

The International Development Bank Realignment

Discontent, Confusion, Non-Transparency: How to Become Relevant in Latin America

A look into the makeover of Latin America's largest development bank leaves much to be desired—and answered.

by **Vince McElhinny**

TIMELINE

Luis Alberto Moreno became the fourth President of the Inter-American Development Bank in October 2005. At his first Annual Meeting in Belo Horizonte, Brazil, in April 2006, Moreno told the Bank's Board of Governors that a major reorganization would be launched to restore IDB's image as Latin America's lender "par excellence." The Bank, he said, would undergo a massive overhaul to become more competitive and effective.

The principal components of what has become the most significant institutional reform since the last donor replenishment in 1994 include:

- decentralization of Bank functions to get closer to borrowing countries
- faster loan disbursement, and

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- increased lending - particularly for energy and transport infrastructure and private sector ventures.

Development effectiveness, renewable energy, water and sanitation and science and technology for productivity have been added to the list, which looks a lot like the Bank's current agenda. Confusion over what distinguishes this "new business model" from the current one, coupled with a continued lack of transparency and inclusiveness, has plagued the realignment from its outset.

On December 15, 2006, the Board approved an official realignment proposal after months of wrangling over key aspects and cost. The short announcement raised more questions than it answered.¹ The official proposal was delivered to the IDB Board, but requests for distribution to Bank staff were denied. The President's realignment proposal commits to delivering a detailed plan within 60 days and having the "new organizational matrix" in place by July 1, 2007.

Tensions rise

Details of the realignment leaked throughout 2007, spurring anxiety inside and outside the Bank. Civil society organizations expressed concern over weakened social and environmental safeguards and the Bank's commitment to sustainability. Bank staff in turn voiced worries over job security and laid out principles for their participation in the process as early as August of 2006. Fears peaked on April 12, 2007, when the staff received the first email indicating where they would be reassigned, or "mapped." The Staff Association responded by describing President Moreno's realignment as generating more "discontent, confusion and frustration than clarification."²

Despite efforts to calm the waters, criticism has only mounted. On April 30, a **Blue Ribbon Panel of Advisors on the Environment** tabled a list of structural concerns that were evidently being sidestepped in the process. A letter issued by civil society organizations raised more far-reaching doubts about the Bank's commitments to intellectual and institutional leadership on sustainability issues.³ Some 500 employees belonging to the IDB Staff Association (a remarkable 25 percent of the Bank's total workforce) held an emergency assembly on May 31. They issued a last-ditch demand for a pause in the realignment process and immediate disclosure of key documents such as the revised realignment plan and consultant studies on outsourcing.

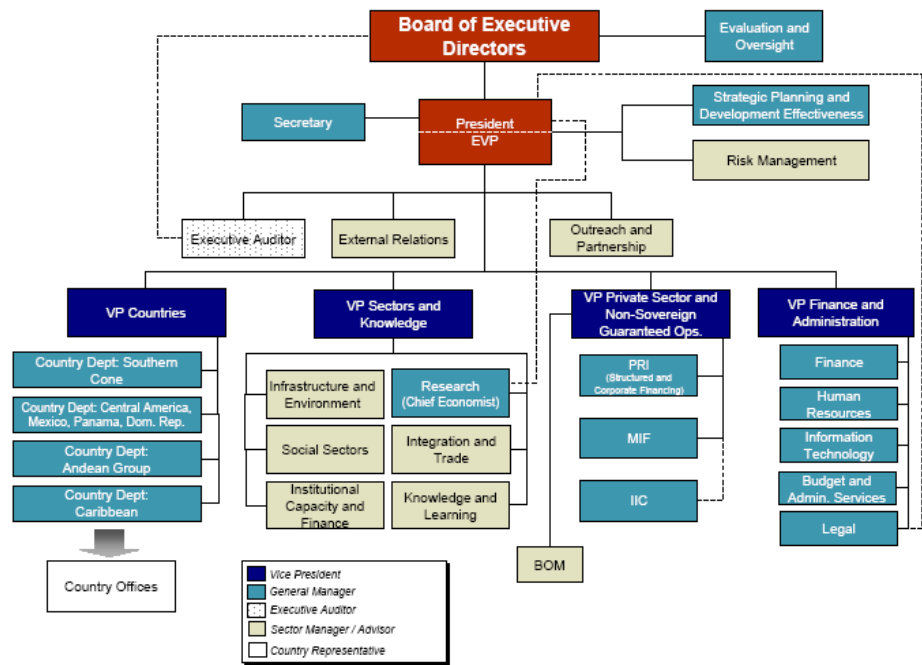
In a June 6th letter, the Staff Association said the realignment was being handled in an "erratic, non-participatory and obscure manner."⁴ It questioned the logic of the new business model and complained of unfair treatment toward some, calling on President Moreno to suspend the realignment until a "detailed and complete plan of the realignment

Confusion over what distinguishes this 'new business model' from the current one, coupled with a continued lack of transparency and inclusiveness, has plagued the realignment from its outset.

process” was created and a new joint Staff-Management commission formed to address their concerns. There is no indication either of these demands have been met.

