ove Office of Evaluation and Oversight

Corporate Evaluation

Lending Instruments Report

IDB

IDB | Invest

Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

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Corporate Evaluation

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IDB Invest

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Acknowledgements

This report was led by Verónica González Díez under the general direction of Ivory Yong-Prötzel, OVE Director. The team included Jonathan Rose, Odette Maciel, Gunnar Gotz, Josette Arévalo, Rasec Niembro, and Melanie Putic.

Acronyms and Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
CAF	Development Bank for Latin America
CCF	Contingent Credit Facility for Natural Disasters
CCL	Contingent Credit Line for Natural Disasters
CCLIP	Conditional Credit Line for Investment Projects
CPE	Country Program Evaluation
CS	Country Strategy
DDO	Deferred drawdown option
DPO	Development policy operation
DSL	Development sustainability credit line
EME	Emergency lending
ESP	Specific investment operation
GCR	Global credit operation
GOM	Multiple works loan
HMIC	Higher-middle-income country
IAMC	Independent Assessment of Macroeconomic Conditions
IBRD	International Bank for Reconstruction and Development
IDB-9	IDB's Ninth General Capital Increase
IDB(G)	Inter-American Development Bank (Group)
IEG	Independent Evaluation Group (of the WBG)
ILO	Innovation loan
INV	Investment lending
LAC	Latin America and the Caribbean

LBR	Loan based on results
LPGS	Liquidity Program for Growth Sustainability
M&E	Monitoring and evaluation
MDB	Multilateral development bank
MPL	Multiphase loan
OVE	Office of Evaluation and Oversight (of the IDBG)
PBL	Policy-based lending
PBP	Programmatic policy-based loan
PCR	Project Completion Report
PDL	Performance-driven investment loan
PforR	Program-for-Results
PROPEF	Project Preparation and Execution Facility
SDL	Special development lending
SEF	Sector facility
SG	Sovereign-guaranteed
SWAp	Sector-wide approach
TCR	Reimbursable technical cooperation
WB(G)	World Bank (Group)

Executive Summary

The 2019-2020 Work Program of the Office of Evaluation and Oversight (OVE) included an assessment of the financial instruments of the Inter-American Development Bank (IDB). The objective of this assessment was to evaluate the extent to which the IDB's set of financial (and non-financial) instruments has been aligned with—and effective in responding to—the (changing) needs of clients. To fulfill this objective, OVE's Work Program (RE-532-4) envisioned a series of evaluations that would be carried out in stages, starting with a stocktaking study.

This first report is a knowledge product focused on sovereign-guaranteed (SG) lending instruments and modalities that takes stock of the findings of previous evaluations carried out by OVE. The purpose of the report is threefold: to provide summary information, based on OVE's past work, mainly for new members of the IDB's Board of Directors; to serve as a technical input for Board and Management discussions; and to identify information and knowledge gaps to inform OVE's upcoming work on financial instruments. To this end, this report reviews the evolution of IDB SG lending instruments and updates OVE's latest evaluation on lending instruments carried out in the context of the final evaluation of the IDB's Ninth General Capital Increase (IDB-9)

(RE-515-6, 2018), focusing on changes made by the IDB since then. It also analyzes historical operational data on the use of lending instruments and modalities by countries and country groups. In addition, the report summarizes findings from other pertinent evaluations carried out by OVE, including findings from Country Program Evaluations (CPEs) related to the use and implementation of lending instruments. Finally, it draws lessons from a brief desk review of multilateral development banks' (MDBs') experience with emergency instruments during the 2008-2009 financial crisis.

At the time of IDB's founding in 1959, the specific investment operation (ESP) was its only lending instrument. Through the years, the IDB has expanded its set of lending instruments and modalities. By 1978, other SG investment lending modalities had been introduced: multiple works loans, global credit operations, and reimbursable technical cooperation. As part of IDB response to the debt crisis in borrowing member countries, in 1989, the IDB introduced its policy-based loans. By 2002, in response to limited lending demand and the perception that investment lending instruments were rigid and generated high transaction costs, the IDB Board of Directors adopted a new lending framework. The new framework expanded the set of lending modalities and approaches to include innovation, multiphase, and performance-driven loans as well as the establishment of a project preparation facility, a conditional credit line for investment projects, and a sector-wide approach. After 2010, the Bank began to simplify its set of lending instruments and modalities. Currently, the IDB has 10 lending modalities in use.

The simplification of lending instrument and modalities was in line with the recommendations of several evaluations carried out by OVE. In fact, OVE carried out two comprehensive evaluations on lending instruments (RE-300 in 2004 and RE-342-1 in 2008) which concluded that the proliferation of instruments (and modalities) added little value and recommended simplifying the set of lending instruments, along with improving development effectiveness and reducing transaction costs. In 2018, OVE's background note on instruments (RE-515-6) also suggested consolidating lending instruments to reduce the number of modalities and increase their flexibility. This evaluation also suggested to simplify programmatic combinations of investment lending, rationalize instruments used for project preparation support and update project approval procedures.

Over time, the IDB has been reviewing and updating its set of lending instruments and modalities. Most evaluations carried out by OVE found that there were no major gaps in IDB's set of SG lending instruments and modalities, and that the few gaps identified in previous evaluations (i.e., the need for a loan based on results or for a risk transfer instrument for natural disaster) have been addressed. In addition, most of the suggestions included in OVE's latest evaluation of instruments (RE-515-6) have also been addressed (i.e., programmatic modalities consolidation and approval process update).

Nonetheless, the analysis of IDB's operational data on the Bank's use of its lending instruments and modalities highlights important issues for further consideration. For instance, only three lending modalities are widely used (specific investment, multiple works, and policy-based lending), while some lending modalities and approaches have been used seldom (i.e., project preparation and execution facility) or not at all (i.e., multiphase loans) in the last five years. There are also important differences in the use of lending modalities by country group and by IDB country regions. For instance, only higher-middle-income countries have developed a varied portfolio in terms of lending instruments and modalities, while low-income countries have not used any type of emergency or contingency lending instruments in the last 10 years. The use of guarantees has been very limited. These findings certainly require further analysis, but they suggest that there might be still room for further streamlining of modalities and that some instruments or modalities might not be well suited to different countries with specific characteristics.

Emergency lending has become an important tool in the context of the IDB's response to the emergency associated with the COVID-19 pandemic. In this sense, although the IDB has a long history of supporting countries in dealing with macroeconomic crisis, in the past, the use of emergency and contingency lending has been relatively limited. In 2017, the IDB Board of Governors approved a new emergency instrument which seems to be in higher demand, particularly from small countries. In addition, to provide additional inputs for Board and Management discussion on this issue, for this report OVE has reviewed evaluations, carried out by the IDB and other MDBs, assessing the experience of the MDBs with lending instruments to respond to the 2008-2009 financial crisis. These evaluations found, for instance, that modifying existing lending instruments and modalities had been a more efficient approach than establishing new instruments. They also highlighted the positive experience of the IDB, as compared to other MDBs, in reaching the countries that were more in need of financial support.

Finally, the need to reduce transaction costs associated with IDB lending instruments and modalities was identified as an important issue in several OVE's Country Program Evaluations (CPEs). Findings from CPEs underlined that, in a context of countries' increased access to capital markets and different sources of financing, transaction costs, both for the IDB and for its clients, were an important concern. Nonetheless, most CPEs suggested that the IDB has adjusted its business model in each country and found strategies to help reduce transaction costs. Yet, many CPEs included recommendations for improving the mix of lending instruments and modalities to better respond to countries' development needs and capabilities. Finally, some CPEs called for the need of finding adequate instruments to support subnational governments.

In the process of carrying out this report, OVE identified information and knowledge gaps that were used to inform its Work Plan (RE-543-2). OVE's 2020-2021 Work Plan includes evaluations of several of IDB's financial instruments, such as a methodological study to evaluate PBL's effectiveness, an evaluation of the guarantee operations, and of IDB lending to subnational entities.

01

Introduction

1.1 IDB lending instruments. The Inter-American Development Bank (IDB) uses lending instruments as tools to achieve its objective of helping to accelerate the economic and social development of its member countries. Over the last 20 years, Latin America and the Caribbean (LAC) has experienced important changes that have affected the use of lending instruments. Economic growth has given countries greater access to international and local capital markets, and new institutional actors have positioned themselves to cover a significant portion of the region's financing needs, competing with the IDB. Many countries in the region have also faced financial crises or natural disasters that have affected the demand for specific lending instruments, and changes in the political and social context have modified IDB clients' financing needs. More recently, the COVID-19 pandemic is testing the IDB's ability to address an emergency using its current lending instruments. According to the most recent IDB Macroeconomic Report, "LAC will see sharp (economic) growth reductions of between 1.8 percent and 5.5 percent of GDP in 2020 due to the impact of the pandemic. In this context, since the end of January 2020, the IDB Group has increased the availability of funds and adjusted lending instruments to streamline support for countries affected by COVID-19.[1]

1.2 OVE's 2019-2020 Work Program (RE-532-4). The Work Program of the Office of Evaluation and Oversight (OVE) included an assessment of IDB's instruments to feed the strategic discussion of the role of the IDB Group in the region. Specifically, the Work Program states, "The overall objective is to evaluate to what extent the set of financial (and non-financial) instruments that the IDB Group makes available to its clients has been aligned with the (changing) needs of clients and to what extent they have been effective in responding to those needs." To achieve this objective, the Work Program envisioned a series of evaluations of IDB instruments that would be carried out in stages and would start with a stocktaking study.

1.3 Objective and scope of the report. This report has a threefold purpose: to provide summary information, based on OVE's past work, for new members of the IDB's Board of Directors; to serve as a technical input for Board and Management discussions; and to identify information and knowledge gaps to inform OVE's upcoming work on financial instruments. To this end, this report reviews the evolution of IDB's sovereign-guaranteed (SG) lending instruments and updates OVE's IDB's Ninth

1 In addition to reprogramming its existing portfolio of health projects to address the crisis, the IDB has announced that it can direct an additional US$3.2 billion to the lending program initially stipulated for 2020. The IDB is also exploring options to streamline fiduciary processes and timeframes for approving operations, to accelerate its support for the region.

General Capital Increase (IDB-9) background note on lending instruments (RE-515-6, 2018),[2] focusing on changes undertaken by the IDB since then. It also analyzes operational data on the use of lending instruments and modalities by countries and country groups. In addition, the report summarizes findings from other pertinent evaluations carried out by OVE, including findings from OVE's Country Program Evaluations (CPEs) related to the use and implementation of lending instruments. Finally, it draws lessons from a brief desk review of multilateral development banks' (MDBs') experience with emergency instruments during the 2008-2009 financial crisis.

1.4 Sources of information of the report. For this report, OVE reviewed all relevant evaluation reports that assessed IDB lending instruments since 2004 (Table 1.1) to summarize findings, conclusions, and lessons learned. In addition, OVE reviewed 24 CPEs delivered in the last five years (listed in Annex I) to compile the main findings regarding the use and implementation of lending instruments and modalities in each country. OVE analyzed operational data from the Bank's Enterprise Data Warehouse to assess the use of lending instruments and modalities Bank-wide, and to update data on project preparation and implementation time and costs. Finally, OVE reviewed several evaluations from other MDBs (mainly the World Bank Group and the Asian Development Bank) on past responses to the 2008-2009 financial crisis (see Annex III).

Table 1.1. Relevant OVE instrument evaluations

RE-300	Instruments and Development: An Evaluation of IDB Lending Modalities (2004)
RE-342-1	The Evaluation of the New Lending Framework (2008)
RE-446-3	IDB-9 Mid-Term Evaluation (Background note) (2012)
RE-515-6	How is IDB Serving Higher-Middle-Income Countries? Borrowers' Perspectives (2013)
RE-485-6	Technical Note: Design and Use of Policy-Based Loans at the IDB (2015)
RE-496-1	Contingent Lending Instruments (2016)
RE-447	IDB's Ninth General Capital Increase: Implementation and Results (2018)

Source: OVE.

1.5 Structure of the report. Following this Introduction, Section II describes the evolution of IDB's set of SG lending instruments and modalities, and compares them with those of other MDBs. Section III presents a descriptive analysis of the use of lending instruments and modalities over time and summarizes the main findings from relevant evaluations carried out by OVE. Section IV presents findings related to the use and implementation of lending instruments and modalities, based on the review of the latest CPEs. Section V presents concluding remarks.

2 This report updates the comparison of IDB SG lending instruments to those of other MDBs included in RE-515-6.

02

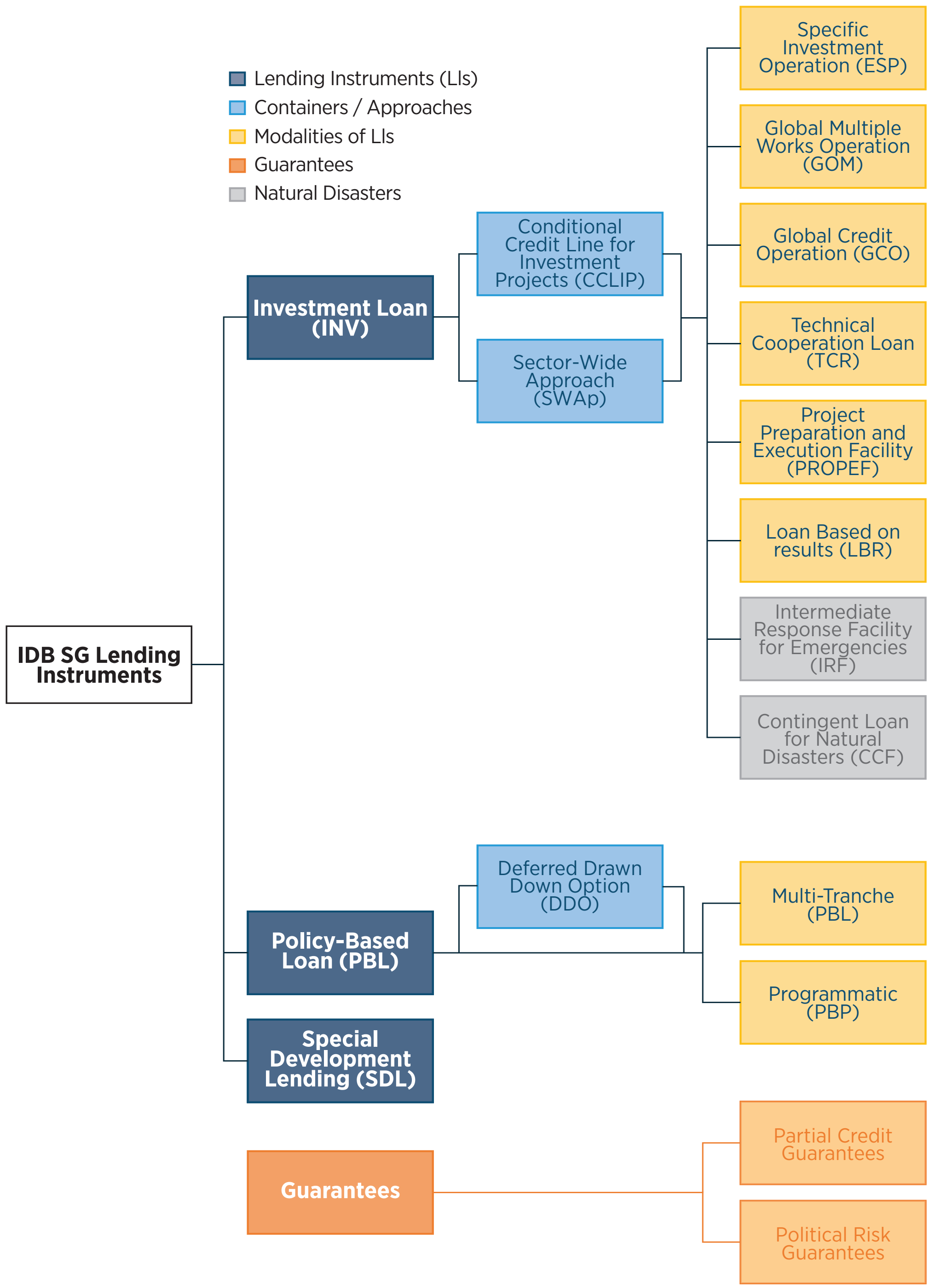
IDB´s SG Finantial Instruments

2.1 IDB has three lending categories of SG instruments and guarantees. Lending categories include investment (INV), policy based (PBL), and financial emergency. Within these categories are modalities, each with a set of rules, procedures, and approaches for bundling instruments. The IDB can also guarantee loans made by private financial sources in public sector projects. Figure 2.1 shows current SG financial instruments while Figure 2.2 (at the end of the section) shows the evolution of lending instruments.

