – managing results, below, for more on development effectiveness indicators for these areas*). Moreover, there is little indication that the Bank has defined sectors or sub-sectors that learning from past experience suggests it should withdraw or concentrate on a narrower target. Specialization may in fact be the most challenging demand from donors as it cuts down on the flexibility for the Bank to cater as broadly to each and every opportunity for new business and to channel the pet project of each member country with less regard to the criteria imposed by a core strategy.

Regional integration (trade, investment, security, or environment) should be one area where the IDB has achieved a comparative advantage that sets it apart from other MDBs. Yet, the region’s performance in moving toward deep integration (inter-regional trade, functional transborder institutions, cooperation) belies value-added of the IDB. To some extent, initiatives such as UNASUR are moving forward in opposition to the IDB. IDB sponsored integration initiatives such as IIRSA and Plan Puebla Panamá have failed in many regards and are hardly mentioned in the Santiago document. Perhaps due to this unflattering track record, support in the area of integration registered the lowest level of client demand (6.3%).

A recent IDB internal evaluation of the much touted IIRSA initiative has questioned the impact of this ten-year effort to promote greater infrastructure integration in the transport, energy, and telecommunications sectors of South America. The IDB’s Office of Evaluation and Supervision report, *Evaluation of the IDB Action in IIRSA (RE-338)* is highly critical of the Bank’s participation in IIRSA, which generated relatively little new business

















Since OVE reports directly to the IDB Board of Directors, the Bank should adopt a reporting mechanism that summarizes progress on the implementation of the recommendations outlined in Board approved OVE evaluations. An annual evaluation implementation report should be disclosed.

While OVE contributes to some capacity building in the region, the Bank's disclosure of OVE research is limited to the web-site. This is a far too limited commitment to disclosure for OVE products. **OVE should be permitted to play a more proactive role in disseminating research findings in to the public to ensure that the findings be discussed more widely.** While ensuring functional division of labor between management and evaluation in terms of relations with the client, OVE should be invited to participate in public events to present and debate reports. Historically, due to the weak culture of evaluation, the prospect of OVE assuming a more visible role in borrowing countries is an area of politically sensitive discussions with the Board. The IDB Board is uncomfortable with OVE having a more public role, doing more to present findings that may be critical of the Bank. Rather than promote debate about difficult issues, the IDB tends to a more defensive posture, and management has tended toward investment in public relations support, rather than confront failing operations or systems. Informal guidance by the Board is that 5% of OVE budget should be for outreach. However, many Board members remain uncomfortable about playing a more visible role in their countries. Mainstreaming M&E standards is considered to be management's job, and new instruments such as the Development Effectiveness Capacity Building grant PRODEV are intended explicitly for this use. While OVE members have accompanied some missions to design M&E components of projects, the prominence of crucial OVE research in public debates remains an unrealized opportunity.

The IDB fails in terms of meeting industry standards for monitoring and evaluation not because it lacks a serious and productive independent evaluation department. The IDB lacks an institutional commitment to follow the recommendations of its evaluation function.

C. Financial management refers to the strength of internal controls and risk management.

Unmentioned in the Santiago document were the historic losses registered by the IDB in 2008 as a result of financial mismanagement. The source of the losses were a combined write-off of portfolio losses due to high risk investments and the write down of the under-estimated expenses associated with the 2007 realignment.

The main source of these losses is the IDB's exposure to "toxic" securities (mortgage backed securities) that grew to approximately 60% of the portfolio during the last decade. The Bank maintains an investment portfolio of about \$18 billion to ensure its solvency. Other MDBs purchased similar securities. However, other MDB portfolios had significantly less concentration in these instruments and thus losses were much lower than at the IDB. Figure 9 below compare market to market losses as a percentage of equity. The IDB losses were 45 times higher (as measured as a percentage of equity) to the Asian Development Bank and 15 times higher than IBRD.

Despite claims by President Moreno that no investments violated the Bank's investment policy, the IDB's steady purchase of what are now considered extremely risky securities revealed that independent risk evaluation was as bad or worse than many troubled private banks.

The IDB's investment in toxic assets topped out at 60 percent of the Bank's portfolio in 2005 and remained above 50 percent as recently as 2007, according to a November 2008 study commissioned by the Bank's Office of Review and Evaluation.<sup>51</sup>

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<sup>51</sup> The draft report by Raimundo Morales, Anthony M Santomero, and Anthony Saunders under the auspices of OVE is titled "Investment Policy Review Panel Report" dated November 26, 2008. A variety of discrepancies between the leaked draft and the final report that was released after pressure by U.S. Senator Richard Lugar's inquiry, reveal efforts by











adaptation into country assistance and poverty reduction strategies. Assistance for adaptation should be provided in the form of grants, not loans.

- **Forest governance support.** The strategy should **support member countries to improve the governance of their forests so that they can effectively, equitably, and sustainably address the drivers of deforestation and degradation and reduce related greenhouse gas emissions.** The IDB can support programs to increase the security of land and resource tenure, to develop credible land use plans, to improve practices to manage revenues from forest resources, and create coherent economic incentives that reflect the value of forest ecosystems. In this context, it is essential to improve the transparency, participation, accountability, capacity, and coordination of processes by which decisions about forests are made, and build the capacity of both government and civil society to practice better governance. To this purpose we would recommend that IDB review and amend its Sectoral Operational Policy on Forestry Development and link objectives and implementation to this climate change strategy.
- **Implement the Extractive Industries Transparency Initiative (EITI),** which requires oil, gas, and mining company clients to disclose all of their payments to host governments (including but not limited to royalties, dividends, taxes, and signature bonuses) on a disaggregated basis. The International Finance Corporation of the World Bank implemented a policy of this nature in 2007, and posts this information online annually. Increased revenue transparency will contribute to improved governance in the region and help to ensure that the citizens that bear the brunt of the social and environmental impacts of resource extraction will also benefit from the wealth generated through these activities.
- **Suspend participation in IIRSA:** The IDB mandate to participate in IIRSA expires in 2010. IIRSA is irreconcilable with a number of the Bank's stated principles of participation and sustainability and presumably with performance indicators contemplated in the new institutional strategy.<sup>66</sup> As currently designed, IIRSA contradicts and stated intention of the Bank to offer leadership on climate and forest policy in the Amazon region with its new institutional strategy. IDB participation in IIRSA should be suspended and reviewed until the scientific and policy critiques of the initiative can be resolved and adequate sectoral analysis is completed.
- **Coherent public and private sector approaches.** The strategy should ensure coherence between IDB's public and private sector activities as the bank scales up investment. This would require close cooperation between the IDB's public and private sector arms to harmonize goals and objectives, maximize efficiency and prevent the risk of interventions that may undermine the climate change strategy.