Tensions at the Bank rose to a fever pitch as members of IDB Management’s inner circle were appointed high posts in the new IDB structure and “horse-traded” for preferred staff, while other managerial positions of lesser importance failed to even be advertised properly. The majority of Bank staff argue they have been left in the dark.

Among contested issues, the functionality, placement and resource allocation of social and environmental safeguard capacity in the new organizational structure has been one of the most hotly debated. In a letter to President Moreno, donor country Directors requested that the IDB commit to implementing the Blue Ribbon Panel on Sustainability recommendations to the Bank in the realignment plan.⁵ It was reported Argentina’s Director was the only Board member to respond to the Donor Country request, suggesting the others did not agree with all of the BRP recommendations. The other borrowing country Directors allowed President Moreno’s response to shield them from directly confronting the Donor Country Directors.



The IDB’s new organizational structure

The functionality, placement and resource allocation of social and environmental safeguard capacity in the new organizational structure have been some of the most hotly debated issues.



Octaviano Canuto, IDB's new Vice-President for Countries.

Unwanted exposure outside the Bank forced Management to slow down efforts to reach a rapid closure on the realignment process in late May. The IDB Board of Directors Sub-Committee on Organizational Matters and Human Resources, responsible for approving the realignment implementation plan and budget, extended its work plan through the month of June. Rumors circulated that the Board Committee was under pressure by Bank management to approve the realignment plan at a meeting in May. Interventions by donor country Board members influenced the Board to delay closure on the social and environmental safeguards issue, but Staff job security concerns were probably decisive in the extension.

Implementation begins

On July 2, the IDB quietly announced that the “beginning of the implementation of the new organizational model” had begun. An organizational chart showing the boxes and reporting lines of the new Bank was finally released. Shown in the figure above, the proposed diagram of the new organizational structure that the IDB circulated to employees in March 2007 was only recently made available to the public.⁶ However, as has been the preferred style of the Moreno administration, virtually no new information about the implications of the realignment is provided in the press release citing the same boilerplate language. Of the 31 Senior Management positions identified on the Bank website, over one quarter are interim – including two of the four prominent Vice-Presidencies and the Office of Strategic Planning and Development Effectiveness.⁷

“WE ARE NOT RELEVANT IN BRAZIL”: SENIOR STAFF APPOINTMENTS

One of the realignment’s key goals is greater country focus. In the words of recently appointed Executive Vice-President Daniel Zelikow, “*we are not relevant in Brazil.*”⁸ The nation has not only slowed its borrowing from the IDB, but reportedly held up the approval of Moreno’s realignment proposal until December 2006 because, in the words of previous Brazilian Executive Director Rogelio Studart, “IDB management did not understand how Bank Governance worked.”

Octaviano Canuto: new Vice President of Countries

One indication that President Moreno may be learning how “Bank governance works” is the ascendance of Brazilians to senior positions in the new Bank structure. The former Brazilian Executive Director to the World Bank, Octaviano Canuto, was appointed in mid-May as the new Vice-President of Countries for a three-year term which began June 1.⁹ A distinguished academic, Canuto was Director of International Affairs with the Ministry of Finance in his country prior to joining the World Bank in January 2004 and representing Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago.

Vellutini and Cana Brava

The Cana Brava project casts a worrisome shadow on Roberto Vellutini's (new Director of Infrastructure and Environment, Sectors and Knowledge Vice Presidency, see right) management of infrastructure sustainability. On Cana Brava, the IDB has shown an incredible lack of accountability in managing the project. In October 2001, almost four months after Brazilian NGOs sent their second letter to IDB President Enrique Iglesias calling attention to inadequate compensation for displaced families, the Bank granted its "Best Project Team" award for "outstanding work with civil society" to Vellutini and the Cana Brava team. Hundreds of affected families, desperate at having lost their lands and livelihoods as a result of the Cana Brava project, peacefully occupied the dam site on three different occasions.

In May 2002, following the unexpected flooding of the Tocantins River, affected peoples filed for an investigation of the project by the IDB's Independent Investigation Mechanism. The IIM found the IDB used "poor judgment." Specifically, it underestimated impact to the displaced, avoided essential social and environmental analysis and failed to implement necessary recommendations.¹

Furthermore, both the loan document and the accompanying Social and Environmental Management Plan have been classified as confidential by the Bank and are not available to the public. This lack of transparency makes it impossible to show concretely that the IDB's participation is responsible for any possible positive outcomes of the project. The Bank's secrecy instead suggests that the IDB lacked the necessary confidence in its own social and environmental management framework to at minimum share its documents and analysis with the public.