Figure 2.1

Current IDB SG lending instruments and modalities

Source: OVE.



A. The evolution of IDB's SG financial instruments

1. Investment lending modalities, approaches, and facilities

2.2 At the time of IDB's founding in 1959, the specific investment operation (ESP) was its only lending instrument. In general, investment lending finances goods, works, and services to promote social and economic development.[3] ESP finances projects for specific purposes, with well-advanced design features. By 1978, other SG investment lending modalities had been introduced: multiple works loans (GOMs), financing a series of small independent subprojects; global credit operations (GCRs), providing loans to small and medium enterprises through a second-tier financial institution; and reimbursable technical cooperation (TCR), financing consulting services and institutional strengthening activities.

2.3 In March 2000, in response to limited lending demand and the perception that investment lending instruments were rigid and generated high transaction costs, the IDB Board approved a new flexible lending framework expanding the set of lending modalities and approaches. The new framework included innovation loans (ILOs), designed as a pilot to support small-scale innovative programs; multiphase loans (MPLs), designed to support far-reaching programs that require more than one project cycle to complete; and two facilities: Sector Facilities (SEFs), designed to support sector reform in five areas (education, health, institutional development, transnational infrastructure, and trade), and the Project Preparation and Execution Facility (PROPEF). In 2003, the IDB added another modality, performance-driven investment loans (PDLs), and a new programmatic approach using the conditional credit line for investment projects (CCLIPs),[4] both aimed at lowering transaction costs and providing a faster track to loan approval. In 2004, the sector-wide approach (SWAp) was introduced to harmonize project procedures between a government and its development partners. In 2009, the IDB introduced the Contingent Credit Facility for Natural Disaster Emergencies (CCF), an investment lending modality designed to help countries prepare for natural disasters and deal with their aftermath.

3 Typically, investment lending has a final maturity of 25 years, a grace period of 5.5 years, and a weighted average life of 15.25 years. Lending rates for USD-denominated financing are calculated on a variable rate based on 3-month USD LIBOR, IDB funding margin relative to USD LIBOR, and IDB Ordinary Capital variable lending spread. IDB also offers non-USD-denominated financing and interest rate conversion options.

4 This programmatic approach includes an umbrella program and several sub-loans, allowing investment projects to have continuity, expedited loan preparation, and reduced loan-processing costs for both the Bank and the borrower.

2.4 OVE carried out two comprehensive evaluations on lending instruments (RE-300 in 2004 and RE-342-1 in 2008), concluding that the proliferation of specific instruments (and modalities) added little value and recommending simplifying the set of lending instruments, along with improving development effectiveness and reducing transaction costs.[5] After 2010, and partially as a consequence of OVE's recommendations, the Bank began to simplify its set of instruments. Yet only two seldom-used investment lending modalities (the ILO and the SEF) were dropped, and the PDL, which had been approved as a pilot, was permitted to lapse. In December 2016, the IDB Board of Directors approved a results-based investment modality, the loan based on results (LBR), which replaced the PDL. It is worth noting that the introduction of the LBR has filled a gap noted in OVE's IDB-9 Mid-term Evaluation (RE-446-3) and in the HMIC evaluation (RE-447).

2.5 In 2018, OVE's background note on instruments (RE-515-6), part of its final evaluation of IDB-9, again suggested further consolidation of lending instruments to reduce the number of modalities and increase their flexibility. The evaluation suggested this could be achieved by establishing a general policy and procedures for all investment modalities and adding particular requirements to accommodate specific modalities (such as the GCR or the GOM). The exception would be the LBR, which should continue to require its own policy and procedures, in line with the practices of the other MDBs. The evaluation also suggested consolidating the programmatic combinations of investment lending (such as the MPL and the CCLIPs) in a single approach and addressing the overlap in IDB instruments used for project preparation support (mainly technical cooperation resources and the PROPEF).

2.6 In line with OVE's suggestions, IDB has introduced relevant amendments to improve its lending modalities and approaches. In May 2017, the IDB Board of Directors approved the creation of a new entity under the Office of Strategic Planning and Development Effectiveness – Strategy Monitoring Division (SPD/SMO) that is responsible for the continuous review of SG lending instruments, engaging proactively rather than reactively with clients. In 2019, building on lessons learned from project preparation and execution and responding to

5 Both evaluations also highlighted the weak development effectiveness of IDB's lending instruments in general. Furthermore, they found that IDB investment lending did not appear to flow exclusively to public sector capital formation. Finally, they pointed out that disbursement of investment instruments tended to be volatile, unpredictable, and procyclical, with high transaction costs.

OVE's evaluations, the IDB Board approved amendments for the programmatic approaches (CCLIP and MPL) and the contingency modality (CCF).[6]

- The principal amendments for the CCLIP include allowing projects to be independent, and changes in the eligibility criteria for second and subsequent loan operations. The new criteria include execution performance, overall implementation status, and readiness assessment, but do not include disbursement requirements—that is, full disbursement of the first operation is no longer a prerequisite for subsequent operations. In addition, CCLIP operations can now include guarantees. These amendments, especially the change in disbursement requirements, made the MPL redundant and it was eliminated (GN-2246-13), in line with OVE's suggestion (RE-515-6).[7]
- The CCF was amended in 2019 to enhance the Bank's capacity to address the financing needs of countries facing natural disasters. The principal amendments in 2019 (GN-2502-7) included an expansion in the scope of the instrument, including a dual modality,[8] an extension in the period for recognition of expenditures (adding 90 days following the disaster event), changes to the commitment fees, and an option for replenishment of funds after drawdown(s). It is worth noting that these amendments are also in line with OVE's lessons learned from the evaluation on contingency modalities (RE-496-1), particularly that related to the fee structure. In 2020 (GN-2999-4), CCF amendments included special provisions for COVID-19, providing liquid resources up to US$90 million (or 0.6% of the GDP). Going forward, the latest CCF amendments allowed the coverage of public health risk (such as pandemics) under Modality II.

6 The only pending suggestion from OVE's RE-515-6 evaluation remained the rationalization of the instruments for project preparation support. As it is shown in the next section of this report, the PROPEF has been hardly used in the last years.

7 OVE (RE-515-6) noted that the differences between the IDB's two programmatic investment lending approaches, CCLIP and MPL, have decreased over time, and MPLs were rarely used. Furthermore, the consolidation of the two could clarify the goal of selectivity and focus in the use of programmatic approaches, as well as offer the opportunity for further reducing transaction costs related to the preparation of subsequent operations.

8 Modality I (same as previous): Quick onset, low-probability natural hazard (severe or large-scale impact). Predefined parametric triggers. Provides liquid resources up to US$300 million, or 2% of country's GDP. Modality II (new): For emergencies not covered by CCF-Modality I (or disaster reserves or budgetary allocation have been or are expected to be exhausted). The trigger is a declaration of natural disaster (non-parametric). Provides liquid resources up to US$100 million or 1% of country's GDP.

Table 2.1. Description of investment modalities, approaches, and facilities

Acronym	Description	Status
Lending Modalities		
ESP	**Specific investment operations** allow financing one or more projects for specific purposes with interdependent components that are wholly defined at the time of approval of the loan. At loan approval, the project's preliminary design, cost, and technical, financial, and economic feasibility need to have been estimated.	1959 – present
GOM	**Multiple works loans** (or multiple works programs) allow funding projects that are not individually large enough to warrant the Bank's direct involvement by grouping them in sets of projects. Loan appraisal requires only a representative sample of investment works to be financed by the program. The physical and financial dimensions of the program are defined taking into account the executing capacity of the organization that will carry out each of the works, and the availability of resources, among other things.	1978 – present
GCR	**Global credit programs** are granted to intermediary financial institutions (IFIs) or similar agencies in the borrowing countries to enable them to on-lend to end-borrowers (sub-borrowers) for the financing of multi-sector projects, and when their size does not warrant direct Bank handling. GCRs are designed to reach micro, small, and medium enterprises or subnational entities via second-tier public financial institutions. The size of the loan is determined by the expected demand for investments and the institutional capacity of the intermediary.	1978 – present
TCR	**Reimbursable technical cooperation** finances supplementing and strengthening the technical capacity of the institutions and entities in developing member countries over the long term by transferring the IDB´s technical know-how and expertise.	1978 – present
MPL	**Loans for multiphase programs** provide long-term support for far-reaching programs that require more than one project cycle to reach their development objectives. The phases of eligible programs are independent. However, completion of one phase triggers the next one. This modality has been rarely used in recent years. In November 2019 management amended the CCLIP and eliminated the MPL (GN-2246-13), in line with OVE's suggestion in RE-515-6.	2000 – 2019
ILO	**Innovation loans** were designed for pilot activities and limited to US$10 million per loan. This modality was dropped because of low demand and limited value-added.	2000 - 2011
PDL	**Performance-driven loan** disbursed once the project's development results (outcomes) were achieved and the Bank had verified the expenditures. Introduced in 2003 as a 6-year pilot program and allowed to lapse in 2009 because of lack of demand, implementation challenges, and limited value-added.	2003 - 2009
CCF	**Contingent Credit Facility for Natural Disaster Emergencies** is an ex-ante risk financing instrument to support borrowing countries in improving their financial management and planning practices for natural disasters. Funding requires the existence of a Country Integrated Disaster Risk Management Program and verification of occurrence of a disaster event of a contractually agreed type, location, and intensity. The CCF was amended in 2019 (GN-2502-7) and 2020 (GN-2999-3). CCF is not considered a Facility given that no funds are set aside for this purpose.	2009 – present
LBR	**Loan Based on Results** disburse funds directly linked to the achievement of predefined and sustainable results. The aim is to help countries improve the design and implementation of their own development programs, using countries' procurement systems, and achieve lasting results by strengthening good governance and fostering a management culture based on results.	2016 – present
Approaches		
CCLIP	**Conditional credit line for investment projects** allows the IDB to provide a faster track to loan approval for projects sub-sequent to the first and to reward borrowers for good execution performance. Any investment lending modality can be used under a CCLIP. In 2016, eligibility for the CCLIP was expanded from supporting a single agency to supporting multiple agencies strengthening the multi-sector approach (GN-2246-9). In 2019 the CCLIP was amended again, expanding the scope and changing eligibility criteria for sub-loans (GN-2246-13).	2003 – present
SWAp	**The sector-wide approach (SWAp)** aims at harmonizing project procedures between a government and its development partners to support a single government-led sector policy and expenditure program, strengthening the use of the country's procurement systems. Funding arrangements can be pooled or non-pooled. This approach has been seldom used.	2004 – present

Facilities		
IRF	**Immediate Response Facility** allows the IDB to provide financial resources to cover the costs of restoring basic services to a population in the immediate aftermath of a disaster. Per OVE's recommendation, Management introduced changes: in 2003, these changes included eliminating the overall ceiling on IRF funding, limiting retroactive financing, clarifying eligible expenses, and cancelling not signed, not ratified loans and uncommitted balances; and in 2007, the Facility's benefit was expanded to cover emergencies caused by technological accidents and other types of disasters resulting from human activity. A single limit of US$20 million per operation was also set (GN-2038-16).	1998 – present
PROPEF	**Project Preparation and Execution Facility** aims to strengthen the preparation phase of a project, finance activities to help start projects before the first funds are disbursed from the larger loan and lay the groundwork to make institutions more sustainable. The funds may also cover financing gaps for initial activities to execute the projects while necessary conditions (conditions precedent) are being met. Finally, the funds can also be used to encourage ex-post evaluation to measure project development impacts. Individual operations can be approved under Delegation of Authority for the Vice-Presidency of Sectors (PR-216)	2000 – present
SEF	**Sector Facilities** were designed to take advantage of windows of opportunity for sector reform in five areas (education, health, institutional development, transnational infrastructure, and trade), limited to US$5 million per loan and US$150 million per facility area. The Facility was dropped in 2011 because of difficulties in disbursing, low demand, and limited value-added, notably given the similarities to technical cooperation.	2000 – 2011

Note: Light grey denotes expired instrument or modality.

Source: GN-2085-2, GN-2278-2, GN-2330-6, GN-2492-3, GN-2564-3, RE-446-3, GN-2729-2, GN-2869-1, RE-515-6.

2. Policy-based lending

2.7 In 1989, the IDB introduced policy-based loans (PBLs, originally called sector loans) as part of its response to the debt crisis in developing countries. PBLs support policy reforms and institutional changes in a sector with flexible, liquid financing.[9] In 2005, the programmatic policy-based loan (PBP) was introduced. Under the PBL policy and procedures, the borrowing country must "demonstrate fulfillment of a satisfactory macroeconomic framework," and the Bank must establish an overall quantitative limit for use of the instrument. The IDB-7 established a limit of 25% of total Bank approvals, but usage ran well in excess of the limit. The IDB-8 reduced the limit to 15% in anticipation of an improved economic environment. In 2011, the limit was increased to 30% of total Bank approvals (in a four-year cycle). However, as noted in RE-485-6, none of the Bank's documents establishing the specific ceilings discussed their rationale and their financial implications. Quantitative limits have also led to crowding-out effects that have generated some inappropriate matching of instruments to country needs (RE-342-1). In 2012, the Bank added a precautionary lending approach, the deferred

9 Typically, policy-based lending has a final maturity of 20 years, a grace period of 5.5 years, and a weighted average life of 15.5 years. Lending rates for USD-denominated financing are calculated on a variable rate based on 3-month USD LIBOR, IDB funding margin relative to USD LIBOR, and IDB Ordinary Capital variable lending spread. IDB also offers non-USD-denominated financing and interest rate conversion options.

drawdown option (DDO). The same year, the contingent credit line for natural disasters (CCL) was approved to cover the urgent financing needs that arise immediately after a natural disaster. The CCL was funded by resources freed up when the Bank's unused borrowing capacity buffer was reduced from US$4 billion to US$2 billion in 2012 (FN-668-1). The CCL is currently expired.