**Continue to build the necessary internal capacity.** Comparative benchmarks at peer institutions translate into roughly **150 environmental and social professionals at the IDB** (for operational, safeguard, and all other work), which includes at least **doubling ESG staff** and the population of ESG staff in all the regional offices as an urgent priority to accommodate adequate mainstreaming of environmental priorities and safeguard policy implementation under current lending conditions. Proportionate increases should be envisioned beyond this minimal threshold for any GCI.<sup>67</sup>

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<sup>66</sup> Medellin Resolution AG-6/09

<sup>67</sup> Consider that the ADB employs 50 FTE staff (twice as many as the IDB) for a lower 2008 lending volume of \$8 billion. As another benchmark, the World Bank Group's financing commitments were approximately \$33.1 billion in 2006 (\$23.6 billion IBRD/IDA, \$6.7 billion for IFC's own account, \$1.6 billion syndicated loans, and \$1.3 billion structured finance transactions), and the World Bank Group has about 514 environmental and social professionals (226 environmental, 148 social development, about 40 in quality assurance and compliance, and about 100 at IFC). The IDB approved \$11 billion in loans and guarantees in 2008, which would translate into about 150 environmental and social specialists at the IDB distributed among the core quality assurance and safeguards unit, SECCI and the relevant environment divisions of INE and the Country Offices.



Stern argues that this finding remained outstanding from 2005 until the present day, raising questions about the extent of Board responsibility for having ignored on several occasions the advice of the Bank's former Auditor General. The November OVE report adds, "It is highly unusual that an (auditor general) finding of this nature would go not only unaddressed but be presented to Senior Management as unaddressed on frequent occasions without comment or remedy." The report says 90 percent of the assets accounting for the IDB's losses were bought in 2006 and 2007 -- after the auditor general's recommendation.

The portfolio losses are not the only red flag for IDB Board oversight quality. As noted in the section above on evaluation, OVE reports directly to the Board. Thus both the demand for evaluations as well as the monitoring of the consequences of evaluations is regulated by the Board of Directors. Yet there is some concern about the follow through on OVE recommendations by the Board.

Directors often appear to be entangled in an institutional culture that is adverse to the highest standards of independent evaluation. Although the Board regularly approves OVE reports, there exists a perception that there is not adequate follow-through with respect to the report recommendations that are approved. As a result, management fails to change. This aspect of weak Board oversight reinforces an incentive structure against accountability.

To take one example, OVE was invited to provide Board input to the design of the IDB Realignment Framework related to Corporate Performance Indicators. OVE's opinion on the matter was conveyed in Report RE-329, "Advice Regarding Realignment Performance Framework." OVE advice was apparently rejected over disagreements about to measure as a proxy for IDB value added and some push back in general by some countries against any new framework for measuring effective development. A Development Effectiveness Framework (DEF) was approved by the Board in October 2008 (GN-2489). The disagreement between OVE and management of the design of DEF and core concerns about the validity and ambition of proposed performance indicators for a development bank in particular, again highlights the permeability of the Board to disincentives for a stronger culture of evaluation. In the end, the OVE report was not disclosed because there was no Board committee report, constituting a gap in what the public should know regarding the range of options for measuring Bank effectiveness.

Unlike the World Bank's IEG, there is currently no mechanism to systematically track the follow-through on Board approved OVE recommendations. The Board should institute a publicly disclosed report that reports quarterly on how the recommendations of approved evaluation recommendations have been implemented. This accounting of OVE recommendations might begin with the 10 Recommendations stated in the Evaluation of the New Lending Framework, 2005-2008 (RE-342-1), which might serve as a template for designing the new institutional strategy.

Finally, the area of **Board Transparency** remains a critical weakness in the overall quality of Board oversight. Currently, it must be recognized that there exists very little exchange between IDB Directors and citizens from the countries they represent. The Board deliberation function is effectively a black box to Latin American public. While accessible to a public that is present near the Bank headquarters in Washington D.C., most Directors do little to promote active engagement of civil society in their countries about their role in the collective decision making of the IDB. To strengthen future accountability between the IDB Board, the first step involves measures to improve Board transparency.

The IDB now releases the agenda for ordinary (Wednesday) Board meetings and a one page highly summarized minutes months later. Neither of these two documents come close to a minimal standard of Board transparency. The IDB fails to even disclose them on time, nor to include similar documents for the constant additional Board meetings that are scheduled. A desirable standard for the GCI-9 review has been articulated in the model



## Governance and Risk Management Conclusions:

Assessed IDB performance on the Governance and Risk Management criterion is deficiently low. The IDB fails on three of the five sub-criteria, contributing to a failing overall score.

**Table 1. Summary of IDB Performance on Governance and Risk Management Stress Test Criteria**

<b>Transparency &amp; Accountability</b>	<b>Evaluation</b>	<b>Financial Management</b>	<b>Social and Environmental Safeguards</b>	<b>Quality of Board Oversight</b>	<b>Overall</b>
Needs Improvement	Fails	Fails	Needs Improvement	Fails	<b>Fails</b>

**4. Achieve Results and Show Innovation** refers to the ability to deliver results and account for them. A critical factor that requires additional evaluation is the level of innovation in their work programs.

Development results, rather than effort, distinguish the IDB from a commercial bank. Latin America has achieved significant improvements in a number of development indicators, including steady progress toward meeting the Millennium Development Goals. IDB funded investments have undoubtedly contributed to this progress. The IDB has also contributed to Latin America's problems. However, the IDB lacks an evidence-based system for results management that specify where its operations, technical assistance and advisory services have added the most value or done the most damage.

The lack of a functioning results-based management system impairs the necessary functional shift from project finance toward knowledge transfer. The IDB-8 Agreement called for "systematic assessment of the effectiveness of Bank development policies, of the results of Bank financed activities, and related processes."<sup>71</sup> Despite other recent mandates to enhance its development effectiveness systems and efforts underway to fulfill this mandate, the IDB continues to emphasize the volume and speed of annual lending over quality.