As the most powerful of the four new IDB Vice-Presidents, Canuto will have responsibility over the four Country Departments covering the regions in which the IDB divides its operations in Latin America and the Caribbean, 26 Country Offices and the Operations Procurement Office. In other words, Brazil will have control over the IDB operational budget. The Vice-Presidency for Countries will also have ultimate authority for ensuring alignment in the matrix teams that cut across the other Vice-Presidencies—for example, between private sector projects that have no analytical grounding in a country or sector strategy. In many ways, the Brazilian VP for Countries will be a powerful force in the restructured Bank.

Roberto Vellutini: Director of Infrastructure and Environment, Sectors and Knowledge Vice Presidency

Another Brazilian, Roberto Vellutini, was appointed Director of the Infrastructure and Environment Department within the Vice Presidency of Sectors and Knowledge, arguably the department with the most far-reaching operational importance in the new structure. Vellutini was formerly an infrastructure specialist in what was once the IDB's Private Sector Department (PRI). He will be the senior manager initially responsible for all environmental safeguard issues, but will also provide the operational support behind all Bank infrastructure projects. As the former private sector project lead on the notorious Cana Brava dam project in Brazil (ruled upon recently by the IDB's accountability mechanism), some in civil society are concerned Vellutini lacks the confidence of environmental Bank staff working below him and the broader environmental community to effectively implement the Bank's safeguard policies.¹⁰

Cana Brava is not the only IDB PRI project to have gained notoriety for such problems. Vellutini was also the project head of the Termoelectrica de Mexico, a 230 MW Coke fired energy plant found by the IDB's inspection panel to violate a number of Bank policies.¹¹ Camisea I, Campos Novos, Termoelectrico de Mexico—all of which involved IDB Private Sector Department financing, many with the signature influence of Roberto Vellutini—have proven to be the IDB's worst performing projects. To have then chosen Vellutini to lead infrastructure and environmental reform is puzzling to more than a few at the Bank.



Fracture lines are evident in the concrete face of the Campos Novos dam. (Photo courtesy Friends of the Earth)



Jose Luis Lupo

**Many in the Bank say
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Jose Luis Lupo: Director, IDB Country Office in Brazil

The Bolivian Jose Luis Lupo has been President Moreno's right-hand man since his tenure as ambassador to the U.S. in Colombia. Lupo was formerly a chief economist at the CAF and the IDB Country Office representative in 2004 and 2005. He joined Moreno's inner circle of advisors when he became President in 2004. Lupo took a leave from the IDB to be campaign manager of Jorge "Tuto" Quiroga's remarkably unsuccessful 2005 Presidential bid against Evo Morales. Upon return to the IDB, Lupo was given charge of supervising the IDB realignment until the hiring of Zelikow as Executive Vice President in early 2007. Largely viewed as responsible for shrouding the realignment in secrecy, Lupo will replace Waldemar Wirsig as IDB Country Office Director in Brazil on July 1. Wirsig was widely seen as one of the IDB managers most open to civil society involvement. Lupo, who held various Ministerial posts in the Sanchez de Lozada and Banzer governments, was closely associated with many of the failed adjustment policies during those periods. Lupo's sister is a senior Vice-President at the CAF, of which Brazil is a recent member. With the Brazil Country Office Representation as the latest in a series of critical posts for the "realigned" IDB, Lupo's tenure will be carefully watched. History suggests that he most likely will be less interested in consulting with civil society than the Brazilian private sector toward fending off the CAF and restoring IDB relevance.

Hans Schulz: General Manager of Structured and Corporate Financing

Hans Schulz was named General Manager of Structured and Corporate Financing. The new private sector division is responsible for capital markets development, trade finance and financial institutions. Schulz assumes responsibility for what was effectively the PRI in the old IDB structure. It has now been elevated to Vice-President status, strengthened and integrated with the MIF and IIC. Previously, he served as the Senior Private Sector Advisor to the Executive Vice President of the IDB and was a senior investment officer in the Private Sector Department.

To be named

Despite determined effort to fill the posts, the Vice President of Sectors and Knowledge and Vice President of Private Sector have yet to be named. In the sad legacy of "pork politics," the largest member countries see the selection as their entitlement—an attitude all the more striking since the realignment plan has promised merit-based hire. A rare internal clash at the Bank concerning the Vice-President of Sectors and Knowledge spilled into the news this June. The dispute centered on Oscar Tangelson, nominated for the position by President Nestor Kirchner and Finance Minister Felisa Miceli. Tangelson is the sub-secretary of Political Economy



Felisa Miceli, ex Finance Minister, and Oscar Tangelson, under Secretary for Political Economy

in the Ministry of Economy in Argentina. Clarin reported that the IDB was blocking the VP “that corresponds to Argentina”, a country that holds nearly \$9 billion in IDB debt, 50% of which will expire in the next three years. IDB lending to Argentina has been flat since 2003, but picked up recently under Kirchner.

The nation’s newspapers reported Tangelson was rejected for the position because of his age, 62, and lack of experience.¹² The rejection set off a brief firestorm, leading to reports Eugenio Diaz-Bonilla offered Tangelson his seat as Argentine Executive Director.