Table 2.2. Description of PBL modalities and approaches

Acronym	Description	Status
Lending modalities		
PBL	**Multitranche policy-based loans** finance reforms based on conditions specified at the beginning of the operation. Loans are disbursed in several tranches, when the policy conditions linked to each tranche are completed and verified. For multitranche PBLs, all policy/institutional conditions must be defined before the project is approved.	1989 – present
PBP	**Programmatic policy-based loans** support a framework of reforms/institutional changes to be executed in phases. Funds are disbursed in a series of single tranches over the medium term (three to five years). There are specified triggers for moving from one operation to the next.	2005 – present
CCL	**Contingent credit line for natural disasters** provided resources to cover urgent financing needs that arise immediately after a natural disaster. CCL was treated as a PBL and followed the PBL guidelines for all operational, fiduciary, and procurement purposes. By 2015, this modality was unfunded and allowed to expire.	2012 - 2015
Approach		
DDO	**Deferred drawdown option** allows countries, on payment of an up-front premium, to draw on the resources of PBLs and PBPs when they require these funds. During the drawdown period, the borrower must maintain policy conditions and sustainable macroeconomic policies.	2012 – present

Note: Light grey denotes expired instrument or modality.
Source: GN-2278-2, GN-2492-3, GN-2564-3, GN-2729-2, RE-515-6.

3. Emergency lending

2.8 The IDB has developed several approaches to emergency lending. In 1998, the IDB Board of Governors created an "emergency" variant of the PBL (EME) to provide financial resources to help borrowing member countries address situation of severe macroeconomic distress (AG-07/98). This emergency window was created on a temporary basis, it was exempted from the quantitative limit applied to PBLs, it had a shorter tenor (5 years) and a higher interest rate than the Bank's other regular lending instruments.[10] With the approval of the new lending framework in 2002 (AG-1/02), the emergency lending was stablished as a new lending category of the IDB with the same financial conditions of the previous instrument and the requirement to fit within a stabilization program supported by the International Monetary Fund (IMF).[11] In 2008, in the context of the financial crisis, the Liquidity Program for Growth

10 On top of the loan conditions on tenor and interest rate, four other safeguards were built into this instrument: explicit linkage to IMF programs, a clear statement of developmental impact, a rapid disbursement profile, and an assessment of the borrower's financial repayment capacity (RE-300).

11 This framework was in place between 2002 and 2012 (AG-7/09 and AG-9/11).

Sustainability (LPGS) was established on a temporary basis, with the objective of providing liquidity to LAC countries hit by the financial crisis. This emergency line was to be managed by central banks or second-tier institutions and was intended to benefit micro, small, and medium enterprises with expedited disbursement. The main implication of the LPGS was to replace the requirement of having an IMF program for having an Article IV consultation or a comfort letter from the IMF. The program expired in December 2009. In 2012, a contingent development sustainability credit line (DSL) was created (AG-9/12). The DSL allowed for ex-ante coverage of urgent financial needs in countries facing exogenous shocks which can only be triggered with a valid Independent Assessment of Macroeconomic Conditions (IAMC). The DSL expired in December 2015. The current emergency lending instrument, the special development lending (SDL), was established by the Board of Governors in 2017 (AB-3134). With the SDL two important issues were addressed: pricing is better aligned with that of other MDBs[12] and a valid IAMC is not an eligibility requirement.

Figure 2.2

IDB SG lending instruments timeline

Source: OVE.

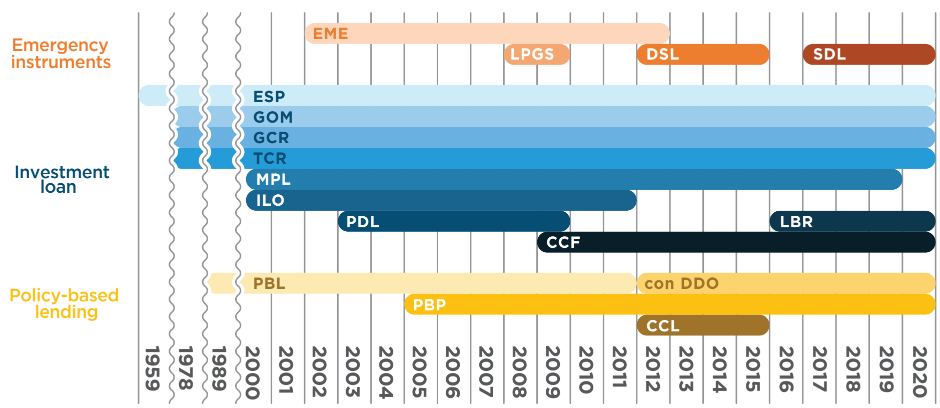


Table 2.3. Description of emergency lending instruments and programs

Acronym	Description	Status
Lending instruments		
EME	**Emergency loans** were created to address needs arising from financial emergencies in the region and as a response to the closing of private capital markets to several IDB borrowers in 1998-99. These loans had a three-year grace period with a six year maturity and a spread of 400 basis points (bp) per annum. The funds available for this facility totaled US$8.8 billion. In 2002, under the new lending framework, a new emergency lending was established and was in place until 2012.	1998 - 2009
DSL	**Development sustainability credit line** (DSL) was to be used for ex ante coverage of urgent financial needs in countries facing exogenous economic shocks. These loans also had a grace period of 3 years with a maturity of 6 years, but a loan spread equivalent to the variable ordinary capital (OC) lending spread plus an additional 165 bp per year. The maximum amount of DSL approved per country was set at US$300 million, or 2% of a country's gross domestic product (GDP), whichever was less. The DSL had a lending limit of US$6 billion for the period 2012 to 2014 with a maximum of US$2 billion per year (net of prepayments and cancelations).	2012 - 2015

12 GN-2031-13 calculated the following all-in-lending rates for the MDB's emergency modalities: IDB 334 basic points (bp), WB 347 bp, ADB 330 bp, CAF 320 bp, AfDB 238 bp.

SDL	**Special development lending** (SDL) The SDL is a budget support lending instrument aimed at contributing to address the effects of a macroeconomic crisis on a country's economic and social progress. To be eligible for a SDL a country must have been struck by macroeconomic crisis and must have a Lending Arrangement approved by the IMF Board. The maximum limit of US$500 million, or 2% of a country's GDP, whichever is less, and it is proposed per country and per event. If available, part of the uncommitted funds of the portfolio of a borrowing country could be redirected to finance SDL loan operations, capped at a level that guarantees that at least 60% of the remaining uncommitted loan balances in the portfolio correspond to investment loan operations.	2017 - present
Programa		
LPGS	**The Liquidity Program for Growth Sustainability** (LPGS) was established on a temporary basis during the global financial crisis to maintain the flow of credit to the real economy. A requirement for the program was that the borrowing country had to either have a program in place with the IMF or have undertaken an Article IV consultation with the IMF within 18 months before consideration by the Board of Executive Directors.	2008-2009

Note: Light grey denotes expired instrument or modality.
Source: GN-2278-2, GN-2492-3, GN-2729-2, RE-515-6.

4. Guarantees (SG)

2.9 The IDB can provide guarantees on loans made by private sources in public sector projects to improve the financing conditions for these projects and to help promote and attract investments. IDB SG guarantees are designed to target and cover risks that the private sector is normally not well suited to assess, manage, or absorb. These guarantees are mostly partial guarantees of private debt. There are two types of SG guarantees: (i) partial credit guarantees, which cover part (or, exceptionally, all) of the funds provided by financiers, effectively covering risks that might affect repayment, and are designed to assist governments and their entities in accessing new sources of debt financing with longer maturities than would otherwise be available; and (ii) political risk guarantees, which cover the risk that a sovereign or public entity will not comply with contractual conditions agreed upon with a private entity such as a bank or investment partner, thus affecting the repayment of the debt. These guarantees are designed to promote private sector participation (GN-2729-2). Guarantees have been very little used at the IDB[13] as well as at other MDBs.[14] A study carried out by SPD in 2018 found that "investors and sovereign borrowers cite two main reasons for not using MDB guarantee products more extensively: pricing and the accounting policies against sovereign borrowing envelopes". To provide further analysis on this instrument, OVE has included an evaluation of the guarantees in its 2020-2021 Work Program (RE-532-4).

13 Currently, there are only two guarantee operations in the active portfolio: Ecuador (EC-U0001, Financing low income housing in Ecuador), approved in 2018 for US$300 million, and Peru (PE-L1010, Guarantee for IIRSA Northern Amazon Hub), approved in 2006 for US$60 million.

14 For instance, also the WB has infrequently used this instrument.

B. Comparing IDB SG lending instruments to those of other MDBs

2.10 The IDB has more lending modalities than other MDBs such as the World Bank (WB) and Development Bank for Latin American (CAF). Both evaluations on instruments carried out by OVE in the context of the IDB-9 (RE-446-3 in 2013 and RE-515-6 in 2018) concluded that all MDBs offer a similar set of lending categories: investment, policy-based, instruments providing liquidity to countries facing short-term external financing difficulties, and some variety of guarantees. However, there are important differences in the numbers of modalities and the policies and procedures that govern them. With 10 lending modalities currently in use, IDB has the highest number of lending options of all MDBs, followed by the African Development Bank (AfDB) and the Asian Development Bank (ADB). The WB and CAF has the fewest lending instruments and modalities. The WB have only one flexible investment instrument that allows for multiple uses (Table 2.4). Box 2.1 describes the main differences among MDBs in lending instruments.

Box 2.1. OVE's findings on IDB lending instruments compared with those of other MDBs (RE-515-6, 2018)

The World Bank stands out from other MDBs in having a single investment project financing instrument. In 2012, the WB consolidated its many forms of investment lending under a single instrument with enough flexibility to handle a wide range of client needs. According to this evaluation, a major motivation was the proliferation of at least 35 separate policies and procedures with overlaps and inconsistencies, which generated a major operational compliance risk.

The IDB has one unique investment modality, the GOM, but other MDBs can replicate its features with their standard investment lending products. The GOM supports investment projects with many small subprojects not necessarily identified in advance. Other MDBs allow similar investment lending approaches but not in a separate modality.

Like most of the other MDBs, the IDB provides loans to support project preparation and early execution. The IDB's PROPEF can provide up to US$5 million, including financing needs, in the gap between preparation and start-up as well as start-up activities. The WB, on the other end, provides this project preparation support under its single investment loan instrument. CAF uses technical cooperation loans for this purpose.

The IDB and the WB have the most complete natural disaster emergency coverage. Like other MDBs, the IDB provides emergency disaster relief as part of its lending package through the IRF. The IDB package also includes a contingent investment facility to help countries plan their response to a natural disaster in advance (CCF). Additionally, the IDB used to have a contingency credit line (CCL) under the PBL category but it has been discontinued (GN-2502-7, November 2019). In 2020, the IDB Board approved a proposal to create a catastrophic risk transfer instrument that covers extremely low-probability/high-impact events using a risk transfer mechanism (insurance type) and a loan protection product.

MDBs differ in the approval procedure for programmatic approaches in investment lending. The approval procedure for CCLIPs at the IDB is different than for other MDBs. After the approval of the program and its first operation, subsequent operations have a faster track toward approval through “no-objection” (GN-2838-3, June 2018). At the ADB and the WB, follow-up operations in similar programmatic approaches are approved using delegation of authority to Management.

Another difference across MDBs is that while the IDB categorizes its results-based loan under investment lending, most MDBs use a different category. For instance, there are two important differences between the IDB’s LBR and the WB’s and AfDB’s equivalent PforR. First, the IDB instrument falls in the investment lending category, while the WB created a new lending category for PforR that is neither investment nor policy-based lending and increases the flexibility of the instrument in some ways (e.g., expenditure verification). Second, the IDB’s LBR disburses mainly against intermediate and final outcomes, whereas the WB’s PforR can disburse against outputs, which facilitates and expedites disbursement but weakens the focus on results.

Differences across MDBs under the policy-based and financial emergency categories are relatively small. Most offer similar policy-based options, individual loans (single-tranche or multi-tranche), and programmatic support, while the IDB and the WB offer a deferred drawdown option. While most offer special lending during financial emergencies, most categorize that lending under policy-based lending while the IDB has it as a separate category.

Table 2.4. Comparison of current lending instruments and approaches among major MDBs

Lending instrument/approach	IDB	AfDB	ADB	CAF	WB
Investment lending instruments and modalities					
Standard specific investment loan	X	X	X	X	Covered under single investment instrument
Technical cooperation loan	X	X	X	X	
Project Preparation and Execution (Facility)	X	X	X		
Global credit loan	X	X	X		
Multiple works loan	X				
Sector-wide (approach)	X	X	X		
CCLIP (approach) [1]	X		[1]		
Loan based on results	X	[2]	[2]		[2]
Disaster facilities (under investment lending)					
Immediate Response Facility for Emergencies Caused by Disasters	X	X	X		Covered under single investment instrument
Contingent Credit Facility for Natural Disasters	X			[3]	[4]
Policy-based instruments					
Policy-based loan	X	X	X	X	X
Programmatic policy-based loan	X	X	X		
Policy-based loan deferred drawdown option (approach)	X				
Emergency lending category for macroeconomic crises					
Special development loan (financial emergency)	X	[5]	X		[5]

Note: [1] The ADB and the WB have similar multi-phased/multi-loan instruments, but after approval of the umbrella program by the Board, Management approves follow-up individual operations, subject to conditions related to safeguards and other considerations. [2] Results-based instruments are treated by these institutions as a separate loan category outside investment lending. [3] Provides contingent lines of credit for this purpose (not under the investment category). [4] The WB has a contingency instrument (CAT-DDO) under the PBL category. [5] Categorized by the institution under policy-based lending.

Source: Updated from RE-515-6 – IDB's Ninth General Capital Increase: Implementation and Results (2018) (Background note).

2.11 OVE's 2018 evaluation (RE-515-6) also compared the approval procedures for IDB with those of other MDBs and concluded that there was room for improvement. OVE's evaluation found that, between 2014 and 2016, approximately 75% of all SG loans were discussed and approved by the IDB Board of Directors, compared with around 10% and 30% of the SG loans in the WB and ADB, respectively (Box 2.2).[15] The reason was twofold: first, some of the IDB criteria for Board discussion, including approval amount thresholds, had not been updated for more than 20 years (GN-1838), despite the substantial increase in the average size of SG loans. Second, the share of

15 Approximately 10% of all lending operations were discussed by the Board at the WB in FY15-17, and the rest were approved on an absence-of-objection basis. Before the 2013 update of Board procedures, the WB Board discussed 28% of operations approved in FY12. Similarly, the ADB Board discussed up to 40% of SG operations in the years before 2015, when it reformed its approval processes to optimize Board time. Under the new criteria, the Board now discusses about 28% (see RE-515-6 for a full comparison among MDBs).

PBP loans, which follow standard procedures, had increased. Moreover, there was a discrepancy in the approval procedures across instrument types and modalities that led to anomalies in what was discussed. OVE concluded that there was room for streamlining approval procedures to reduce transaction costs and time.

Box 2.2. IDB SG Loan Approval procedures

At the time of OVE's evaluation (RE-515-6), the IDB had three approval procedures for SG loans: standard procedure, simplified procedure, and short procedure. The Board could delegate its authority to Management to approve certain operations, such as Immediate Response Facility (IRF) projects, SWAps, individual operations under PROPEF, and second or subsequent tranches of multiphase PBLs. In contrast, the ADB and the WB had only two approval procedures: full Board discussion (equivalent to IDB's standard procedure) and absence of objection (which combines both IDB's simplified and short procedures). At the ADB and WB, the Board could also delegate its authority to Management for some operations, such as the multiphase programmatic approach at the WB or the operations under the Multi-Tranche Financing Facility at the ADB.