Despite a half century of development lending and an unprecedented capital replenishment in 1994 that was contingent upon catalyzing a lasting decline in poverty and inequality, the IDB has been unable to achieve these milestones. Although the number of poor has grown more slowly than the total population, today there are more than twice as many people living in poverty than 50 years ago. Poverty and inequality are scourges that afflict more than 200 million people in the region, and children, women, and the elderly continue to be the most vulnerable.<sup>72</sup> Latin American homicide rates are the highest on the planet despite the relative absence of any major armed conflicts.

The corporate performance indicators for the 8<sup>th</sup> replenishment and subsequent operations indicators were neither sufficiently rigorous nor matched by information systems that permit a satisfactory accounting of IDB effort or achievement of results. Donor countries have begun to press the Bank for performance indicators to measure development effectiveness. The 2007 Bank reorganizations was intended to correct observed

<sup>71</sup> AB-1704, Pgh 2.100.

<sup>72</sup> Address by Noel Aguirre Ledezma, Minister of Planning and Bolivian Governor to the IDB Annual Board of Governor's Meeting in Medellin, Colombia, March 30, 2009.



A draft IDB results framework identifies four levels of indicators to be monitored: regional development goals, project output contributions to regional goals, lending program priorities and operational effectiveness and efficiency. A full analysis of the specific indicators within the Results Framework, which have only recently been released, is beyond the scope of this paper. However, several overarching observations are useful. The Results Framework should be the subject of a vibrant and open debate to strengthen SPDE's mandate and inform the Unit's work. The IDB continues to rest on reporting outputs for several aspects of measuring contributions to regional development goals.

In the Santiago GCI Document, the IDB refers to "teachers trained" and "persons benefited" as acceptable indicators of development impact.<sup>77</sup> Reporting achievements as outputs, rather than outcomes or impact does not lift confidence in the proposed results framework.

Within regional development goals, the IDB lists between 3 and 7 indicators for each of the five goals. Few if any of these regional indicators address inequality. Few suggest gender or other disaggregation. Most are conventional and aligned with Bank priorities, but may lack a clear attribution to Bank interventions (i.e. change in the extreme poverty rate for the region, CO2 equivalent emissions per capita). Others (i.e. change in the region's homicide rate) are pertinent to Latin America development, but lack a clear connection to the Bank's institutional strategies. Many indicators will require further explanation for measurement methodology (renewable energy, planning capacity for climate change).

At the project level, the Results Framework identifies as many as 8 indicators for each of the five development goals. At the project level, the IDB tends to focus disproportionately on quantity indicators versus quality. To take the first institutional priority of Social Policy for equity and productivity, the six result indicators are "students benefited, teachers trained, classrooms built or upgraded, individuals receiving a basic package of health services, individuals benefited from conditional cash transfers, and individuals trained."<sup>78</sup> Why should the IDB be limiting itself to remedial addition of undefined output indicators? Are all "training" "transfers" "benefits" homogenous and comparable as non-distinct units that can simply be counted like latrines or kilometers of road pavement? While there are some indications of disaggregated counting (gender, indigenous and Afro-descendent, youth), there is no ambitious or thoughtful indicators for zeroing in on the dynamics of inequality – as in how these skills or benefits are translated into better employment opportunities, higher education achievements, or other measures of social mobility and household security.

Infrastructure and Integration project interventions highlight performance indicators continue to reflect problems cited in an OVE Evaluation of the IIRSA and Plan Puebla Panama initiatives. The OVE IIRSA evaluation argued that the IDB lacks an adequate planning methodology to rank projects on the basis of their integration impact or the distribution of risks and benefits – two key weaknesses in the Bank's conceptualization of integration that has impaired the effectiveness of IIRSA. Within the IDB, IIRSA projects (mostly transport) were treated no differently than other transport projects.<sup>79</sup> Highways, which make up most of total IIRSA portfolio, are not conceived as an integration project, but as a highway project (i.e. assessed by conventional indicators of Km of roads built and/or maintained, imputed reduction in transport costs). No strategic objectives or evaluation indicators are specified that distinguish IIRSA projects from national highway projects. There is no "plus" or value-added that can in some way be measured. As a result, IIRSA as a whole has very questionable value added to the goal of promoting deep regional integration. It remains an urgent challenge for

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<sup>77</sup> See Section II.C, Contributions to the Region since IDB-8, Tables II-2, II-3, II-4, II-5.

<sup>78</sup> IDB SPDE presentation, "IDB Results Framework," (Sept. 24, 2009). Table, pg. 6, Bank Output Contribution to Regional Development.

<sup>79</sup> The report points out the lack of systematic environmental evaluation criteria and notes that little attention has been given to the distribution of social or environmental costs/benefits of IIRSA projects. Only \$700,000 of a total \$4 billion in Technical Cooperation was devoted to environmental challenges. The report also finds that there is scant information available on the status or results of these projects. There was no estimate of how much overall IDB operational funding for IIRSA \$1.3 billion, was oriented toward social – environmental issues.



is reinforced by Latin America's reliability in paying back IDB loans. One IDB source reflects that, "*the IDB will get paid back even if the loans are ineffective, so where is the incentive to improve the design. If the credit ratings agencies don't care, why should we?*"<sup>81</sup>

If a new "outside the IDB Headquarters" definition of value can be agreed upon, improved development effectiveness will depend upon adhering to a system that can distinguish and reward high value over low value added to the region (defined in terms of benefit to the poor). This in turn will require a system that first achieves 100% evaluability, which means projects that are designed to clearly state objectives and how these will be measured. Rates of return must then be measured, not just in the financial dimension to Bank's bottom line, but economic rate of return, which includes the social and environmental aspects. Then project IRRs can be compared and ultimately validated in practice, and the Bank can distinguish and promote movement toward higher rates.

Some examples of high value added projects within this new framework are largely invisible within the prevailing culture of the Bank because they are often small loans with a high level of technical assistance, or in other words – operations with high transaction costs. Sources within the Bank argue that the realignment may have done little to alter the preference for large standardized operations that are relatively cheap and fast to prepare and deliver over small, specialized projects. The realignment may have only hardened an embedded incentive structure that works against smaller, more focused, institution-building loans that are labor-intensive and therefore more costly.