The names of two ex-presidents of the Central Bank (BCRA), Alfonso Prat-Gay and Mario Blejer, have also circulated, as well as that of current President Martín Redrado. Not a month after the Tangelson fight with the IDB, Minister Miceli announced her resignation from the Kirchner government following a probe into some \$31,000 in unaccounted funds discovered in her office.¹³

Finally, rumors suggest negotiations are underway with Chilean Budget Chief Mario Marcel for the post of Division Chief for the Strategic Planning and Development Effectiveness Office (SPDE, or “speedy” in IDB speak). Marcel is widely respected as an expert and tough practitioner in the field of performance budgeting. Many have said he would bring a measure of discipline to monitoring and evaluation systems as the head of SPDE. However, the non-announcement of Marcel’s hire generated doubts about IDB’s capacity to attract the necessary talent and provide the needed discourse on development effectiveness.

BANK STAFF ASSOCIATION DISCONTENT

Many in the Bank say the institution is going through some of its darkest days. This follows President Moreno’s lack of response to staff concerns and the fear as many as 300 to 400 middle managers and senior staff could become redundant in the new structure. On April 12, staff received an email notifying them of how their positions were preliminarily remapped into the new organizational structure¹⁴ They were given one week to respond via an online survey, and President Moreno met with the IDB staff association on April 17. Many have complained non-uniform standards were employed and insufficient information provided regarding work options in the new structure.

The realignment is the IDB Staff Association’s primary concern, and it reports receiving over 300 questions from employees regarding it. Last fall, the association presented its concerns in writing to management, emphasizing four basic principles for human resources management it still considered relevant: shared responsibility, fairness, order and transparency. Mauricio Bertrand, the newly re-elected Staff Association



In the hot seat: IDB President Moreno (center) and Executive Vice President Daniel Zelikow (left) addressed some of the staff concerns raised by Staff Association President Mauricio Bertrand (right).

Photo courtesy of Arlette Pedraglio, Chasqui online

President, expressed concerns that management was making “hasty unilateral decisions” that were causing “almost uncontrollable levels of anxiety.” Top among the concerns of operations staff was the impact of transfers to the Country Offices on their families and whether employees would have the option of selecting another assignment.

Many non-operational personnel (Information Technology, Administration & Finance, and certain Human Resource functions) are worried their jobs will be outsourced or off-shored. The Staff Association asked to see the realignment implementation plan that was distributed to the Board of Executive Directors in March. It also asked that management extend the deadline for employees to respond to their assignments until the new managers, division chiefs and representatives are appointed. Management did extend the deadline by three days, and has since posted the implementation plan on the realignment website for internal access.

Unsatisfied by the response, the Staff Association sent another open letter to President Moreno restating its concerns and criticizing a sloppy, insulated and non-transparent management style eroding confidence in Bank managers. All 35 to 40 Division Chiefs had to submit resignation letters and reapply for the newly advertised Division Chief positions. The application process closed June 8. While some of these new managers were named by July 1, many posts will not be filled until September or later.¹⁵ The work of the Bank is stalled in many regards due to massive employment insecurity and what is essentially a bureaucratic mess.

The Staff Association had to point out that the Division Chief Job posting initially left out a number of senior positions. Having had 18 months to prepare for the realignment, the error and its subsequent correction could only be described as embarrassing. Staff called this perceived improvisation “unforgivable.” As of July 1, many of the senior managers were filled by interim persons. Women increased their numbers among senior level managers, filling six of the 27 posts, up from only three.

In the coming months, as new managers formulate business plans for 2007 to 2008, many of the outstanding managerial positions will be filled in a way that alleviates or exacerbates the most pertinent concerns. The key positions to watch will be:

- Vice-President for Sector & Knowledge
- Vice-President for Private Sector and Non-Sovereign Lending
- Strategic Planning and Development Effectiveness General Manager
- Environmental Safeguards Unit Chief

- Gender and Diversity Unit Chief
- Rural Development, Environment and Disaster Prevention Sector Manager
- Social Sectors Sector Manager

SOCIAL AND ENVIRONMENTAL SAFEGUARDS¹⁶

A paramount concern in the IDB realignment centers on the perceived gap between the rhetoric and the actions of the Bank in transforming its capacity to provide intellectual and moral leadership - operationally or intellectually – with regards to the hemisphere’s environmental and sustainability challenges. If the IDB is to fulfill these elements of its mission, it needs to design and build that capacity.

The Blue Ribbon Panel on the Environment was reconvened to advise IDB Management on perceived shortcomings regarding sustainability issues.¹⁷ After a day-long meeting with President Moreno and the realignment team on April 30, the BRP laid out three broad recommendations to the IDB to make sustainability a viable outcome of the realignment: 1) make the business case for sustainability; 2) correct the sustainability functions within the Bank organization; and 3) provide adequate human and financial resources to sustainability functions. In doing so, the BRP challenged the Bank to acquire the talent and allocate the financial resources to move beyond mitigation of environmental risk toward realizing sustainable development opportunities. The BRP praised the type of advisory, convening and resource mobilization skills the IDB demonstrated in the Camisea project, but suggested the Bank lacks the resources and personnel to mainstream this approach.