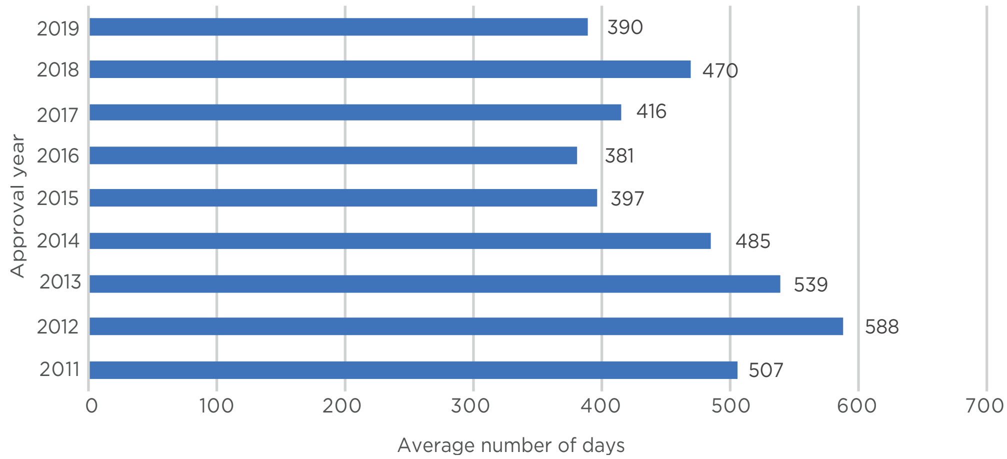
2.12 In June 2018, the Board of Directors approved a Management proposal for updating and streamlining approval procedures (GN-1838-3) to reduce project preparation and approval time. This proposal updated the criteria for determining the approval procedure, including increasing the ceiling threshold by country group and reducing approval procedures to two categories: standard procedure and non-objection procedure, in line with other MDBs and with OVE's suggestions. In 2019, Management presented to the Board a preliminary assessment of the application of the new procedures (GN-1838-5) that showed a reduced number of approvals by standard procedure, a reduced number of Board extraordinary meetings, and an improved project distribution schedule and workload. Although the changes are recent, OVE calculated project preparation times for 2019 and found that, on average, they were slightly shorter than in the previous two years but on par with 2015 and 2016. For most instruments, preparation time and associated costs have been reduced in recent years (see Figure 2.3 and Annex IV).[16]

16 As Figure 2.3 shows, the average number of days between registration in the system and approval declined by 80 days in 2019, compared to the previous year. The duration in 2019 is the second lowest since 2011. It is noteworthy, however, that in 2017 and 2018 this duration had increased.

Figure 2.3

Average time between registration in the system and project approval

Source: OVE, using IDB Data Warehouse



03

The Use of IDB Lending Instruments

3.1 From a long-term perspective, ESP investment loans and PBL lending have accounted for the vast majority of lending volumes, except during 2002-2003 and 2008-2009, when the demand for emergency lending increased as a result of economic crises in the region. Over time, the Bank has also moved to use fewer INV modalities. In terms of volume, in the last 10 years, more than 80% of loans were PBL/PBPs, ESPs, and GOMs (hereafter referred to as "core modalities"), with relatively scant use of other types of instruments and modalities. In fact, the number of modalities used, other than the core modalities, has decreased from around seven between 2000 and 2010 to roughly four between 2011 and 2019 (see blue line in Figure 3.1). Among "other modalities," MPLs were the most used before 2010,[17] while GCRs and CCLIPs were the most used lending modality and approach in the last 10 years (Table 3.1).

Table 3.1. Summary of modalities

	IDB countries (26+RG) using the instrument		Original approved amount (% of period total)		Number of operations (% of period total)	
	2000-2009	**2010-2019**	**2000-2009**	**2010-2019**	**2000-2009**	**2010-2019**
CND		3	-	0.3 %	-	0.3 %
ESP	**27**	**27**	**44.5 %**	**42.3 %**	**47.3 %**	**57.9 %**
GCR	8	15	2.9 %	4.6 %	2.1 %	4.6 %
GOM	**12**	**21**	**5.6 %**	**16.7 %**	**3.5 %**	**13.1 %**
*INO	13		0.3 %	-	3.3 %	-
IRF	8	6	0.2 %	0.1 %	1.2 %	0.7 %
LBR		5	-	1.0 %	-	0.7 %
*PDL	10	1	1.4 %	0.2 %	1.8 %	0.1 %
*MPL	20	11	12.6 %	1.7 %	9.6 %	1.9 %
FAPEP	16	3	0.1 %	0.0 %	9.7 %	0.4 %
*SEF	19	1	0.3 %	0.0 %	5.7 %	0.1 %
TCR	16	8	0.2 %	0.2 %	2.6 %	0.9 %
with a CCLIP	*-*	*12*	*-*	*12.1 %*	*-*	*9.4 %*
PBL	**18**	**13**	**16.1 %**	**4.8 %**	**7.1 %**	**2.9 %**
PBP	**15**	**21**	**6.8 %**	**27.3 %**	**4.8 %**	**16.1 %**
with a DDO	*-*	*3*	*-*	*2.1 %*	*-*	*0.8 %*
*DSL		2	-	0.4 %	-	0.2 %
SDL		2	-	0.6 %	-	0.2 %
*EME	9		9.0 %	-	1.3 %	-

Note: *Modality no longer exists. Core modalities are in boldface.

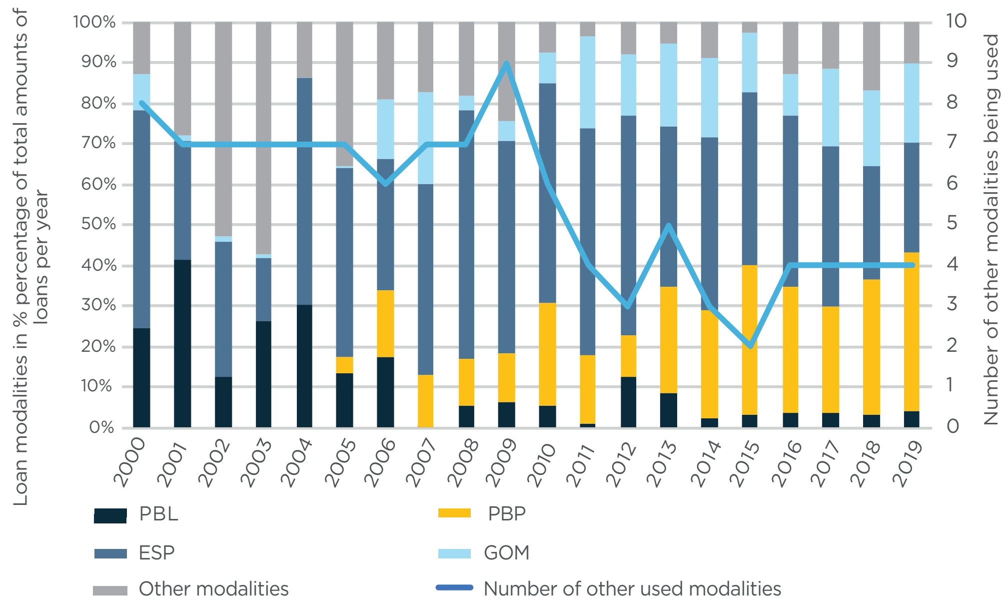
Source: OVE, using IDB Data Warehouse.

17 Multiphase lending has also sharply decreased over time and were eliminated in November 2019.

Figure 3.1

Bank-wide dominance of core modalities (ESP, GOM, and PBP/PBL)

Source: IDB Data warehouse



3.2 Reflecting the expansion in the Bank's overall lending, PBL have increased over time (at constant prices) and, in the past 10 years, have accounted for one-quarter of the Bank's SG lending. Over time, as more LAC countries have gained access to capital markets, the use of programmatic PBP modalities, which are more attractive to borrowers, has increased. All LAC countries have approved at least one PBL/PBP, although its use has differed greatly across countries and timeframes in the region. For instance, during the last five years, PBLs accounted for more than half of the SG approvals in several countries (Chile, Colombia, Dominican Republic, El Salvador, Jamaica, Mexico, Panama, and Uruguay), while being little (or not at all) used in others (Bahamas, Barbados, Belize, and Brazil). In terms of absolute approval amounts, Mexico and Colombia have been the top PBL/PBP recipients over this period, each accounting for approximately 20% of all PBL/PBP approvals (Table 3.2).

3.3 OVE carried out an evaluation of the design and use of the IDB's policy-based lending in 2016 (RE-485-6). This evaluation found that the share of PBLs in the total SG portfolio of the LAC countries is not correlated with the countries' income levels (Figure 3.2) or institutional strength. The use of policy-based lending has been subject to many debates, with some of the most common themes being the funding fungibility, the compatibility of financial and policy reform goals, the additionality, and the role of conditionalities. OVE's evaluation concluded that PBLs have benefits for the IDB and for its borrowing countries. Although PBL resources are fungible, so is, ultimately, much of investment lending. The evaluation noted that PBLs can play an important role in supporting policy and institutional reforms.

Nonetheless, OVE has identified room for improvement PBL operational guidelines regarding the definition, appropriateness, and quantity of policy conditionalities. The main lessons learned from this evaluation are summarized in Box 3.1. The evaluation did not assess the achievement of PBL outcomes. Therefore, to complement these findings, a methodological study to determine how best to evaluate PBL effectiveness is included in OVE's Work Plan for 2020-2021 (RE-532-4).

Table 3.2. Distribution of loan modalities by country (2014-2019) in % of country total

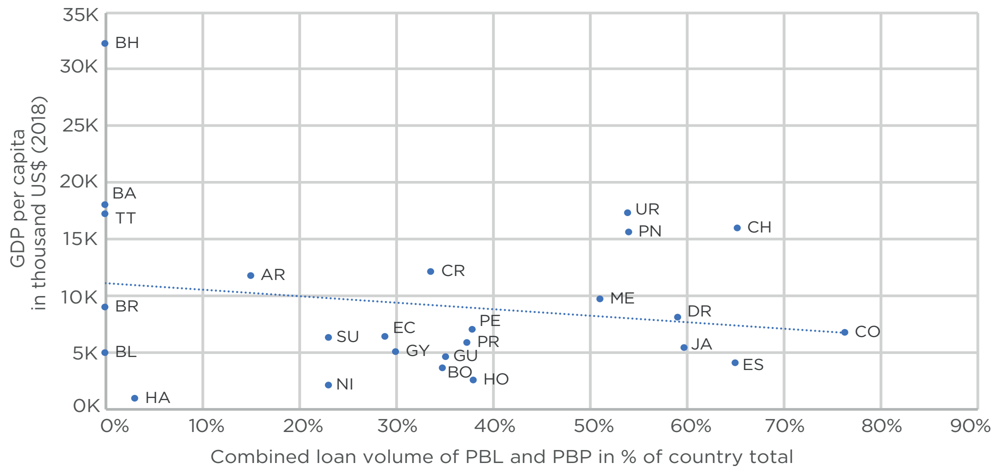
	ESP	PBL PBP	GOM	***Subtotal*** *GOM, ESP, PBL, PBP*	GCR	CND	IRF	LBR	SDL	TCR	Total approved SG loans US$ million
AR	58.6	15.0	22.6	96.2	1.6		0.3	1.9			**7,981**
BA	51.7		9.7	61.4					38.6		**259**
BH	40.7		13.0	53.7	9.3	37.0					**270**
BL	100			100							**66**
BO	16.8	34.9	47.1	98.8						1.2	**2,419**
BR	36.9		25.5	62.4	34.4			2.6		0.6	**6,111**
CH	23.6	65.3		88.9	11.1						**1,080**
CO	15.4	76.4	6.9	98.6	1.4						**5,106**
CR	40.9	33.7	23.5	98.1			1.9				**1,039**
DR	33.0	59.1	2.1	94.2		0.8		5.0			**2,115**
EC	29.2	29.0	20.0	78.1		5.2	0.6		16.1		**3,106**
ES	32.5	65.1		97.6	2.4						**845**
GU	29.6	35.2	35.2	100							**710**
GY	70.0	30.0		100							**96**
HA	42.0	3.1	52.6	97.7			2.3				**866**
HO	34.5	38.0	25.7	98.3	1.7						**1,208**
JA	37.7	59.8		97.4	2.6						**778**
ME	26.0	51.1	2.4	79.6	13.2			7.2			**8,135**
NI	31.6	23.1	45.3	100							**844**
PE	43.1	37.9	19.0	100							**1,978**
PN	36.5	54.0	9.4	100							**3,238**
PR	36.5	37.4	22.3	96.2	3.8						**2,113**
RG	68.5		8.4	76.9	18.9					4.2	**953**
SU	76.9	23.1		100							**303**
TT	100			100							**65**
UR	21.4	54.0	16.8	92.3	2.7			5.0			**1,846**

Source: OVE, using IDB Data Warehouse.

Figure 3.2

Relationship between use of PBLs and country wealth

Source: IDB Data Warehouse, World Development Indicators.



Box 3.1. Lessons learned from OVE's technical note on the design and use of PBL (RE-485-6)

PBL benefits from the perspective of countries. PBLs provide fast-disbursing budget support and have lower transaction costs than investment projects; they usually provide policy advice and capacity building; and they may help governments create consensus for, and legitimize, their reform agenda. The analysis found that the countries' predominant rationale for using PBLs is budget support in times of financial stress. Countries resort to PBLs to address actual or anticipated financing requirements, but their use increases the most in times of economic shocks, particularly in small countries.

PBL benefits from the Bank's perspective. Compared with investment projects, PBLs are faster and cheaper to prepare and implement, and they generate more income per dollar approved. Half of the approved amount is disbursed within two months, compared to 2% for investment loans, and the average preparation cost per US$ million for a loan is US$1,400 for PBLs, compared to US$2,600 for investment loans. The cost and time advantage become more pronounced for the second and third loans of a PBP, as preparing and conducting diagnostic work for the first loan of a series is more expensive than preparing subsequent operations. In addition, as of December 2014, the credit quality of the PBL portfolio, as reflected by the ratings of borrowing member countries, was better than that of the investment portfolio.

The various provisions that make up the PBL framework have evolved through the years but remain somewhat unclear, and this lack of clarity can translate into weak design. The Bank's operational guidelines for policy-based lending offer little guidance on what qualifies as a policy or institutional reform, and thus on appropriate policy conditionality. While the PBL framework has clearly accommodated the twofold motivation for policy-based lending (financing and reform), it has provided little clarity on which (if either) of its two broad purposes should dominate. In addition, it remains unclear whether PBLs are meant to leverage reforms (that is, bring about reforms that would not otherwise take place to the same extent), support reform implementation (for instance, by providing technical know-how), or reward reforms already undertaken.

Although Bank guidance prescribes that policy conditions should be critical and as few as possible, one-third of policy conditions reviewed were found to be of low depth, involving basic one-off measures or expressions of intent. The depth of policy measures varies sharply by country and program, but three findings stand out: (i) the level of advancement of a country in the pursuit of a reform process at the outset of the program is positively correlated with program depth; (ii) reforms supported in times of crisis are slightly deeper; and (iii) programs in the financial and energy sectors tend to have greater depth than those in the social, public sector management, and macroeconomic clusters. The average number of conditions in policy-based lending programs increased over 2005 to 2015, though more conditions has not meant greater depth. Similarly, the size of the loan is not correlated with either the number or the depth of policy conditions.

More than 40% of PBP programs were not fully completed (or were "truncated"), a situation that substantially impairs the depth of these programs. Since higher-depth conditions tend to be concentrated in the later loans of a series, truncation impairs the whole program's depth. Truncation is usually associated with changes in countries' financing requirements and/or government priorities. Hence, improving the time alignment between Bank support to a reform program and the country's political cycle could be beneficial.