Unfortunately, the Santiago GCI Document describes the IDB Development Effectiveness Framework/Corporate Performance Monitoring with inadequate information to debate its merits. There is very little discussion of achievements. Besides references to the Millennium Development Goals, there is no indication of possible CPF institution wide indicators. The analysis does not acknowledge OVE finding that the IDB frequently abandons its development mandate by not doing rigorous project analysis or defending the implications of this analysis when clients push back. The Santiago GCI document does not adequately explain how the Bank would define steps/method for being able to distinguish and reward high value vs low value added to the region (defined in terms of benefit to the poor)

The 1994 replenishment targets (Poverty Reducing PTI and Social Equity Enhancing SEQ Operations) were largely input or lending targets in the GCI-8 agreement. PTI and SEQ outcomes were not systematically measured, with the exception of impact evaluation of some illustrative cases. The IDB has often pointed to CEPAL data documenting the substantial decline in poverty rates in Latin America since 2002. Attention is merited given that this sustained decline in poverty is the longest of its kind in the post debt crisis era. The IDB has not been able to show the poverty-reducing impacts directly attributable to much of its lending, with the possible exception of conditional cash transfers. Greater precision is required to make claims regarding the association between change in poverty rates in Latin America and Bank lending, keeping in mind poverty levels remain as high as they were 30-40 years ago, the largest drop in head count poverty was during the 1970s when Bank lending was negligible, poverty will inevitably increase between 2009-2011 and LAC poverty remains close to double the average for East Asia.

Frequent IDB reports have warned that inequality may be the fundamental obstacle to development. The 1998 IDB annual economic and social progress report, "*Facing Up To Inequality*," provided a devastating picture of how the "lost decade" had destroyed the security of Latin America's poorest households and protected the region's wealthiest families, with the IDB lacking leverage to reverse these trends. IDB researchers, José Luis Londoño and Miguel Szekély (2000) showed how the Bank's structural adjustment conditionality in the 1990s worsened inequality and reinforced Latin America's status as the most unequal region of the world. A recent IDB study, *Outsiders* ("Los de Afuera") (2007) demonstrates that globalization and a second generation of

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<sup>81</sup> OVE found a similar political economy that influenced suboptimal quality of technical assistance operations. IDB-OVE 2008 Op cit., pgh 4.99, pg. 103.

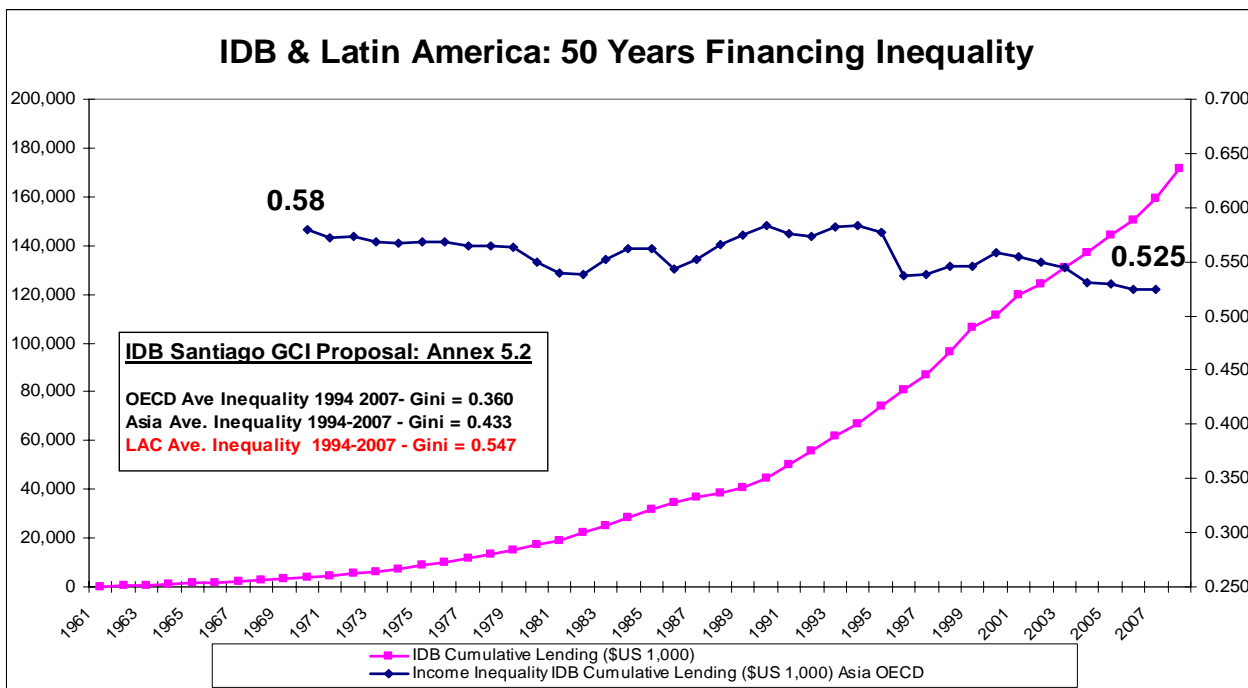
policy reforms have failed to close the vast divide between rich and poor in Latin America. A variety of mechanisms continue to exclude the majority of Latin America’s population from the opportunities for wealth and human development.

These periodic, tepid warnings from within the IDB have done little to change the Bank’s lending priorities, and amount to little more than scripted public *mea culpas*. The studies also indicate that the Bank is aware of the problem of stifling inequality, but stand as monuments to the Bank’s incapacity or unwillingness to actually do something about it.

The Santiago GCI Document rightly identifies inequality of opportunity as one of two top development challenges for Latin America and the Bank and therefore a critical variable in defining high value-added operations. One would therefore expect to see evidence of a robust, multi-year knowledge generation and lending strategy outlined in the GCI proposal. Inequality and social exclusion have historically been delicate issues that can be reported but fail to penetrate the operational logic dominating the institution.

Instead, the Bank will apparently continue a pattern of devoting little systematic and problem solving analysis to inequality. One might imagine the implications if inequality shared the same visibility in terms of the Bank’s media strategy as other boutique issues, such as remittances, for which the Bank has very little comparative advantage in terms of value provided to Latin America.

The Santiago Document buries in its Appendix 5.2, a table demonstrating no meaningful change in the level of inequality in Latin America since the last capital increase. There is no mention of *Opportunities for the Majority* – President Moreno’s flagship anti- inequality program that was launched in 2006. Figure 10. (below) illustrates Income inequality for Latin America as a region has not improved since the 1990s and in some countries it has worsened. The slight improvement that is suggested in the late 1990s may only be an artifact of combined two datasets with slightly different methodologies for calculating the Gini coefficient.<sup>82</sup>



**Figure 10. IDB and Latin America: 50 Years Financing Inequality**

<sup>82</sup> Data through the 1997 are from Londono and Szekely (1997), Szekely and Hilgert (2000). Data from 1994 are from Annex 5.2 of the IDB Santiago GCI Document, based on World Bank data.