On the location of the sustainability advisory and compliance functions, the BPR advised the following:

“a high-level sustainability function should be established, that cross cuts the four vice presidencies. This group should report to either the **President or Executive Vice President** for a period of at least 2 to 3 years, to help ensure that the new structure delivers results, after which time its function should be reviewed. Specifically this group would:

- Identify emerging sustainability issues and development of appropriate Bank response, including development of new standards and policies.
- Facilitate collaboration among relevant divisions in different Vice Presidencies to identify business opportunities and risks

Blue Ribbon Panel recommendations on how to make sustainability a viable outcome of the realignment:

- 1) make the business case for sustainability;
- 2) correct the sustainability functions within the Bank organization; and
- 3) provide adequate human and financial resources to sustainability functions.

early and orchestrate synergistic and complementary investments in sustainability.

- Provide safeguard compliance support and oversight to ensure consistent application of Bank policy and standards.
- Provide training and capacity building.
- Advise on performance measures and management systems.
- Sustainability reporting.

As this group will have to exercise functions of checks and balance, throughout the organization, we suggest that they be empowered with the necessary authority. Furthermore, we suggest that this group be responsible for all Bank Group activities in the area of sustainability to avoid differences in the application of the safeguards.”¹⁸

In addition, the BRP recommendations sought to reverse one of the most alarming Management efforts to shortcut safeguards by placing power over safeguard compliance in the hands of the project team leader, whose own performance rests upon rapid disbursement of the loan. The BRP letter states,

“If the Committee on Environmental and Social Sustainability (CESI) is to continue, we believe that it will need more resources to function effectively. The chair should continue to be someone in a position without a conflict of interest for projects under consideration. If for some reason it is not to continue, then the check and balance function it has played will need to be lodged elsewhere in an effective place, such as the proposed sustainability group, and be given the necessary resources to rigorously review projects.”

Finally, the BRP called upon the Bank to put considerably more resources behind its sustainability commitments, particularly in acquiring skilled professionals and building a system to assess results. Importantly, the BRP seeks to assign clear responsibility for sustainability commitments with three upper tiers of Bank management (President, Executive Vice-President and four Vice-Presidents).

Benchmarks may translate into roughly 100 environmental and social professionals at the IDB (for operational, safeguard, and all other work), including at least 5 senior experts and 10 total FTE within the core quality assurance and safeguards unit.

As a 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 \$6.4 billion in loans and guarantees in 2006, which would translate into about 100 environmental and social specialists at the IDB distributed among the core quality assurance and safeguards unit (perhaps 5 senior staff, 5 junior staff, and the ability to contract out for particular skills either internally or externally) and the environment/social department.

More than one month after the BRP recommendations were delivered and Donor Countries pressed President Moreno for their implementation, the Management's response was effectively that their concerns had been heard and addressed.¹⁹ In fact, most of the issues raised by the BRP were finessed, others ignored (such as the high-level Sustainability Group) and few endorsed. Some among civil society and within the Bank remain unconvinced that the Realignment plan will do much to enable the IDB to offer a credible "green seal" or advisory environmental services.

In a letter signed by a number of civil society organizations, responsibility for compliance and reporting progress on social and environmental safeguards to upper management is entrusted to a Social and Environmental Risk Mitigation Unit Chief reporting directly to the Vice-President of Sectors and Knowledge. This is a positive step, but will have to compete with various Infrastructure Division Chiefs.

The entire safeguard structure during project due diligence rests on project team members who will have conflicting pressures and one Chief who will rank lower than the operational Managers with whom he/she will have to contend – and with no other oversight or controls independent of the operational line. This is not the authority and independence that safeguard enforcement requires.

Ultimate responsibility for compliance will lie within "Strategic Planning and Development Effectiveness", but nothing indicates there is the technical capacity and authority to perform this function adequately. While IDB management assured observers that SPDE would have the capacity to assure quality and compliance of safeguards and operational effectiveness in the future, no details were given. Many remain curious about the balance between the objectives of "quality assurance" and "compliance." Though vastly improved, the IDB's safeguard policies are full of loopholes making it difficult to be in strict non-compliance.