3.4 The use of lending modalities other than the core modalities is concentrated in a small number of countries where these modalities represent a considerable share of the portfolio. For instance, Brazil, Ecuador, The Bahamas, Barbados, and Mexico have the highest share of "other" modalities in their portfolio, representing 20% or more of the portfolio in the last five years (Table 3.2). In Brazil and Mexico, GCR is the most used "other" lending modality (representing 28% of Brazil's portfolio and 18% of Mexico's), while emergency lending (SDL) is the most important lending modality for Barbados (52% of its portfolio) and Ecuador (24%). In The Bahamas, contingency lending (CND – that is, the individual loans approved under the CCF) is also of high importance (44%), and it is somewhat important for Ecuador (5%). Thus far, LBR has been used only sporadically, except in Uruguay, where a relatively high number of operations are active. One possible explanation for the limited use has been the fact that being the LBR an investment modality, the verification of expenses must still be tracked by executing units. LBR guidelines (GN-2869-3) require that at the end of the disbursement period, the total cost of the project is analyzed, and any amount disbursed by the Bank that exceeds the final cost linked to the verified results is returned to the Bank (paragraph 2.24). Thus, on top of monitoring results, executing units must keep track of all expenditures for financial audit, making the instrument less attractive. Box 3.2 provides examples on the use of LBR and Annex III provides further details.

Box 3.2. Examples on the use of the LBR

Since 2016, when LBRs were created, IDB has approved eight LBRs in five countries (UR, MX, DR, BR, and AR). Only operations in Uruguay show disbursements, while most of the other operations are at either the eligibility or signature stages. The CPEs for Mexico 2013-2018 (RE-536-1) and Uruguay 2016-2019 (forthcoming) provided examples on the use of LBRs at the IDB.

- In Uruguay, a strong institutional capacity and a robust theory of change have been key for the success of these projects. The preparation of this type of loan requires teams to align the operation with a robust theory of change that leads to results. This involves a great emphasis on planning and design, and a well-defined and measurable results matrix. Executing agencies of LBRs in Uruguay have high capacity for project management and procurement and have strong monitoring and evaluation (M&E) units. Their execution capacity and their own results-oriented approach have been crucial for the implementation of these projects.
- In Mexico, disbursing against achieved results implied an increase in financial costs. Except for the initial disbursement, all disbursements are made once the results have been achieved (and verified independently). This also implies that disbursements are deferred until results are achieved, incurring financial costs due to commitment fees, as was the case in Mexico, in which the government decided not to sign the proposal.

3.5 The distribution of lending modalities has differed across Bank regions (Figure 3.3) and across country income-level groups (Figure 3.4). In general, the Southern Cone (CSC) has used more INV loans than PBLs and has had the highest share of GOMs and GCRs, particularly in the last five years. CSC has not used emergency lending in the past 15 years.[18] Over time, Central America (CID) has increased its share of PBLs as a percentage of the portfolio and has replaced the use of MPLs with GOMs. The Andean Group (CAN) registered the major increase in the use of GOMs. The Caribbean (CCB) used emergency lending during the 2008 economic crisis, although it was concentrated in a few countries (BH, JA). The core modalities are by far the most important modalities in all country

18 CSC countries (AR, PR, and UR) used emergency lending during the 2001-2002 crisis.

income-level groups. “Other” modalities have virtually no relevance for low-income or lower-middle-income countries, while in higher-middle-income and high-income countries, the use of these modalities is notably greater, representing between 7% and 13% of the loan approvals.[19] The use of GOMs and PBL/PBPs has increased more significantly in lower-income countries. Low-income countries have not used emergency instruments in the last 15 years.

Figure 3.3

Distribution of most used modalities by Bank region

Source: OVE, using IDB Data Warehouse

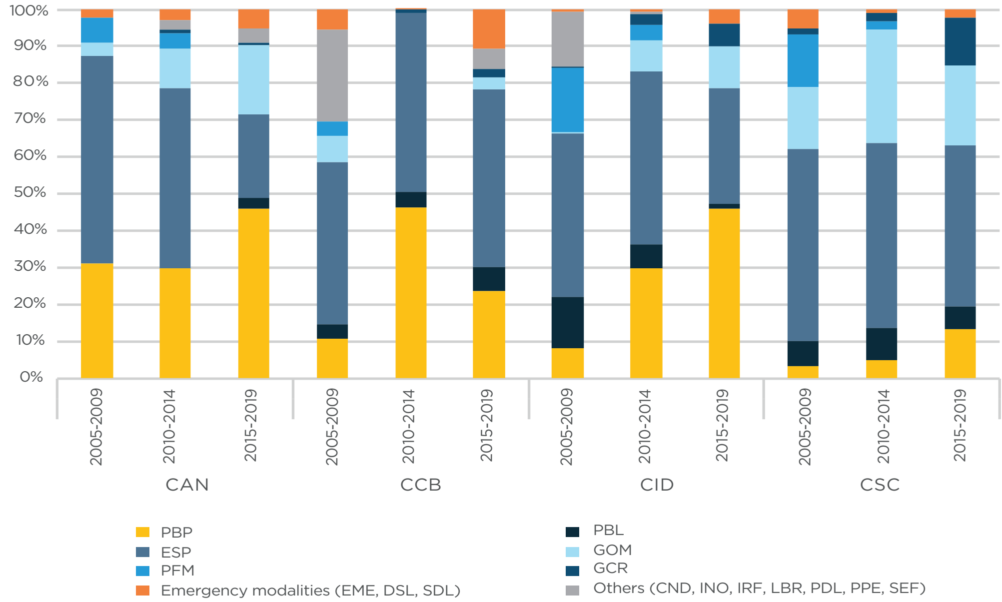
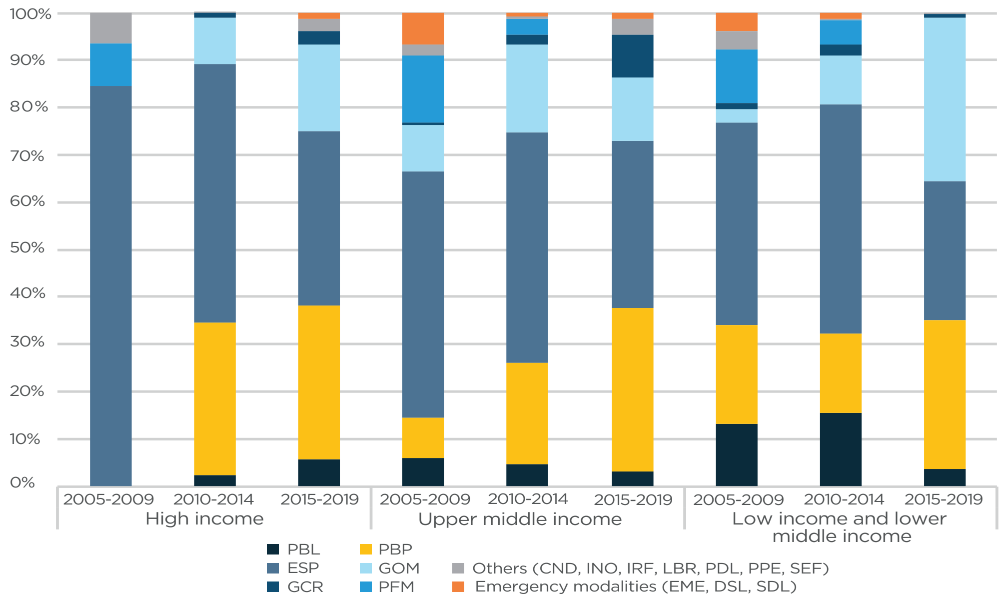


Figure 3.4

Use of modalities by income group and time period

Source: OVE, using IDB Data Warehouse.



Note: Income groups are based on World Bank income groups. The year of loan approval and the WB classification in that year determine the association of the data.

19 This is consistent with OVE’s findings in RE-447 – “How is IDB Serving Higher-Middle-Income Countries (HMIC)” (2013). The mix of lending instruments and modalities in HMIC has been more varied than the IDB average. OVE’s evaluation found that the array of available SG lending instruments and modalities was highly valued by government counterparts in this group of countries. Counterparts reported that once they have a positive experience with a specific lending modality, they tend to use it as the primary form of interaction with IDB.

3.6 The IDB has a long history of supporting countries in dealing with macroeconomic crisis. Since 2002, when the emergency lending was stablished, the focus of IDB emergency lending has shifted between ex-post emergency instruments and ex-ante contingent approaches:

- *Ex-post* emergency loans were considered pricy and their use has been rather limited. Between 2000 and 2012, only seven EME operation were approved. During the 2008-2009 financial crisis, under the LPGS, only five—mostly smaller—countries had emergency loans approved (Costa Rica, the Dominican Republic, El Salvador, Jamaica, and Panama). Three of them ended up cancelling the loan before disbursement, and only the loans to Jamaica and El Salvador disbursed, yet only about half of the originally approved amount. The high lending rate premium of 400 bp probably had a significant impact on the demand of the loans (see Annex III).

- The first contingency (*ex-ante*) instrument introduced in 2012, the DSL, was only used in two countries. The DSL had a premium rate of 165 bp (with 6 years of maturity) and eligibility criteria included a valid IAMC and an identification of programs and expenditures within its national development plans to be protected. The DSL was used in El Salvador in 2013 and in Ecuador in 2014.[20] In 2016, OVE's evaluation of contingency instruments (RE-496-1) concluded that most countries have not been willing to pay a significant premium over regular lending terms for contingent instruments, and demand remained relatively low. With very few exceptions, for most countries the advantage of contingent instruments, such as potential positive signaling effects and more certainty of quick disbursement of funds, do not outweigh their cost and other drawbacks. Another crucial element affecting the demand for contingent products identified in OVE's evaluation was borrower uncertainty about the availability of quick disbursements when needed, given some eligibility criteria (particularly the IAMC requirement).

- In 2012, IDB introduced a precautionary lending approach, the PBL-DDO, which allows countries to draw on the resources of PBLs if and when needed.[21] The PBL-DDO has been used

20 In Ecuador, the DSL was used to help minimize the effects of exogenous systemic economic events (mainly the drop in oil prices) affecting the sustainability of expenditures in social programs. OVE's evaluation of this operation in the context of the CPE (RE-514-1) confirmed DSL compliance in terms of protecting social programs in a complex year for the country's public finances. However, the speed with which DSL funds were disbursed led to criticism because the operation appeared to be more of an emergency loan than an (ex-ante) contingent credit line.

21 While the use of PBL-DDOs is not restricted to the occurrence of a shock, countries have de facto used all types of PBLs as an important source for liquidity in times of crisis (RE-485-6).

in three countries (UR, PE, and JA), and only Uruguay's is currently active. In fact, Uruguay has made extensive use of this precautionary lending from different MDBs, particularly IDB, WB, and the Development Bank for Latin America (CAF). Although Uruguay has access to international finance at competitive prices, recognizing its vulnerability to unfavorable external conditions during crises, the country highly valued the fast-disbursement credit line under the PBL-DDO approach.[22]

3.7 More recently, in 2017, the IDB Board of Governors approved the SDL, and *ex-post* lending modality, which seems to be in higher demand. As previously mentioned, SDL is a permanent category to help borrowing member countries address macroeconomic crises and protect social expenditures. Since its establishment, two (Barbados and Ecuador) out of four eligible countries (countries with IMF programs[23]) received approval for an SDL. Since the onset of the COVID19 pandemic eight more IDB borrowing countries became eligible for an SDL as they entered an IMF program[24] and six countries, particularly small countries, have actually requested an SDL loan.[25] Compared to previous emergency instruments, SDL have a lower interest rate premium[26] and a different eligibility criteria.[27]

3.8 In the context of the challenges that the region is facing as a result of the COVID-19 pandemic, OVE carried out a brief desk review of the MDBs' experiences with emergency instruments during the 2008-2009 financial crisis. The desk review included findings from CPEs and IDB Project Completion Reports (PCRs) as well as findings from

22 In the view of the Government of Uruguay, this lending approach allows for better liquidity management, depending on market conditions. In fact, to face the financial constraints associated with the COVID-19 emergency, Uruguay was able to quickly tap into preapproved credit lines on attractive terms (since these loans are tied to the LIBOR, which is close to record lows), instead of relying on volatile bond markets, as some regional peers did.

23 Between 2017 and 2019 four LAC countries (Argentina, Barbados, Ecuador, and Honduras) had an IMF emergency program in place that disbursed (not including Colombia and Mexico who entered a precautionary FCL that did not disburse). [Source: IMF Mona Database].

24 As of May 2020, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Haiti, Panama, and Paraguay entered a Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) program according to the IMF "COVID Lending Tracker".

25 As of May 5th, 2020, there are 6 emergency loans in pipeline for 2020 (BL-L1033, PN-L1163, HO-L1215, CR-L1143, DR-L1145, ES-L1142) for a total of US$1.26 billion. The loans entered pipeline in April 2020 and are expected to be approved between late June and early July. Costa Rica, Dominican Republic, El Salvador, and Panama entered an IMF program following the COVID19 outbreak, Honduras had entered an IMF program already in 2019 and only Belize has not entered an IMF program as of May 2020 but is in the negotiation process.

26 SDLs have a spread of 115 bps and seven years of maturity, compared to 400 bps and 6 years of maturity of emergency loans under the Bank's old emergency window.

27 As OVE (2016) indicated, the limited demand for the DSL was due in part to the requirement of an IAMC. The SDL removed the IAMC requirement and linked the SDL eligibility to the existence of a lending arrangement approved by the IMF Board (i.e. Extended Fund Facility, Stand-By Arrangements, Rapid Financing Instrument, Precautionary and Liquidity Line, Flexible Credit Line).

IDB and other MDBs evaluations, mainly the WBG and the ADB. An important lesson from these evaluations was that the speed and timing of crisis response was critical. Most evaluations reviewed by OVE suggested that modifying existing lending instruments and modalities might be a more efficient approach than establishing new instruments. During the 2008-2009 financial crisis, demand for lending instruments specifically designed for emergencies have often remained low, while policy-based loans have been more used according to an evaluation by the WBG's Independent Evaluation Group (IEG). Finally, this evaluation also showed the importance of directing MDB support to the most vulnerable countries, and in this sense, the evaluation highlighted the positive experience of the IDB, as compared to other MDBs, in reaching the countries that were more in need of financial support (Lessons from this review are summarized in Box 3.3 and in Annex III).

Box 3.3. Some lessons from the use of emergency lending during the 2008-2009 financial crisis

Speed and timing were found to be critical in responding to the 2008-2009 financial crises according to IEG and ADB evaluations. For this purpose, expanding existing lending operations during the crisis and relying on existing country engagements has been shown to provide faster and better results, on average, than establishing new instruments during a financial crisis.

During this financial crisis, demand for emergency loan operations was low for almost all MDBs (with exception of the ADB) while policy-based lending became increasingly popular. In fact, most MDBs approved few emergency loans during this period. The ADB's Countercyclical Support Fund was the exception experiencing more activity in terms of volume during this period (US$2 billion disbursed) than other MDBs. IEG's evaluation found that one an explanation for the better traction was the fact that the interventions were not tied to an IMF program. In the case of the WB, while emergency lending was rarely used, policy-based lending (DPOs with and without DDO) was used more frequently. Yet, the evaluations found that the policy content of the DPOs was often only partly relevant to the fiscal challenges that the crisis brought about. In addition, the WBG's International Bank for Reconstruction and Development experienced an erosion of its lending headroom during the financial crisis as its lending was greatly expanded while interest rates remained relatively low. Other MDBs (particularly the IDB) had higher interest rates, which helped maintain a steady financial position despite the crisis response.