The only progress has been in Group A countries, Argentina, Brazil and Venezuela since 2004, with all other country groups experiencing a deterioration in inequality since 1994. Figure 10 shows no association whatsoever between increasing IDB lending over the years and any discernable change in income inequality across Latin America as a region. IDB lending to the region has increased rapidly, yet inequality glaringly remains. In fact, the lack of the expected negative association (more IDB debt should have reduced inequality) raises many questions regarding the lack of effectiveness of these loans in advancing the Bank's core mandate and should be condition of the \$40 billion capital replenishment. If poverty reduction and equity are maintained as Bank concepts of value-added by its operations, more rigorous methodologies are required to demonstrate attribution and effectiveness.

Compared to the considerably lower levels of inequality in other regions of the world (suggested in part by a Gini of 0.36 among OECD countries and 0.433 for a subset of Asian countries) the modest decline between 0.58 and 0.52 is both insignificant and temporary given the likely reversal now caused by the financial crisis.

The IDB's commitment to evidence based results management remains weak. Several possible reforms are necessary to strengthen this commitment in the context of a GCI:

SPDE's quality control and compliance functions could be further strengthened by a mix of obligatory and voluntary measures. Central to strengthening SPDE is the formulation of ambitious, meaningful and externally accountable corporate performance indicators. SPDE overall effectiveness should be evaluated as part of the realignment evaluation identified above. To ensure that the IDB adopts an evidence-based results management system, the GCI should consider a number of prior reforms to strengthen commitment toward this goal, including:

**A full, independent performance review** that assesses compliance with the 1994 replenishment conditions and encompasses the 2007 institutional realignment is a pre-requisite to an overhaul of the IDB's results delivery system. Reforms should include **identification of meaningful corporate performance indicators, reorganization and strengthening of the internal and external performance evaluation function**, which should extend to the **allocation of greater funding and setting more ambitious evaluation targets**.

**Vice President level Balanced Scorecards** should be expedited and publicized. Backtracking by the Board and Management on initial commitments, the prior decision to disclose Vice President Balanced Scorecards and some synthesis of quarterly business reports were reversed. No external accountability exists on the Balanced Scorecard system. The IDB Board should reach a consensus on the appropriate indicators and publicize Corporate Balanced Scorecard. Public disclosure of these accountability instruments should be mandated.

Quarterly business unit manager accountability meetings convened by the IDB Executive Vice President should include recommended indicators and some public reporting of the results. Corporate Performance Indicators should consist of a balance between internal and external performance indicators that should prioritize **equity enhancement and poverty reduction** (*as explained above*) and **Sustainability**. All operations, divisions and Vice-Presidencies should measure and report the carbon footprint and biodiversity impact of all operations, but especially IIRSA, oil and gas and energy operations. A composite indicator for both types of impact should be reported for the IDB annually.

Perhaps more important than any other results indicators, more ambitious and meaningful indicators for equity/inequality should be monitored and reported (rather than buried deep in an annex of the GCI). The IDB should consider a battery of inequality indicators (both conventional such as income and asset Gini coefficients, as well as experimental, such as those outlined in the new research piloted by the World Bank and others) as core Institutional Performance Indicators.<sup>83</sup>

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<sup>83</sup> Ricardo Paes de Barros, Francisco H. G. Ferreira, José R. Molinas Vega, and Jaime Saavedra Chanduvi





## 6. *Cogent Demand Analysis*<sup>89</sup>

Analogous to the 1994 8<sup>th</sup> Replenishment report, the IDB's new institutional strategy should include a solid demand analysis that differentiates between crisis demand and likely post-crisis demand, that identifies how lending will be consistent with MDBs comparative advantage, and considers the declining role of ODA and possible increase in private sector investment in some countries and regions. In what is referred to as a rigorous and multidimensional analysis, the IDB presents a flawed and incomplete demand analysis that explores several lending scenarios based on a variety of questionable assumptions regarding lending baselines, the long-term impact of the financial crisis, and the composition and purpose of future lending as a percentage of overall investment. The core assumption behind the IDB demand analysis appears to be “**there is no going back,**” which refers simply not to the pre-crisis period of poorly regulated financial markets, but to the period of \$ 7.5 average annual lending. Most of the analytical assumptions built into the projected annual lending levels of as much as \$20 billion per year are slanted toward higher lending scenarios and crowd out evidence of lower possible lending scenarios. In addition, the demand analysis presented in the Santiago GCI document reflects some confusion about counter-cyclical versus the pro-cyclical function of a multilateral development bank.

The Santiago GCI document states that the “IDB has received financing requests well above its envelope of resources from a broad set of member countries.”<sup>90</sup> With specific reference to the estimated \$25 billion in potential projects in its pipeline, the Bank has not made entirely clear how new demand exceeds capacity for approval or disbursement in the coming years. In 2008, the Bank approved over \$12 billion in lending and grants, but disbursed less than \$6 billion. If a more precise analysis of future disbursement obligations is available, it should be publicly disclosed.

As noted above, a high level commission to assess demand for IDB services in Latin America, chaired by Pedro Pablo Kuczynski was presented to the Board in March but was only publicly disclosed six months later in an abbreviated format. A number of concerns were raised about the credibility of this study, including the delays in its disclosure after multiple references in the press to the report's findings in March and the fact that the commission included few experts in areas of identified development challenges, such as sustainability.

The PPK study states that a key assumption by the IDB is endorsed by the Commission, that the level of lending should increase in the medium term from an annual average of about \$6- 8 billion in 2004-2008 to about \$12 – 18 billion in the decade of 2011-2020. The corresponding capital increase needed by the IDB, according to the PPK report is between \$74 billion and \$178 billion. The PPK study provides little detailed justification for the range of GCI projections, beyond adherence to the scenario that has IDB lending increasing above the historical average and not changing. In other words, the PPK study adheres to the “*there's no going back*” thesis. The authors of the study try to rationalize the magnitude of the proposed capital increase by deflating future lending levels of \$15-\$18 billion per year to compare with a five year average between 2004-2008 in current dollars. The proposed GCI would only be equivalent to a 100% increase in year 2015.<sup>91</sup>

The PPK study makes references to two essential pre-conditions for any GCI that include tackling social inequality and poverty (clustered with a list of other non-related goals) and rebuilding financial management after the \$1.9 billion in losses. However, the eight page brief provides very little guidance is provided in terms of why this lending scenarios align with those challenges and the Bank's comparative advantages.