In response to pressure, the IDB did make the safeguards unit Chief report directly to the Vice President of Sectors and Knowledge rather than the Infrastructure & Environment Division Chief. This is a noted improvement. Another proposal in the new structure is the Vice President of Countries' increased accountability in ensuring alignment between all operations and relevant strategies. The Vice-Presidency for Countries will have ultimate authority for ensuring integration in the matrix teams that cut across the other Vice-Presidencies. In this new programming format, greater reliance will be placed on a new report, **the Country Environmental Analysis (CEA)**, as a key input to the Country Strategy. The CEA will carry considerable authority for guiding Bank investments in infrastructure. According to the new Bank Environment and Safeguard Policy:

As part of its programming process, the Bank will undertake country analytical work to identify the main potential environmental opportunities and risks associated with key areas of social and economic development, assess the state of enabling conditions for environmental management, and establish a set of strategic priorities for Bank action, if any. In particular, this country analytical work will be reflected in the development of Country Strategy Papers and will inform the programming process. Private sector development strategies and diagnosis may contribute to and to be part of this strategic and programmatic phase. Also, cross-sector dialogue with government, private sector, and other relevant interested parties should be an integral part of this process.

Country-level environmental analysis will be a principal tool to generate relevant information and to support the development of programming documents. This country-level environmental analysis should be strategic in nature and focused on targeted sectors or areas that are likely to be highly relevant in the overall Bank's engagement with the country. In this context, this analytical work will consider relevant aspects such as:

- (i) the identification and analysis of environmental priority issues and opportunities across sectors, including their links to social and economic drivers, and poverty reduction objectives, as well as their regional and global implications;
- (ii) the state of environmental governance (e.g., level of institutional development, civil society participation, access to information, adequacy of the legal, policy, and regulatory framework, the level of enforcement and compliance with environmental standards, and public sector capacity for environmental management);
- (iii) past and on-going actions of the Bank and other multilateral

financial institutions (MFIs) and agencies; (iv) the identification of strategic priorities for Bank action, including opportunities and challenges for public and private sector financing; and (v) relevant environmental performance and trend indicators.

The Bank will discuss with the borrowing member country strategic objectives and possible actions to address key environmental and related social issues in a cross-sectoral manner. Relevant programming documents should reflect the agreements achieved between the Bank and the government resulting from the programming process. Policy Directives A.2 through A.6 follow from the required analytical and strategic work stated in this Directive.²⁰

As one Senior Bank Manager explained, the CEAs will assess what environmental factors will inhibit or promote country competitiveness and inform Bank Managers and Country representatives how the IDB's country strategy should enable or disable those factors. If a particular project was not recommended in the CEA that would likely be part of the reason the IDB would not approve it. The Vice-President for Countries will now have the responsibility to ensure that projects developed by the Private Sector arm of the Bank fit well with the CEA and the broader Country Strategy analysis. By this account, the IDB will have achieved a level of unprecedented internal integration.

Within this context, the forthcoming CEAs in countries such as Brazil, Peru, Bolivia and Ecuador will be scrutinized carefully to assess whether they are in fact guiding or following country programming decisions. So far, the CEA process is off to a somewhat dubious start as countries such as Peru are moving quickly to consolidate approval for Camisea II before the end of FY07 while the Peruvian CEA is unlikely to have much influence on the decision.

Pro-active environmental operations and analytical work are lumped into a Division for Rural Development and Natural Disasters and distributed in part to the Water and Sanitation Division. By not being given their own Division, the IDB creates the perception that Energy and Transport will hold more authority over project decisions. The Division of Rural Development, Environment, and Natural Disasters is unlikely to have the stature, focus or capacity to truly pursue a positive leadership agenda intellectually or operationally.

Nowhere in the proposed organization is there a critical mass of environmental/social professionals or a high level Vice-President or Manager recognized as a champion for environmental values who can carry the banner for environmental/social values, weigh in with upper

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management on a par with other interests and exercise leadership within the institution—much less the hemisphere.

Management responded to civil society in a meeting with the Executive Vice-President and his Chief of Staff. Most of the stated concerns were not viewed as problems and Management saw no reason to respond to the letter in writing. Civil society was told that its efforts to advise the Bank on the preferred qualities of its Managers was “inappropriate” and unwelcome, since NGOs are not shareholders or members of the Board of Directors.

DEVELOPMENT EFFECTIVENESS – IS THERE A DEVELOPMENT STRATEGY?

A widely stated objective of the realignment is “To increase the development effectiveness of Bank activities by means of a greater country focus, deeper sector expertise and improved management based on risk management and attainment of results. This will enhance the Bank’s relevance in the region.”²¹ Reading between the lines of realignment politics, the IDB is faced with several conflicting motives. An acknowledged problem is the slow disbursement rate of IDB loans. Realignment is supposed to speed more money out the door. Although unsupported by empirical evidence, social and environmental safeguards are perceived by many loan managers to be the primary cause of slow loan turnaround. The CAF, free of procedural red tape, boasts that it can turn a loan around in three months. The average for the IDB is over two years. For Latin American public works Ministers that have an average term in office of less than two years, most prefer to take projects for which they are more likely to sign the loan and cut the inaugural ribbon.

A minority within the Bank acknowledge that pushing loans will not disappear as the Bank’s modus operandi, but future relevance will rest on the capacity to provide much needed technical advice on the most challenging development issues. These include biodiversity protection, climate change and cultural diversity on one hand and incentives for public-private partnerships, infrastructure investment and renewable energy on the other.