The WBG and ADB evaluations also found that their financial support during the 2008-2009 financial crisis did not always reach the countries with the highest need for financial support while IDB lending was much

better aligned with overall crisis intensity (measured in GDP decline) and positively correlated with the presence of an IMF program. IEG found that an important factor for the disconnect between lending and severity of the crisis was that IBRD's lending operations during the crisis relied more on existing country engagements. The quality of support also depended on the pre-crisis engagement, especially in the financial sector. Finally, these evaluations found that, for countries, establishing new partnerships with financial institutions to respond to the crisis was rather difficult.

04

Findings from Country Program Evaluation

4.1 Lending instruments are tools for addressing development challenges, and their revision in the context of the Bank's Country Strategies (CSs) is important. This section takes stock of countries' experiences with the implementation of IDB lending instruments and modalities, based on a review of all CPE conducted in the past five years.

4.2 The IDB remains the largest development partner for most LAC countries. Yet, many countries have gained access to other sources of financing for development in competitive terms. While the IDB was the largest multilateral development partner in 21 of the 24 CPEs reviewed,[28] many countries have gained access to alternatives source of finance to address their investment needs. For example, several countries (Chile, Peru, Panama, Mexico, Paraguay, Colombia, Uruguay) have gained greater access to capital markets and have issued sovereign bonds at a very competitive interest rate, sometimes below that of the IDB (Chile, Peru). In the region, CAF is now one of the fastest-growing multilateral financial institutions with a strong presence in Peru, Paraguay, Uruguay, Bolivia, and Panama. Bilateral lending from Chinese public and private banks has also been important in countries such as Honduras, Suriname, and Argentina. The Caribbean Development Bank, and the Central American Bank for Economic Integration have also developed an important presence in many countries.

4.3 In that context, several CPEs have identified the need to reduce costs for both the IDB and the borrowing countries. Findings from CPEs suggested that the IDB was able to adjust its business model in each country and to reduce its financial and transaction costs. Findings from CPEs indicate several ways by which transaction costs have been lowered for IDB and its clients. A commonly reported method has been the increased use of programmatic approaches, such as PBP series and programmatic investment loans series through the use of CCLIPs (i.e. Panama, Chile, Dominican Republic, Suriname, Argentina, Mexico).[29] OVE's HMIC evaluation (RE-447) in 2013 also pointed out that many countries used CCLIPs to reduce the preparation and approval time and costs for subsequent sub-loans.[30] Other ways to reduce transaction costs mentioned on CPEs have been to use of investment loans to finance specific government expenditures (i.e. Mexico, Honduras, Ecuador), to channel investment lending through national development banks (i.e. Chile, Mexico, Peru), and to increase the use of national systems. Box 4.1 presents

28 During the evaluation periods, the World Bank was the largest financial partner in Colombia, and CAF was the main financial partner for Ecuador and Bolivia.

29 Many CPEs reported a marked difference between programmatic modalities (PBP and CCLIPs) and regular investment ones in the average costs of designing and executing IDB projects.

30 This evaluation found that HMIC countries highly valued the CCLIP because it facilitates agility through a long-term partnership with IDB. CCLIP borrowers reported being assured of continuous IDB support and, although each project under the CCLIP needs

examples of these strategies. Higher costs were also associated with country-specific factors, such as the need for Congressional approval or ratification processes for IDB loans, highly bureaucratic procurement procedures, and low institutional capacity—issues that were not related to specific lending instruments or modalities but that applied across all instruments.[31]

Box 4.1. Examples of strategies to reduce transaction costs

Use of programmatic approaches. The CPEs for Argentina and Uruguay found that deepening the use of instruments with a programmatic approach in several sectors led to reduced preparation and execution costs in each successive operation. Costs of programmatic instruments were reported to be much lower than those of non-programmatic operations. The CPE for Nicaragua also found that the increasingly larger use of programmatic loans (PBP) with experienced executing agencies helped reduce preparation and execution time and costs of the portfolio. This strategy was complemented by an increase in the average size of operations and simpler execution arrangements with fewer agencies.

Financing specific government expenditures. The CPE for Mexico found that many investment loans were disbursed against already-paid expenses, allowing for fast disbursements and low transaction costs for the IDB and the Mexican Government. Moreover, IDB supported large-scale Government programs (PROSPERA, PROCAMPO) whose spending patterns were highly predictable, further reducing uncertainty around the timing and amounts of disbursements. The CPEs of Honduras and Ecuador also found that the size of the IDB portfolio to finance specific Government expenditures with investment lending instruments has increased over time, helping to reduce transaction costs for the IDB (faster disbursement) and for the Government (providing quasi-budget support).

Greater reliance on national development banks and on country systems. The CPE for Mexico found that IDB relied on the use of country systems to facilitate project execution, and on national development banks such as NAFN and BANSEFI to process disbursements for IDB loans, making

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individual approval, executing agencies reported that project preparation was easier and faster.

31 In most countries in Central America, as well as Suriname and Paraguay, CPEs reported increased costs associated with Congressional approval and/or ratification processes for IDB loans, and, in most cases, IDB has not been able to successfully address this issue. CPEs from some Caribbean and Central American countries also reported low institutional capacity and lengthy procurement procedures as a cause of increased costs for IDB operations (Nicaragua, Suriname, Guatemala, Trinidad and Tobago, The Bahamas). For instance, in Trinidad and Tobago, direct costs associated with the underestimation of institutional capacity and implementation readiness were high for both the country and the Bank. Trinidad and Tobago paid at least US$4.8 million in credit fees over the CS cycle, because of delays in the execution of the investment portfolio. An additional US$775,795 was charged to the Bank's administrative budget for the initial preparation of loans that were dropped from the pipeline before approval.

disbursement processes more efficient because of the local institutions' ample experience with IDB procedures and requirements. The CPE for Brazil noted that IDB's business model to work with public financial intermediaries allowed for a high level of approvals with lower transaction costs for the IDB and the country.

4.4 Many CPEs included recommendations for improving the mix of lending instruments and modalities to better respond to countries' needs and capacities. For instance, the CPE for the Dominican Republic recommended tailoring the supply of loan modalities to balance IDB support between (short-term) budgetary support and (long-term) support to CS development objectives. The CPE for Surinam recommended adopting a more effective and complementary instrument mix that combines policy reform with technical support for implementation, ensuring the completion of the PBP series in progress. The CPE for Uruguay recommended ensuring a better balance between contingent and investment lending. In addition, most CPEs included several recommendations to improve the effectiveness of lending instruments, such as improving the structural depth of the PBP conditions and avoiding the truncation of series (Suriname, Dominican Republic, Guatemala, Peru, Panama), as well as improving the implementation arrangements for investment loans to avoid delays and ensure the achievement of results.

4.5 Finally, CPEs have also included recommendations for the Bank to explore the use of specific lending modalities or innovate the use of other financial instruments. Among these recommendations was to increase the use of the LBR[32] or to innovate direct financing to government budget lines for a specific development program, previously certified in terms of development impact and fiduciary compliance (Chile, Uruguay, Dominican Republic). CPEs also recommended deepening the use of programmatic approaches (Uruguay) and innovating support for alternative financial options, such as social impact bonds (Chile) and insurance-type coverage (Caribbean). .Some CPEs called for finding adequate instruments to support subnational government (Mexico, Brazil) and to finance public-private partnership modalities (Dominican Republic, Peru, Costa Rica) while improving synergies between public (SG) and private (non-sovereign-guaranteed) lending options.

32 This recommendation was in line with findings from the HMIC evaluation (RE-447), which stated that some countries in this group called for a redesigned results-based instrument.

05

Conclusions

5.1 This report—OVE's first on IDB financial instruments taking stock of OVE's previous evaluations—found that the IDB has been regularly reviewed and updated its set of lending instruments and modalities. Most evaluations carried out by OVE found that there were no major gaps in the set of IDB SG lending instruments and modalities, and that the few gaps identified in previous evaluations (e.g., the need for a loan based on results or a risk transfer instrument for natural disaster) have been addressed. In addition, most of the suggestions included in OVE's latest evaluation on instruments (RE-515-6) have also been addressed (i.e., programmatic modalities consolidation and approval process update).

5.2 Nonetheless, the analysis of IDB's operational data on the Bank's use of its lending instruments and modalities highlights important issues for further consideration. For instance, only three lending modalities are widely used (specific investment, multiple works, and policy-based lending), while some lending modalities and approaches have been used seldom (i.e., project preparation and execution facility) or not at all (i.e., multiphase loans) in the last five years. There are also important differences in the use of lending modalities by country group and by IDB country regions. For instance, only higher-middle-income countries have developed a varied portfolio in terms of lending instruments and modalities, while low-income countries have not used any type of emergency or contingency lending instruments in the last 10 years. The use of guarantees has been very limited. These findings certainly require further analysis, but they suggest that there might be still room for further streamlining of modalities and that some instruments or modalities might not be well suited to different countries with specific characteristics.

5.3 Emergency lending has become an important tool in the context of the IDB's response to the emergency associated with the COVID-19 pandemic. In this sense, although the IDB has a long history of supporting countries in dealing with macroeconomic crisis, in the past, the use of emergency and contingency lending has been relatively limited. In 2017, the IDB Board of Governors approved a new emergency instrument which seems to be in higher demand, particularly from small countries. In addition, to provide additional inputs for Board and Management discussion on this issue, for this report OVE has reviewed evaluations, carried out by the IDB and other MDBs, assessing the experience of the MDBs with lending instruments to respond to the 2008-2009 financial crisis These evaluations found, for instance, that modifying existing lending instruments and modalities had been a more efficient approach than establishing new instruments.

They also highlighted the positive experience of the IDB, as compared to other MDBs, in reaching the countries that were more in need of financial support.

5.4 Finally, the need to reduce the costs associated with IDB lending instruments and modalities was identified as an important issue in several OVE's Country Program Evaluations (CPEs). Nonetheless, most CPEs suggested that the IDB has adjusted its business model in each country and found strategies to help reduce financial and transaction costs. Yet, many CPEs included recommendations for improving the mix of lending instruments and modalities to better respond to countries' development needs and capabilities. Finally, some CPEs called for the need of finding adequate instruments to support subnational governments.

5.5 In the process of carrying out this report, OVE identified information and knowledge gaps that were used to inform its Work Plan (RE-543-2). OVE's 2020-2021 Work Plan includes evaluations of several of IDB's financial instruments, such as a methodological study to evaluate PBL's effectiveness, an evaluation of the guarantee operations, and of IDB lending to subnational entities.

Annex I

Country Program Evaluations Reviewed

Annex I. Country Program Evaluations Reviewed

		Fecha de emisión
RE-536-1	Country Program Evaluation: Mexico 2013-2018	June 2019
RE-534-1	Country Program Evaluation: Brazil 2015-2018	May 2019
RE-535-4	Country Program Evaluation: Costa Rica 2015-2018	May 2019
RE-529-3	Country Program Evaluation: Colombia 2015-2018	April 2019
RE-527-1	Country Program Evaluation: Paraguay 2014-2018	November 2018
RE-528-1	Country Program Evaluation: Honduras 2015-2018	September 2018
RE-525-1	Country Program Evaluation: Barbados 2014-2018	September 2018
RE-526-1	Country Program Evaluation: Chile 2014-2018	August 2018
RE-522-1	Country Program Evaluation: Nicaragua 2013-2017	April 2018
RE-516-4	Country Program Evaluation: The Bahamas 2010-2017	December 2017
RE-514-1	Country Program Evaluation: Ecuador 2012-2017	November 2017
RE-505-1	Country Program Evaluation: República Dominicana 2013-2016	June 2017
RE-502-3	Country Program Evaluation: Guyana 2012-2016	May 2017
RE-498-1	Country Program Evaluation: Peru 2012-2016	October 2016
RE-503-1	Country Program Evaluation: Guatemala 2012-2016	November 2016
RE-495-3	Country Program Evaluation: Trinidad & Tobago 2011-2015	November 2016
RE-494-1	Country Program Evaluation: Haití 2011-2015	July 2016
RE-493-1	Country Program Evaluation: Suriname 2011-2015	July 2016
RE-491-1	Country Program Evaluation: Argentina 2009-2015	May 2016
RE-484-1	Country Program Evaluation: Uruguay 2010-2015	October 2015
RE-483-1	Country Program Evaluation: Bolivia 2011-2015	September 2015
RE-475-1	Country Program Evaluation: Panamá 2010-2014	May 2015
RE-474-3	Country Program Evaluation: El Salvador 2009-2014	January 2015
RE-468-1	Country Program Evaluation: Jamaica 2009-2014	November 2014

Annex II

Use of Instruments during Times of Financial Crisis

A. Lessons learned from the use of IDB emergency lending

Many countries across the region are likely to demand emergency loans in response to the effects of the global COVID-19 outbreak and its economic consequences. This section provides an overview of findings from OVE's Country Program Evaluations (CPEs) and IDB's Project Completion Reports (PCRs), as well as evidence from evaluations by the IDB and other multilateral development banks (MDBs).

The IDB offers two kinds of instruments for emergencies: emergency lending, which is approved after a shock, or contingent lending, which is typically approved before a crisis materializes. The IDB's emergency lending category (EME) was formally introduced in 2002,[1] (after an emergency window had been established on a temporary basis in 1999 (AG-7/98) with loans to address needs arising from financial emergencies in the region. During the global financial crisis of 2008 the "Liquidity Program for Growth Sustainability" (AG-9/08) was approved within the emergency window for one year, which allowed to relax the requirement of having an IMF program[2] to receive an emergency loan. EME was replaced by the contingency development sustainability credit line (DSL) modality in 2012, which ceased to exist in 2015.[3] The current emergency lending instrument is the special development lending (SDL), established by the Board of Governors in 2017. The premium interest rate for SDL is 115 basis points (with seven years of maturity) considerably lower than it used to be for EME loans, that charged a 400 basis point premium (with six years of maturity) making the lending rate similar to rates to other MDB emergency instruments.[4]

In the past, the uptake of the emergency and contingency instruments (EME, LPGS) has been relatively limited. Yet, the current emergency instrument (SDL) seems to be in higher demand. It should be noted that the limited use of an emergency window does not prove the irrelevance of the facility as the demand of an ex-post emergency window is limited to the occurrence of the emergency. During the 2008-2009 financial crisis, IDB approved loans in five countries under the LPGS and two countries have disbursed (see Table II.1). The EME loan modality was not used during that crisis. The LPGS loans for Costa Rica, Panama, and the

1 As the Board of Governors stipulated, the primary objective of EME was to provide financial support to help address the effect of international financial crises on the region's economic and social progress, mitigate the effect of a crisis on poor and vulnerable people, protect funding for social programs that benefit the poor, and avoid reversal of policy reforms.

2 Instead of an IMF program having an article IV consultation or a comfort letter was sufficient to receive a LPGS loan.

3 In 2009, the IDB has also introduced the Contingent Credit Facility for Natural Disaster Emergencies (CCF) as a contingency modality to help countries prepare for natural disasters and deal with their aftermath. In 2012, another contingency modality was introduced with the deferred drawdown option (DDO) for policy-based loans (PBLs).

4 GN-2031-13 calculated the following all-in-lending rates for the MDB's emergency modalities: IDB 334 bp, WB 347 bp, ADB 330 bp, CAF 320 bp, AfDB 238 bp.