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<sup>89</sup> This section is based on Chapter

<sup>90</sup> Santiago GCI Document, pg. 41

<sup>91</sup> Pedro Pablo Kuczynski, Michel Camdessus, Roger Ferguson, Francisco Gil Díaz, Jorge Londono Saldarriaga, Dr. Antonio Palocci, “The Future of the Inter-American Development Bank and its Capital Adequacy in the Context of the World Economic Crisis and its Impact on Latin America and the Caribbean,” Sep. 24, 2009

An unspecified methodology for measuring client expectations for the IDB based on composition of loans in the Bank's pipeline for the years 2009 and 2010 and then extrapolating for the next ten years produced the following "revealed demand" scenario:

Social	(23.5%)
Infrastructure	(41.4%)
Institutions	(18%)
Integration	(6%)
Environmental Protection & Climate Change	(11%)

Approximately 25% of future lending could be directed toward private sector and non-sovereign guarantee clients.<sup>92</sup> The client survey method produces an estimated annual lending projection for 2010-2020 of \$19.5 billion per year.

Several obvious concerns are noted, included the validity of the baseline period (2009-2010 represents perhaps the most active lending period in the Bank's history). When the analysis extends the baseline to 2006, the lending projections drop to \$13.7 - \$16.8. Why limit the range to 2006? A longer baseline scenario is justified that would undoubtedly lower future projections even further.

The revealed demand analysis also fails to explain any other adjustments that were considered in the extrapolation step of the analysis. In Annex 4, the Santiago GCI document includes 3-5 page profiles of Country Development Challenges and Financing Requirements, which provide very little analytical basis for making future projections. In general, the revealed demand methodology is incomplete and highly questionable in terms of validity.

The Santiago GCI Document then presents an alternative statistical method for estimating demand for Sovereign Guarantee borrowing by calculating the IDB share of total client investment based on IMF estimates of growth and inflation. Non-sovereign guarantee borrowing cannot be modeling since the Bank adopts the assumption that the one year 300% increase in NSG lending since 2007 is not an anomaly but the trend and can therefore long-run averages are misleading. Without including an alternative to the problematic revealed demand estimates for NSG lending, the IDB again favors the high volume scenario and crowds out relevant evidence that could support a lower volume scenario.

The statistical modeling method presumably incorporates forecasts of economic crisis, including the impact of the current one, the evolving composition of investment, and shifting priorities of the Bank to be more effective in meeting the region's development challenges. In fact, the explicit modeling of these assumptions is impossible to assess due to the lack of data and methodological explanation provided.

Remarkably, this second methodology produces almost exactly the same projected annual lending demand as the first method – a maximum of \$19.77 billion per year and a "minimum" of \$16.35 billion per year.

Some of the poorly explained primary assumptions behind the IDB demand estimates require additional explanation:

The IDB makes several assumptions regarding the evolution of the composition of LAC investment that require further discussion. The issue of baseline choice is again relevant here. At least three possible sources of development finance for Latin America are possible: (international flows; national flows; and multilateral flows). The IDB uses IMF data to forecast Latin America growth rates and inflation. The IDB assumes that the historical 25 year averages of the ratio of Bank SG lending to total investment will be maintained for each country despite recent sustained periods of declining demand. The IDB does not report what those averages are per year for countries, sectors, or the private sector (although these ratios are suggested in Figure 11 below, from

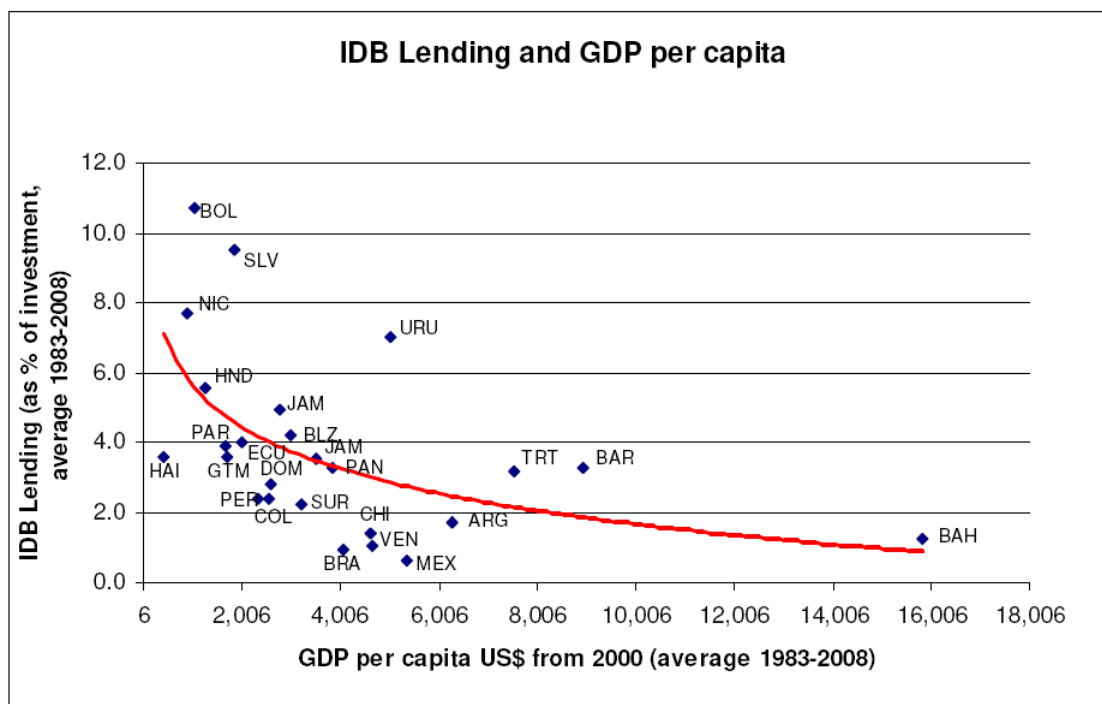
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<sup>92</sup> See Table V-3 Preliminary Financing Scenarios by Country, pg. 46.

the Santiago GCI document).<sup>93</sup> The IDB argues that the ratio of SG lending to total investment has been “fairly stable” with two important exceptions. In 1997- 1998, the aggregate LAC SG lending/investment ratio dropped to 3.5%, and from 2004-2008, the ratio dropped to 3%.<sup>94</sup> Unfettered by these exceptions, the IDB assumes that IDB SG Lending/Investment ratios would be modeled as a constant over the 2010-2020 period at the 25 year average of 4.5%.