The realignment process has not convinced many of the IDB’s own staff the current Bank management has the capacity or will to guide the institution toward greater relevance. One senior manager warned in confidence that the loss staff trust has placed the IDB in situation not unlike that which brought the departure of Paul Wolfowitz at the World Bank. The manager observed that the situation has deteriorated so much that an external shock (such as that caused by the Wolfowitz scandal) could seriously destabilize the institution’s capacity to function. This manager warned that the “moment of truth” is approaching for the IDB in

which the slogans put forth by the Bank as a substitute for a development strategy will no longer hold up.

Demonstrating that the IDB has more than slogans to offer its member countries will depend first on merit-based senior appointments and secondly on reallocation of authority within the Bank to pursue new and challenging issues. Inequality and social exclusion—the themes of the Bank’s forthcoming flagship 2008 Report on Economic and Social Progress—have historically been delicate issues that can be reported but fail to penetrate the operational logic dominating the institution. To prove credibility on sustainability, the Bank will have to hire high level managers and executives with a proven track record of development outcomes. The IDB’s negotiations to make Mario Marcel head of the new Development Effectiveness and Strategic Planning office are being closely watched. They are seen as an indicator of the Bank’s political commitment to hire and empower its new organizational structure and move beyond slogans.

Donor countries have begun to press the Bank for performance indicators to measure the effectiveness of the implementation process. The Bank’s external evaluation unit (OVE) has reported on the weak informational system which often makes IDB operations immune to serious performance accountability. Some modest improvements have been achieved in recent years. The “quality upon entry” indicators of evaluability, analytical coherence and predictability have improved but are still low by industry standards. Sources within the Bank argue that the realignment may do little to alter the preference for large standardized operations that are cheap and fast to prepare and deliver. This type of embedded incentive structure works against smaller, more focused, institution-building loans that are labor-intensive and therefore more costly.

In recognition that the IDB needs to upgrade its impact assessment capacity, the Board has reportedly asked for performance indicators to measure the success of the realignment and of future operations. Attention to evaluation indicators, like other aspects of the realignment, were only partially addressed late in the process.

CIVIL SOCIETY PARTICIPATION – THE NEW BOTTOM OF THE PRIORITY LIST

With few exceptions, civil society has generally been excluded from the realignment. Efforts to meet with key architects of the process have proven difficult or impossible for Northern CSOs that typically enjoy considerably greater access. Southern CSOs have been shut out entirely. When pressed, some Bank directors have argued that the realignment is an internal issue not obligating any outside consultation.

Echoing some of the concerns that were outlined in a letter to President Moreno by the IDB Staff Association, civil society organizations have

criticized the IDB for providing little information on the key decisions of the realignment such as organizational structure, meritocratic criteria for new managers and performance indicators.

It is notable that the realignment deadline coincides with the deadline for another high profile commitment by President Moreno in 2006. By June 30, 2007, President Moreno promised that all Country Offices would have functioning **civil society advisory committees** (CASCs). Not only was there no public indication that this deadline was met, but review of the CASC status across the 26 borrowing countries leaves much doubt.

The non-participatory nature of the realignment only reinforces a pattern of the IDB marginalization of engagement with civil society. Rapid deterioration in the quality of engagement with many civil society organizations—often bordering on outright exclusion from established spaces for participation- is a trend coming to represent Moreno’s era at the IDB. While the IDB has conceded to direct engagement between President Moreno and different gatherings of CSOs, these encounters have been reduced to ad hoc question and answer sessions (the IDB – Civil Society Meeting in San Jose, Costa Rica; the IDB Annual Meeting in Guatemala), or brief project/thematic debates that are relatively empty of real commitment. Both are coming to be viewed by participants as designed more to offer the illusion of participation than any substantive and serious conversation.²²

“the Bank could not have less in place to deal with civil society.”

When asked about the structural mechanisms for civil society engagement at the IDB, one Bank informant close to the realignment process concluded, “the Bank could not have less in place to deal with civil society.” Formally, the civil society unit within the Bank, which never had more than a few people fully dedicated to this function, is now buried as a Unit within the Institutional Capacity and Finance Sector under the Vice-Presidency of Sectors and Knowledge. By most accounts, ambitious reforms to the Bank’s capacity and political will to hold serious discussions with civil society is at the bottom of the priority list. The realignment has made a bad situation even worse.

While there was some momentum to revive the previous institutional mechanism for civil society engagement (GIPSC, the IDB Inter-Departmental Group on Participation and Civil Society), as flawed as this mechanism, there was no incentive for Bank staff with experience to advance an action plan within the realignment.²³ The 2004 Citizen Participation Framework paper remains the only document approved by the Board which is related to civil society participation. No action plan for this Framework for Civil Society Participation document was ever pursued. In effect, there has been no lobbying to strengthen a dysfunctional and

severely understaffed Bank capacity to promote and sustain high quality dialogue and permanent participation of civil society.