Dominican Republic were cancelled before disbursement, in Jamaica only a third of the resources were drawn upon, and in El Salvador only about half of the originally approved amount was disbursed and was found to be costly for the country and complex due to the legal restrictions (see PCR ES-L1029). Only 4.6% of the funds that were potentially available for the LPGS modality were effectively lent. The availability of the LPGS for a limited period of time, both in terms of access to the product and the disbursement period, was consistent with the temporary emergency feature of the product and allowed for an efficient use of the Bank's lending capacity. The costs of LPGS loans were comparable to or, in the case of Jamaica, even lower than alternatives in the market (see PCR JA-L1023). Since the establishment of the SDL in 2017, four Latin American countries have entered an IMF program and were therefore eligible for the SDL and two of these three countries (Barbados and Ecuador) received approval for an SDL (SPD, 2019). Since the onset of the COVID19 pandemic eight more IDB borrowing countries became eligible for an SDL as they entered an IMF program[5] and six countries requested an SDL loan.[6] This seems to indicate that the instrument is meeting the demand by countries in crisis.

Different reasons have been offered for the relatively low number of emergency loan approvals and disbursements during the financial crisis: the loan limit of US$500 million, an overestimation of financial needs, and a positive signaling effect of solvency by the emergency loans themselves. As was mentioned in the PCRs for Jamaica (JA-L1023) and the Dominican Republic (DR-L1043) and in a consultant report commissioned by the IDB,[7] a possible explanation for the low rate of disbursement is that the loans were mostly used as a backup source and signal to the market as a sort of macroeconomic insurance. The low disbursement can therefore be interpreted as a sign of the effectiveness of the program because it was ultimately not needed, and this crisis turned out to be less severe than feared. The consultant report further notes that by the time negotiations for the LPGS were under way, the initial demand was already vanishing. Another reason for the low disbursement, according to the CPE for Jamaica 2009-2014 (RE-468-1), was that the financial needs were overestimated and the emergency loan was oversized. Also, because

5 As of May 2020, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Haiti, Panama, and Paraguay entered a Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) program according to the IMF “COVID Lending Tracker”.

6 As of May 5th, 2020, there are six emergency loans in pipeline for 2020 (BL-L1033, PN-L1163, HO-L1215, CR-L1143, DR-L1145, ES-L1142) for a total of US$1.26 billion. The loans entered pipeline in April 2020 and are expected to be approved between late June and early July. Costa Rica, Dominican Republic, El Salvador, and Panama entered an IMF program following the COVID19 outbreak. Honduras had entered an IMF program already in 2019. Only Belize has not entered an IMF program as of May 2020 but is seen as likely to do so.

7 “Impact Evaluation of the IDB’s Liquidity Program for Growth Sustainability,” by Ricardo Bebczuk, 2010.

the LPGS loan size was limited to US$500 million, the program was demanded mainly by smaller countries (Costa Rica, the Dominican Republic, El Salvador, Jamaica, and Panama).

Table II.1. Emergency lending operations approved between 2007 and 2019 (US$ million)

Modality	*Country*	2008	2009	2012	2013	2014	2016	2018	2019
EME / LPGS*	**CR**	~~500~~							
	DR		~~800~~						
	ES	400							
	JA		300						
	PN		~~500~~						
DSL	**ES**				100				
	EC					300			
SDL	**BA**							100	
	EC								500
CCF	**AR**								300
	EC					300			
	PE				300				
	BL								10
	NI				186				
	PN			100					
	DR						300		
	BH							100	
	JA							285	
	SU								30

Note: The displayed values are the originally approved loan amounts, but they have often not been disbursed or have been only partially disbursed. Crossed-out values were never disbursed.
*LPGS loans are classified as EME loans in the Data Warehouse, but it appears that during the financial crisis of 2008/09 all EME loans were de facto LPGS loans.

Source: OVE, using IDB Data Warehouse and GN-2502-7.

As of 2015, demand for IDB's contingent lending instruments (DSL, CCL, PBL-DDO)—specifically those for economic and financial shocks—has been limited, yet the recently updated CCF has become increasingly popular. In fact, no countries had requested a CCL operation, three countries have used a PBL-DDO (Uruguay, Jamaica, and Peru), and two countries have used the DSL (Ecuador and El Salvador). OVE's evaluation on contingency instruments (RE-496-1) found that the limited use of contingent instruments seemed to be rooted mainly in (i) the general stigma of potentially revealing vulnerability to an uncertain future event, and (ii) specific instrument design factors, such as pricing and the requirements for drawdown. Other factors mentioned in connection with the low demand for the DSL and the CCL were (i) uncertainty as to whether resources were in fact available, and (ii) limited knowledge of these tools. Another issue identified in this evaluation was that the poorest countries typically do not have access to contingent lending instruments from the IDB or most other MDBs (WB, ADB, or CAF; see RE-496-1) for financial and economic crises. Only the IMF's Standby Credit Facility can be used by low-income countries in a precautionary way. More recently, the CCF has become more popular as a contingency option for emergencies caused for natural disaster and was used by 10 countries.

Although in the past PBLs have frequently been used in times of financial and economic crisis, this is no longer the case. The 2004 OVE's evaluation found that PBLs have been used by countries "almost exclusively during periods of financial stress, confirming that country finance objectives are a key motivation for the use of this type of lending instrument" (RE-300). However, although if it remains popular during crisis, this instrument is no longer used exclusively during crisis. OVE's 2016 evaluation (RE-485-6) found that countries' resort to PBLs to address actual or anticipated financing requirements. Although their use increased in times of economic turmoil, this was found to be especially true in small economies, which tend to be more vulnerable to external economic shocks, and for which IDB financing can be decisive to weather a storm. Nevertheless, the countercyclical role of PBLs has been rather limited (Box II.1). OVE's CPEs for Colombia, the Dominican Republic, Guatemala, Nicaragua, and Paraguay have also pointed out the challenges of using policy-based instruments that require significant up-front and deep policy reform during a financial emergency. An SPD study (2019) showed that although PBL have been used during recent macroeconomic distress (i.e. Jamaica in 2013 and Argentina in 2018), PBL and INV have also played an important role when used in conjunction with emergency loans to continuously support a country following a macroeconomic crisis (i.e. Barbados and Ecuador in 2019). In the case of El Salvador, the financial system was provided with emergency liquidity through LPGS in 2008 and DSL in 2013, which were considered highly relevant in a dollarized economy. These interventions were followed by two PBLs aimed at fiscal strengthening complementing the injection of emergency liquidity.

Regardless of the type of instrument, the MDB's financial ability to support countercyclical support will remain relatively small compared to the IMF, which had a lending volume that was at least 10 times higher than the IDB's during the global financial crisis. The IMF's mandate—to provide temporary balance of payments assistance and focus on international financial stability—is different from the IDB's mandate, and much more focused on economic crisis. During the financial crisis the IMF's capital was increased by US$500 billion, effectively tripling its pre-crisis resources of US$250 billion. This capital increase is reflected in the actual lending shown in Table II.2. The IMF's Flexible Credit Line[8] exemplifies why the role of MDB's lending during an economic crisis cannot compare to the IMF: through it, Colombia, Mexico, and Poland

8 The Flexible Credit Line, introduced in 2009 for countries with very strong economic fundamentals, provides large and up-front access to IMF resources, mainly as a form of insurance for crisis prevention.

were provided with combined access to approximately US$100 billion, which is more than six times the combined annual lending volume for all 26 of IDB's borrowing countries (IMF 2016).[9]

Box II.1. Limitations of PBLs to provide countercyclical support

Several factors limit the capacity of PBLs to provide effective countercyclical support:

1. PBLs cannot be approved or disbursed if borrowers do not have a positive macroeconomic assessment.

2. The total amount of policy-based lending is subject to the 30% aggregate cap.

3. The impact of IDB's lending in middle-sized and large countries is necessarily limited by its small size in relation to their economies.

Table II.2. International financial institutions

	Current lending (US$ billions)				Difference between 2005-07 and 2008-10 lending in %
	2005-07	2008	2009	2010	
IDB	7.5	11.2	15.5	13.4	79%
IMF	5.1	49.5	123.3	166	2 131%
WB	23.3	35.2	55	46.8	96%
IFC	5.9	10.4	8.6	11.1	71%
EIB	60.6	82.7	110	95.2	58%
EBRD	6.4	7.5	11	12	58%
ADB	7.9	10.6	14.1	12.4	58%
AfDB	1.5	2.2	5	2	100%
Total	**113**	**159.8**	**219.1**	**192.9**	**69%**

Source: IEG (2011).

B. Findings from other MDB evaluations of crisis response in 2008-2009

This section presents findings and lessons from the experience of other MDBs during the 2008 financial crisis. The findings are mostly based on evaluations from the World Bank Group's

9 IMF (2016). *The IMF's Response to the Global Economic Crisis.*

(WBG's) Independent Evaluation Group (IEG)[10] and from an Asian Development Bank (ADB)[11] evaluation unit on their response to the crisis.

The evaluations from both MDBs confirmed that timing is critical when responding to crisis. IEG (2009)[12] noted that the speed and quality of the Bank's response were crucial for good outcomes both during and after crises, and that past crisis support was much more successful when it was nested in a results framework that incorporated post-crisis recovery, had selective coverage, and focused on the institution's comparative strengths. In fact, all MDBs were trying to respond quickly to the global financial crisis; however, this response was often not seen as fast enough. The G20 noted that "[i]t was suggested that although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow."[13] Accordingly, a recommendation of the IEG is that that the WBG needs to anticipate crises and be ready to act quickly, taking quality trade-offs into account and considering benefits and costs across sectors.

During the global financial crisis, the WBG reactivated the special development policy loan (first introduced as a crisis management instrument in 1998), but its demand was low. Instead, development policy operations (DPOs) with a deferred drawdown option (DDO) were much more commonly used by emergency borrowers. IBRD's DDO, which flexibly allows drawdown in case of need, was used in 17 development policy loans between April 2008 and December 2009. Before 2008 it had been much less popular, used in only two such operations. IEG[14] noted that the WBG benefited during the global financial crisis by having in place a core set of flexible instruments (investment and development policy lending). However, the use of these instruments also faced issues, such as maturities, which in some cases may have been too long for what were essentially liquidity operations.

Despite the frequent use of WBG's DPO during the financial crisis, the policy content was often only partly relevant to the fiscal challenges that the crisis brought about. In FY09-10, the WB provided crisis-related lending in support of fiscal management to 48 countries, totaling US$23.3 billion in commitments. IEG noted that the policy content of DPOs was often only partly relevant to the fiscal challenges

10 IEG (2011). *The World Bank Group's Response to the Global Economic Crisis—Phase II.* Washington, DC: Independent Evaluation Group, the World Bank Group.

11 ADB (2011). Special Evaluation Study: Real-time Evaluation of ADB's Crisis Response to the Global Economic Crisis of 2008–2009.

12 IEG (2009). *Lessons from World Bank Group Responses to Past Financial Crises.*

13 IEG (2010). *The World Bank Group's Response to the Global Economic Crisis—Phase I.* Washington, DC: Independent Evaluation Group, the World Bank Group.

14 IEG (2010). *The World Bank Group's Response to the Global Economic Crisis—Phase I.* Washington, DC: Independent Evaluation Group, the World Bank Group.

of the crisis, in many cases reflecting the need for rapid processing and crisis-induced pressures, rather than improvements in fiscal management. Some DPOs had a focus that was very unrelated to the crisis; for example, four DPOs in Latin America had a strong environmental focus.[15]

During the financial crisis of 2008-2009, there was little demand for the emergency lending operations from other MDBs, except the ADB. The AfDB introduced the Emergency Liquidity Facility as a new crisis support instrument during the 2008-2009 financial crisis, with US$1.5 billion in funding, yet only one Emergency Liquidity Facility operation was approved. Only the ADB's Countercyclical Support Fund experienced more activity in terms of volume during this period: it was used in five countries, totaling US$2.5 billion (US$2 billion disbursed). An explanation for the somewhat better traction of the ADB emergency loan provided in the IEG report was that its interventions were not tied to an IMF program and were used exclusively in countries without IMF programs. The evaluation also noted that "[this program] would have been more effective if it offered more flexibility in loan size and tenor to fit the diverse needs of countries."

During the 2008-2009 crisis, the IBRD experienced an erosion of its lending headroom, as its lending was greatly expanded while interest rates remained relatively low. Other MDBs (particularly the IDB) had higher interest rates, which helped the IDB maintain a steady financial position despite the crisis. A unique feature of the IDB pricing model is that changes in the spread also applies to existing loan balances. This protects IDB's income during periods of countercyclical lending, but it also come at the expense of higher price volatility for borrowing countries. As was mentioned above, most of the IDB's approved loans under the LPGS did not disburse, this was partially explained because of its high interest rates (see also Table II.3 below). In Mexico, the consequences of cost differences between MDBs are evident. Mexico did not disburse its funds from the IMF or IDB during the crisis, but it fully disbursed funds from the WBG. One explanation offered by the evaluation (among other reasons, such as the negative signal to the market for IMF disbursements), is the lower cost of WBG loans. It should be noted that the IDB's current emergency instrument SDL has a much lower interest rate than during the financial crisis which could increase the demand of the emergency instrument during upcoming crisis.[16]

15 Brazil, Colombia, Ghana, Indonesia, Mexico, and Peru.

16 The ADB evaluation found that the Trade Finance Program was a relevant crisis response tool. However, this might be mostly relevant for Asian countries that have a high trade intensity or for smaller countries that rely on foreign trade and are more vulnerable to global shocks.

Both WBG and ADB evaluations showed that their financial support during the 2008-2009 crisis did not always reach the countries with the highest need for financial support, and they pointed to the IDB as a positive example. The WBG evaluation pointed out that IDB lending was aligned with overall crisis intensity (measured in GDP decline) and positively correlated with the presence of an IMF program, unlike IBRD lending. The IBRD analysis shows that lending was not targeted toward the most affected countries but tended to follow pre-crisis lending patterns. The ADB found that countries with less than a 20% decline in GDP growth rate received a greater share of ADB support than countries with a growth decline of above 20%. A potential reason for these patterns is that some large borrowers may have been considered systemically important, and a signal of support from MDBs may have been considered important for calming markets.

Finally, the IEG evaluation found that many of the WBG's lending operations during the crisis relied on existing country engagements, especially in the financial and social sector. In the financial sector, the quality of support during the crisis depended on the pre-crisis engagement, especially advisory services. Establishing a new partnership with financial institutions was rarely suitable for a crisis instrument, and IEG suggested caution if new partnerships had to be established for this purpose. In the social sector, an expansion of support was only possible in countries where such programs were already in place, which was especially the case in Latin America. More than three-quarters of the WBG's social protection funding during the time went to countries in Latin America and the Caribbean and Europe and Central Asia. However, the intake processes of the social safety net programs tended to be too slow for immediate crisis response.