It is evident from Figure 11 that the specific country 25 year averages of IDB SG lending to investment vary significantly with respect to level of development. For Bolivia and Nicaragua (FSO) countries and well as El Salvador and Uruguay (lower middle income), this average ratio is between 7 and 11%. While for Brazil, Mexico, and Venezuela, the ratio is below 1%. The IDB demand analysis does suggest that IDB share of a country’s investment will decline as GDP per capita increases and reports that an adjustment of reducing the ratio by 0.56% for every 1% increase in per capita GDP. However, the implications of this adjustment method are not fully reported, including the significance and predictive strength statistics for the pooled mean group estimation graphed in Fig. V-1 and described in footnote 32. It remains unclear if the IDB applies this single average adjustment coefficient across all 26 countries or applies a country specific adjustment coefficient.

The IDB then considers a second adjustment, related to the possible trade off between Bank lending and private capital flows. Long-term averages suggest a slight negative correlation between IDB lending and private capital flows. In other words, IDB typically lends more to replace declining private flows. Again, the IDB characterizes the relationship as “weak” but does not report the appropriate statistic measures.<sup>95</sup> The IDB takes an estimate of the variation in high to low capital flow periods and applies a moderate adjustment to the demand forecasts (in high capital flow periods, IDB demand drops by about 9%, but in low capital flow periods, IDB demand increases by 16%).



**Figure 11. IDB Lending and GDP per capita**

<sup>93</sup> It is assumed that the IDB does not apply the aggregate region-wide 25 year average ratio of SG lending to investment to all countries.

<sup>94</sup> Ernesto Stein, “The Demand for IDB Resources,” Sept. 24, 2009.

<sup>95</sup> Stein (2009) The Demand for IDB Resources, civil society presentation on Sep. 24, 2009.

Several other assumptions are unexplored. The analysis does not adequately explain if the IDB expects forecast regional economic growth to increase the historically low Latin America rate of investment to GDP, and the proportionate contribution of long avoided increases in the region's tax revenue will have on national investment. The IDB does not discuss the absorptive debt capacity of clients.

The analysis does not provide sectoral analysis, much less a discussion of the Bank's track record of incentivizing private sector investment in critical areas. Demand estimates that suggest up to 25% of future IDB lending will go to private sector and sub-national government entities and a redefinition of risk and methods for risk management are currently underway. Since the creation of a new Vice-Presidency to promote private sector business, the level of non-sovereign guaranteed lending has jumped. In 2008, NSG lending accounted for 22% of the record level of over \$12 billion, far above the 8% average between 2000-2006.

With private sector and SNG lending projected to average \$4.0 - \$5.3 billion per year, the risk criteria for justifying this or alternative scenarios of SG/NSG composition of MDB debt are not provided. Unlike sovereign guarantee lending projections, the future NSG lending is not based on past trends, because of the unprecedented emphasis since 2006 of promoting NSG loans. Operating with little historical data, the IDB must say much more in terms of the assumptions behind this type of forecast.

Concerns about lack of oversight of private sector loans and the development objective of private sector lending should be clarified. Transparent discussion and explanation of any new weighted risk management strategy should provide clear rationale for lifting a 10% ceiling on private sector lending. While placing 10% limit on private sector lending is a crude way to manage risk (assuming 10% portfolio losses and still maintain AAA status) any rationale for lifting this ceiling should involve a clear explanation of the balance between sovereign-guaranteed and non-sovereign guaranteed lending and specify a role for SPDE and OVE in evaluating and disclosing periodic evaluations of the Risk Management Unit performance. The IDB should revise standards for the disclosure of private sector lending operations.

The summary of IDB forecasts ranges from the \$12.9 - \$18.1 billion per year (in the adjusted, revealed demand forecast) and \$14.9 - \$19 billion per year in the adjusted statistically modeled forecast. Both methods are flawed, beyond the types of simplifying assumptions that are typically associated with these types of exercises. Unless, alternative baselines, more precise treatment of NSG trends and stronger justifications for all assumptions are provided, these forecasts lack credibility.

Setting aside the flawed assumptions behind the Bank's methodology, we might also simply emphasize the size of the proposed recapitalization. Contrary to Bank efforts to artificially diminish the size of the proposed increase, the GCI-9 lending forecast represents **a nearly 300% increase** in steady-state annual lending.

First, the selective and contrived use of IDB baseline lending scenarios and assumptions about future linear increases in demand lead to disingenuous and deceptive estimates of net increases in GCI. Table 3. summarizes several possible metrics for describing the increase of the proposed GCI-9.<sup>96</sup> Average lending over the full 48 year lending period of the IDB's existence is \$3.75 billion per year. Over the fifteen year period since the last GCI-8, average IDB lending was \$7.3 billion. **The proposed GCI-9 annual lending forecast is 1.7 times greater than GCI-8 actual annual lending average.** No other prior GCI represented more than a 100% increase over past lending trends.

A \$180 billion IDB GCI would make the IDB larger in terms of ordinary capital than the World Bank IBRD (\$281 billion versus \$189 billion).

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<sup>96</sup> Tables 3 & 4 are based on official IDB lending data and includes sovereign guarantee and non-sovereign guarantee lending totals.

<b>Lending Period</b>	<b>Years</b>	<b>Annual Lending Average</b>	<b>Pct. Increase in Lending Between Periods</b>
<b>Decade</b>	10	7,471,366,475	
<b>GCI-8 (1994-2008)</b>	15	7,324,159,402	
<b>Post debt crisis</b>	25	5,863,106,009	
<b>IDB Total</b>	48	3,576,038,768	
<b>GCI 1</b>	3	171,227,403	
<b>GCI 2</b>	5	451,613,719	1.64
<b>GCI 3</b>	6	874,679,600	0.94
<b>GCI 4</b>	2	1,517,783,360	0.74
<b>GCI 5</b>	5	2,089,402,239	0.38
<b>GCI 6</b>	7	2,662,882,857	0.27
<b>GCI 7</b>	4	5,257,122,300	0.97
<b>GCI 8</b>	15	7,324,159,402	0.39
<b>GCI 9</b>	?	19,800,000,000	<b>1.70</b>

In Table 4, we compare IDB estimates of GCI-9 projected lending increases over past lending with alternative estimates. Depending on which baseline we use for actual past lending trends, the proposed increase in annual lending is 2.25 and 5.59 times the average lending for previous IDB periods. IDB admits that the proposed increase represents a near tripling of demand over the 1999-2008 average. However, certain questionable assumptions are then employed to increase the baseline trend to artificially diminish the perceived increase.