The backpedaling on commitments to civil society at the IDB is no more apparent than with the outcome of President Moreno's promise to create CASCs in all borrowing countries.

On December 15, 2006, a note was sent by the IDB Headquarters through the three Regional Managers to all Country Offices restating the President's mandate on CASCs and asking for information regarding the current status of those operating in the region. The response indicated that 11 of the 26 borrowing countries had no CASC in early 2006 (42 percent) and another four countries could not prove that a fully operational CASC existed. Of the Southern Cone countries, only Brazil qualified at that time as having a fully functioning CASC.

In February 2007, a second notice was sent to request a CASC budget and work plan from each Country Office. All offices responded by indicating that each had some type of CASC in place, although the quality of their respective work plans and adequacy of their budgets is unknown.

The criteria for qualifying as a functioning CASC were quite lenient:

- Formal, demonstrable membership of civil society organizations with some representativity of the diversity of interests in the country,
- Demonstrable and frequent meetings of these organizations with the Bank's Country Office staff
- A budget for implementing a CASC
- Transparency regarding the mechanics and outputs of the CASC (i.e. a Terms of Reference for the CASC and rosters of CASC members are available online)

As lax as these criteria are, over half of the IDB's country offices could not meet them. Such a situation falls far short of the frequent, lofty claims of formal participation by IDB leaders. As of June 2007, many of the country offices had done the minimum to comply with the request for information on their CASC status. There was no way to tell if President Moreno's stated deadline for CASC formation had in fact been met.

Vince McElhinny is Latin America Program Manager at the Bank Information Center.

Bank Information Center

The Bank Information Center (BIC) partners with civil society actors in developing and transition countries to influence the World Bank and other international

financial institutions to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, informed participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and the IMF. www.bicusa.org

Notes and Resources

¹ IDB Dec. 14, 2006 Realignment Press Release.

<http://www.iadb.org/NEWS/articledetail.cfm?Language=En&parid=2&artType=PR&artid=3535>

² IDB staff assembly story in April IDB Staff newsletter, *Chasqui*.

<http://chasquionline.com/ViewPage.aspx?PageID=1223>

³ BRP letter, May 8, 2007, <http://www.bicusa.org/en/Article.3369.aspx>

⁴ Staff Association letter to President Moreno, June 6, 2007, <http://www.bicusa.org/en/Article.3369.aspx>

⁵ See BIC LAC Page <http://www.bicusa.org/en/Article.3369.aspx>

⁶ See IDB press release on July 3, 2007

<http://www.iadb.org/aboutus/lv/realignment.cfm?language=English> and IDB Staff newsletter article <http://chasquionline.com/ViewPage.aspx?PageID=1223>

⁷ Op cit.

⁸ Minutes of meeting with Executive Vice-President Zelikow and BIC on June 26, 2007, Washington, D.C.

⁹ IDB Appoints New Vice President for Countries, May 17, 2007.

<http://www.iadb.org/news/articledetail.cfm?artid=3853&language=en>

¹⁰ IDB Management Biographies, http://www.iadb.org/aboutus/lv/ma_Vellutini.cfm?language=English

¹¹ See <http://www.bicusa.org/Legacy/Termoelectrica%20PPA.pdf>

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http://www.bloomberg.com/apps/news?pid=20601086&sid=ayyCizfD44zY&refer=latin_america

¹⁴ "Realignment Update: Staff Receive Preliminary Assignments," Chasqui Online

<http://chasquionline.com/ViewPage.aspx?PageID=1223>

¹⁵ IDB Manager Biographies. http://www.iadb.org/aboutus/lv/ma_biographies.cfm?language=English

¹⁶ This section was written in collaboration with Aaron Goldzimer of Environmental Defense.

¹⁷ IDB Blue Ribbon Panel on the Environment, http://www.iadb.org/sds/env/site_6428_e.htm

¹⁸ IDB Blue Ribbon Panel on Sustainability recommendation letter to President L.A. Moreno on realignment process (May 8, 2007) pgs. 2-3.

<http://iadbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=985915>.

¹⁹ Management Response to the BRP, June 15, 2007,

<http://iadbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1015881>.

²⁰ IDB Environment and Safeguards Policy, March 2006, p. 11-12 http://www.iadb.org/sds/doc/env-environment_and_safeguards_compliance_p.pdf

²³ IDB Realignment Update (added to the IDB website June 6, 2007)
<http://www.iadb.org/aboutus/IV/realignment.cfm?language=English>

²⁴ La Reunión del BID con la Sociedad Civil 2007 en San José, Costa Rica - ¿Un paso hacia atrás?
<http://www.bicusa.org/en/Article.3153.aspx>

²³ GIPSC, http://www.iadb.org/sds/SCS/site_2786_e.htm; See also, *The IDB and Civil Society*, for a brief overview of all of the available mechanisms for civil society engagement.
<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=554357>