Annex III

Overview of Loans Based on Results

A. Background information

The loan based on results (LBR) was presented as an improved version of the performance-driven loan (PDL).[1] The PDL was introduced at the IDB as a pilot in December 2003 for six years (GN-2278-2). From 2004 to 2009, 19 operations were approved with this instrument. The main challenges in the implementation of this pilot, reported in GN-2869-1, were (i) a double burden for borrowers, since both achievements of results and verification of expenditures were required for disbursements, in comparison with the ordinary investment loan that required only verification of expenditures; (ii) it sought to achieve final results whose attainment required an abundance of time and whose attribution to the IDB was complicated; (iii) in several cases, the same firm was contracted to verify both results and expenses, although most of these firms only had expertise in expense reports, which generated inefficiencies in the process; and (iv) the PDL did not have a well-defined operational guide that would provide guidance to staff. In 2015-2016, in the context of the revision of loan instruments to implement the update of the Institutional Strategy 2010-2020 (AB-3008), Management identified the need to incorporate an improved version of a loan instrument based on results.[2]

In 2012 the World Bank (WB) introduced its own lending instrument based on results, the Program-for-Results (PforR). In 2015, the WB performed a two-year review of the instrument and found that 25 operations had been approved using this instrument, for an amount of US$4.6 billion in financing, while 19 operations were in the preparation stage.[3] In LAC, the WB financed operations in Mexico, Costa Rica, Brazil, Uruguay, and Panama. The review also found high levels of satisfaction with the instrument among clients and Bank staff. In most cases, these instruments were accompanied by technical assistance during design and implementation. Among the areas for improvement, the report proposed (i) strengthening the design of the results framework and its indicators; (ii) strengthening the design and monitoring of the Program Action Plans; (iii) minimizing the overly cautious interpretation of the provision excluding programs with high environmental and social risks from

1 The LBR is also known as results-based loan. The LBR is different from the results-based financing or results-based aid Salud Mesoamerica Initiative, which was approved in 2009 by the IDB Board of Directors as a public-private partnership between the IDB (through investment grants), Bill & Melinda Gates Foundation, Carlos Slim Health Institute, the Government of Spain, and eight countries in the LAC region. The project is structured in two or three phases. Each phase has three financing elements: (i) ¨investment¨ tranche, (ii) local contribution, and (iii) performance tranche. If the performance goals are met, the performance tranche is granted. The initiative has had early positive results (most countries achieved intermediate results in the first phases), and countries are in their second phases.

2 Documents GN-2869-1 and GN-2837-1.

3 World Bank. 2016. *Program-for-Results: An Early-Stage Assessment of the Process and Effects of a New Lending Instrument*. Washington, DC: World Bank.

PforR funding; and (iv) strengthening the monitoring and reporting of results to systematically cover the entire results framework, as well as the environmental and social effects of the projects.

B. LBR at the IDB

The IDB Board of Directors approved the creation of the SG LBR in December 2016, also as a six-year pilot (GN-2869-1).[4] The LBR is an investment loan that links disbursements to the achievement of predefined results. It finances an expenditure framework (costs or activities: goods, works, and services) linked to project results. Unlike the PDL, the LBR has a clear operational guide and eliminates the verification of expenditures for disbursements. In terms of safeguards, projects classified as category A cannot be financed with an LBR.

Box III.1. Main characteristics of the LBR

- **Disbursements.** LBR disburses against results. Learning from the experience of the PDL (unattainable long-term results), the LBR proposed a scheme that includes intermediate results and allows partial disbursements in case of partial achievement of results.[1] All disbursements, except for the initial one,[2] are subject to independent verification of results. Although expenditure support documentation is not required for disbursements, the executing unit must keep the documentation for internal control and audit.
- **Results matrix.** Involves two levels of indicators: (i) long-term results (final effects), and (ii) intermediate results (short-term or medium-term changes derived from the financing of specific works, goods, and services). The triggers for disbursements can be a subset of the long-term and intermediate results indicators.
- **Monitoring system.** LBR promotes the use of national systems. Adequate LBR implementation requires a solid and reliable monitoring system in the executing agency—that is, verification that (i) such a system has been established, or (ii) the activities aimed at strengthening this system have been clearly identified.

1 Partial disbursements are made when only partial results have been achieved because of unforeseen events or complex contexts (e.g., earthquake).

2 With the LBR, a country can request an initial disbursement of up to 15% (the PDL allowed 20%) and retroactive financing (up to 15%) for results achieved before the LBR (between the approval of the project profile and its eligibility) but related to it (for example, the establishment of systems to raise a baseline or M&E arrangements). The combined amount between initial and retroactive payments cannot exceed 25%.

4 The proposal for the LBR tasks OVE and Management to conduct separate evaluations of the instrument after its third year of implementation.

- **Independent verification.** Can be carried out by an independent firm or agency, or individual specialists.

- **Instrument differentiation.** The LBR is a form of investment loan that disburses against specific expenditures for inputs and whose implementation focuses on Bank fiduciary procedures. It is different from PBLs, which support policy reforms and provide budget support liquidity, and whose implementation focuses on the progress of policy measures. The LBR supports the performance of a government program or strategy and focuses on the development of local capacities, especially on issues of monitoring, strengthening of public expenditure systems, and provision of services. Because it uses the fiduciary systems of the executing agency, during preparation it must be established that the executing agency has the institutional and fiduciary capacity to implement the project.

- **Percentage of the Bank's resources.** No more than 10% of the Bank's resources allocated to financing investment loan operations in a programming year can be used to finance LBRs. An intermediate evaluation of the PBR, planned to take place three years after the approval of the instrument, will assess this limit.

- **Guidelines:** GN-2869-1 Proposal to establish the LBR, GN-2869-3 Guidelines for Processing LBRs, and GN-2278-2.

Table III.1. LBRs approved since 2016

Number	Name	Sector	Approval date	Amount (US$M)	Percentage disbursed
UR-L1141	Generation C: Strengthening education innovations for 21st Century skills and competencies	Education	Sep-17	30	47%
UR-L1142	Business Innovation and Entrepreneurship Project	Private Firms and SME Development	Oct-17	25	75%
ME-L1268	Land Management for the Achievement of Results of the Climate Change Agenda	Environment and Natural Disasters	Dec-17	600	0%
DR-L1134	Sustainable Agroforestry Development Program	Environment and Natural Disasters	Jun-18	106	19%
UR-L1150	Uruguay Global: Promoting digital skills for internationalization	Trade	Nov-18	8	53%
BR-L1528	Program to Modernize and Strengthen Agricultural Health and Food Safety Services (PRODEFESA)-Components 1&2 of BR-L1496	Agriculture and Rural Development	Dec-18	160	0%
AR-L1312	Program of Strengthening and Integration of Health Networks of the Province of Buenos Aires	Health	Jul-19	150	0%
UR-L1158	Business Innovation and Entrepreneurship Program II	Private Firms and SME Development	Aug-19	30	10%

*Disbursements as of December 31, 2019.

The use of the LBR has been so far limited. Since 2016, the IDB has approved eight LBRs (Table III.1) in five countries. LBRs have been used in different sectors, and the size and scope of the operations vary. Only operations in Uruguay and Dominican Republic are disbursing, while the others are at either the eligibility or signature stages.

C. Early findings of the LBR based on interviews with team leaders and findings from CPEs

Because the LBR is an investment modality, the verification of expenses must still be tracked by executing units. In theory, disbursements do not depend on the verification of expenses, but on the verification of achieved results. However, in practice, since the LBR is an investment modality at the IDB (which is not the case in other MDBs), projects need to include an expenditure framework to determine financing needs, sources, and budgetary classification. The guidelines (GN-2869-3) require that at the end of the disbursement period, the total cost of the project is analyzed, and any amount disbursed by the Bank that exceeds the final cost linked to the verified results is returned to the Bank (§2.24). Thus, on top of monitoring results, executing units must keep track of all expenditures for financial audit.

Disbursement against achieved results might defer disbursements and increase financial costs for the countries. Except for the initial disbursement, all disbursements are made once the results have been achieved (and verified independently). This might also imply that disbursements are deferred until results are achieved, incurring financial costs due to commitment fees, as was the case in Mexico (Box III.2).

The preparation of this type of loan requires teams to align the operation with a robust theory of change that leads to results as well as strong institutional capacity.[5] This involves a great emphasis on the planning and design of the operations, with the theory of change clearly established, and the indicators of the result matrix well defined and measurable. This was key for the success of the operations in Uruguay (Box III.3).

Box III.2. The case of Mexico

As reported in the previous CPE for Mexico 2013-2018 (RE-536-1) the investment loan, Territorial Management for the Achievement of Results of the Climate Change (CC) Agenda (ME-L1268), was approved in 2017 as an LBR but was not signed. The objective of this program was to support the Government of Mexico in improving territorial management for the reduction of emissions and vulnerability, as well

5 GN-2869-1 highlighted the importance of an adequate identification of the theory of change and the expected results during the preparation of the loan.

as to lay the foundations for Mexico to increase the level of ambition in its Nationally Determined Contributions (NDC) to CC.[1] The expected impacts of the program were related to urban densification, measured by a greater number of dwellings in diversified central zones and their impact in the mitigation of emissions; and to the reduction of emissions related to the country's land use, changes in land use and forestry (USCUSS). Although there is evidence that results-based financing has proven useful in advancing the CC agenda,[2] this operation's contract has not been signed by the Mexican Government. The approved amount of the loan was US$600 million and, considering that the commitment fee on funds not disbursed over a period of 4 years represents 0.5% of the total approved amount, there was a significant financial burden for the financial agent (NAFIN) in the country. In fact, although the design of the project was adequate, the way this operation was structured as an LBR implied very heavy financial burden for the Mexican Government, which is likely to lead to a financial restructuring of the project.

1 The program includes three independent components: (i) Territorial management in the housing sector: to strengthen subsidies in central areas to reduce the growth of urban spurs and contribute to mitigate energy consumption in the transport sector and GHG emissions. (ii) Territorial management in the forestry sector: to increase the results of the forestry action in the area of CC by means of better targeting the subsidies to areas with a greater risk of deforestation. (iii) Inter-institutional coordination: strengthening the capacities of the Government of Mexico for monitoring and territorial management linked to the CC agenda.

2 World Bank Group, 2017. Results-Based Climate Finance in Practice: Delivering Climate Finance for Low-Carbon Development. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/26644

Box III.3. The case of Uruguay

As reported in the most recent CPE for Uruguay (forthcoming), Uruguay approved four LBRs, totaling US$93 million, two executed by Ceibal and two by ANII. Disbursements have been on track, with satisfactory performance ratings. The country counterparts and the Bank agreed that the instrument allowed them to move the focus of operations from processes and procurement to program results. Given the fact that IDB funding does not have budget additionality, counterparts interviewed by OVE considered that the introduction of this modality resulted in project execution's improvement, avoiding delays and eliminating administrative burdens, once the required initial assessments were completed. This, in turn, freed time and resources (both for the Bank and for counterparts) to concentrate on attaining the programs' goals. The agencies reported that the LBR structure facilitated a constructive dialogue with the Bank regarding the distinction and definition of project outputs, outcomes, and impacts, and supported the improvement of their M&E systems.

Although Uruguay had had a relatively good experience with the PDL, having successfully completed two projects, counterparts noted, and valued, improvements in the instrument—particularly that disbursements are no longer dependent on the verification of expenditures but rather on *ex-post* audits.

OVE gathered some early lessons from the Uruguay's experience with the LBR. This is not intended to be an exhaustive list of factors for adequate implementation of the instrument. They complement lessons identified by Management and OVE in previous assessments (GN-2869-1 and RE-515-6):

Strong institutional capacity of executing agencies is key, particularly in areas such as planning, project management, and results tracking. OVE interviewees at MEF, ANII, Ceibal, and IDB agreed that specific characteristics of the executing agencies make them a particularly good fit for this type of instrument. ANII and Ceibal have private-like operation structures with independent governance. They have developed a high capacity for project management, procurement, and setting and measuring results. Their execution capacity and their own results-oriented approach supported by strong M&E units have been crucial for the implementation of the LBR.

Well-defined disbursement-linked results. In this case, results refer to both final and intermediate outcomes, rather than impact indicators. According to OVE interviewees, the definition of such indicators was done in close dialogue with the Bank and was based on a predefined theory of change.

Opportunities for improvement. Counterparts highlighted the need for the Bank to make its internal systems more flexible to reflect continuous updates in result measures.

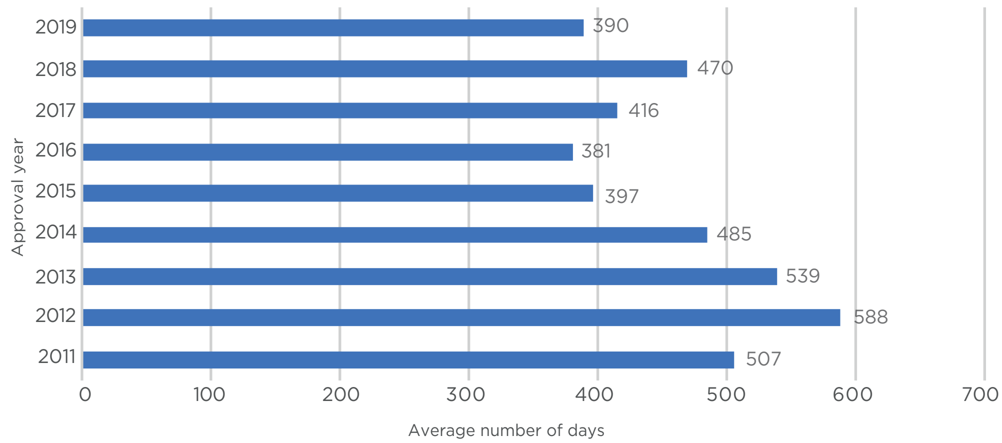
Annex IV
Approval Time and Cost Data

Time. Although it is definitely too early to measure the impact on the 2018 changes in approval procedures, it is still worth noting that, as shown in Figure IV.1, the average number of days between registration in the system and approval declined by 80 days in 2019, compared to the previous year. The duration in 2019 is the second lowest since 2011. However, that 2017 and 2018 registered an increase in this duration.

Figure IV.1

Average time between registration in the system and project approval

Source: OVE, using IDB Data Warehouse.

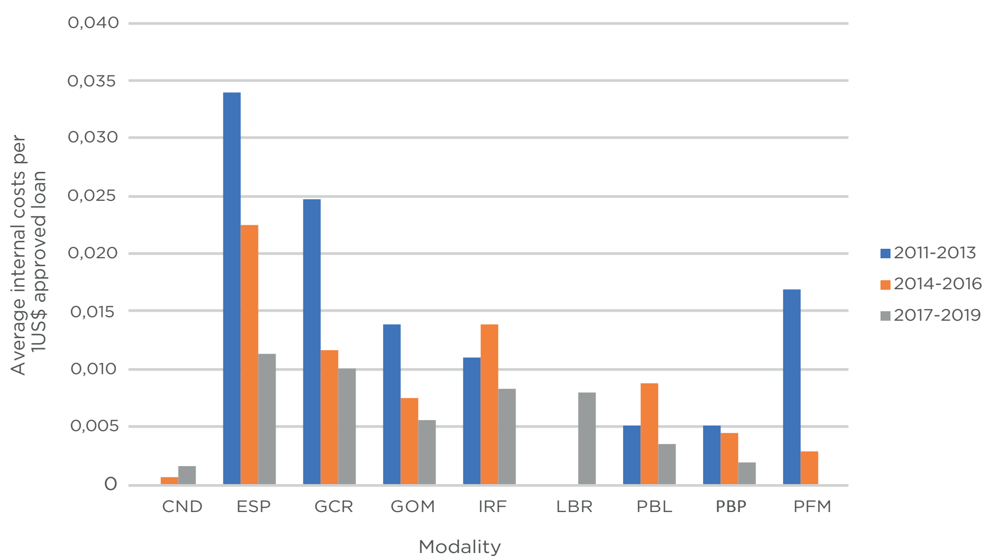


Cost. An analysis of the administrative costs per USD approved in loans for each modality shows that costs have been generally decreasing since 2011. Costs in this analysis are defined as internal IDB costs divided by originally approved loan amount. All modalities have the lowest cost values in the most recent period (2017-2019), except CND loans (based on only two loans).

Figure IV.2

Cost factors by loan modality and period

Source: OVE, using IDB Data Warehouse.



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