In what is presented as a counterfactual, the IDB limits its comparison to only SG only lending trends, which inflate projected annual averages for the 2010-2020 without a GCI at between \$7.5 and \$8 Billion. Using this baseline (Scenario IIa and IIb), the projected SG lending scenarios are only 23-56% higher than the lending that the Bank expects to happen without a GCI?

In exploring an even less defensible assumption, the IDB argues that “the 2005-2008 period [of exceptionally low lending volume] may be exceptional as well” and can be excluded as an outlier from 1983-2008. Eliminating this four to five year period of low demand for IDB loans allows the IDB to inflate to an even higher level the counterfactual lending trend. Under this contrived scenario, the projected GCI might even be insufficient to meet regional demand (Scenario IIIb, 12.5% below expected demand).

By simply stating the “there is no going back,” does not make it true, at least in terms of rigorous analytical scenario modeling that is warranted to justify types of financial and strategic decisions facing the IDB. The fact that five Latin America countries, including several of the Bank’s largest clients in terms of demand for capital, are at investment grade and can access the international capital markets should qualify any statements about the future composition of public/private flows to the region. Indeed that the depths of its financial crisis, Mexico has been able to access the international

<b>Lending Period</b>	<b>Benchmark Lending Ave.</b>	<b>% Increase</b>
48 year	\$3.6 Bn	461-559%
25 year	\$5.86 Bn	281-341%
15 year	\$7.3 Bn	225-273%
10 year	\$7.5 Bn	221-268%
IDB –IIa	\$7 Bn SG only	56%
IDB –IIIa	\$7 Bn SG only	23%
IDB –IIb	\$10 Bn SG only	7.5%
IDB –IIIb	\$10 Bn SG only	-12.5%



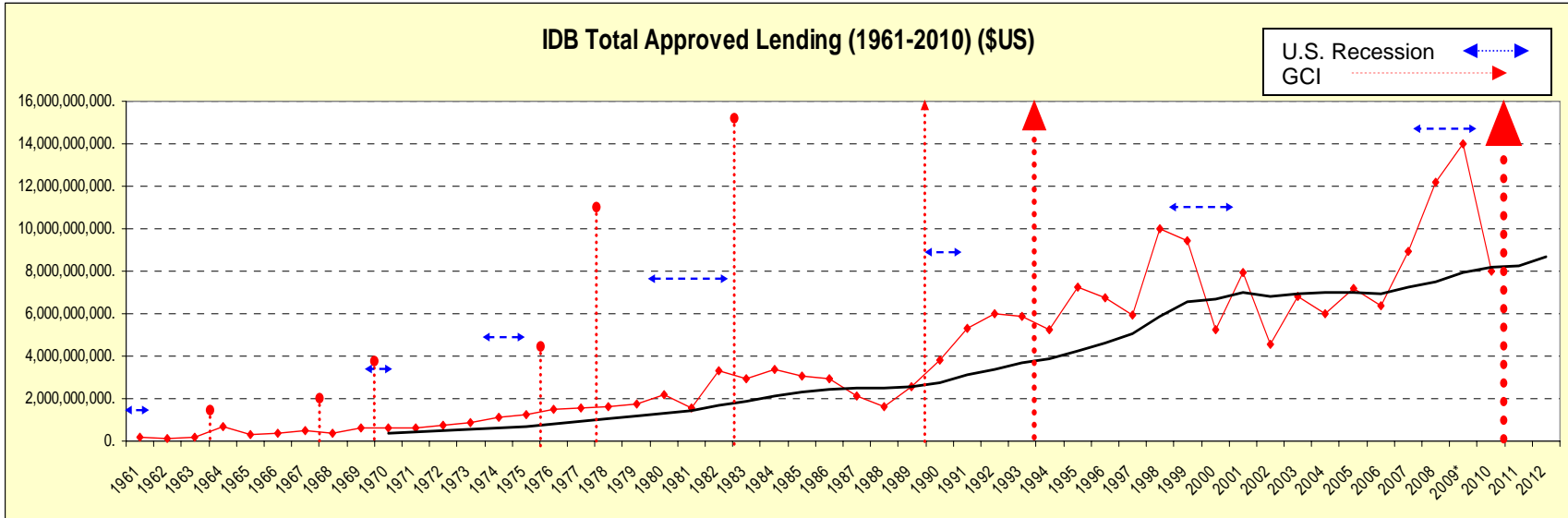


Figure 12. Actual IDB Lending (Total Approved Loans, 1961-2010, \$US)

### Concluding Thoughts:

If U.S. Treasury were to apply the Geithner Principle framework to evaluate the IDB eligibility for a global capital increase, the institution would likely receive a passing score in only two of the six criteria. Failing this initial stress test should call attention to the risks associated with an IDB replenishment that is not preceded by demonstrating improved performance.

<b>MDB Stress Test</b>	<b>IDB</b>
1. Clear Division of Labor among MDBs	Needs Improvement
2. Flexibility in Balance Sheet Utilization	Satisfactory
3. Governance and Risk Management	Fails
4. Achieve Results and Show Innovation	Fails
5. Sufficient Focus on the Poorest	Needs Improvement
6. Cogent Demand Analysis	Fails

<b>Provisional Result</b>	<b>Fails</b>
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As we go forward, civil society organizations concerned with IDB accountability, participation and transparency should contact their executive directors and relevant legislative representatives to request more information about the GCI process. Broad and informed public participation is required in this unprecedented endowment of the IDB. The evidence presented suggests the IDB fails some of the most fundamental tests of its capacity to provide leadership in areas of the region's greatest development challenges. A ninth capital increase for the IDB depends on systemic reforms of the Bank policy and practice to ensure its effective contribution to undoing persistent poverty, inequality and environmental vulnerability in Latin America.