

IMPLEMENTATION OF AID EFFECTIVENESS

AT THE

INTER-AMERICAN DEVELOPMENT BANK

December 2009

In their letter of 26 May 2009, the two Co-chairs of the Working Party on Aid Effectiveness invited national and multi-lateral partners to share specific action plans to meet the targets of the Paris Declaration (PD) and Accra Agenda for Action (AAA).

The Inter-American Development Bank is pleased to provide this update on the Bank's on-going reforms. The PD and AAA have fully informed these reforms. In the coming months, a successful general capital increase would give even greater impetus to these reforms.

I. On-going Reforms at IDB and Aid Effectiveness

The IDB has implemented several reforms over the past three years, and these reforms continue. Each reform has had, as a major purpose, improving aid effectiveness in the Bank's operations:

- In 2006, the Bank conducted a comprehensive realignment under the leadership of Senior Management and with the approval of the Board of Executive Directors. A principal purpose of this realignment was "to increase the development effectiveness of Bank activities by means of a greater country focus, deeper sector expertise and improved management based on risk management and attainment of results".

The realignment allowed the Bank to concentrate more technical expertise in its country offices. It also increased its sector knowledge by assigning more professional staff to client-facing departments, and by promoting collaborative work across units in the Bank to enhance our responsiveness to client needs.

The Bank is now preparing a comprehensive evaluation of the realignment. One preliminary indicator of the realignment's impact is the strong subsequent growth

in IDB lending. This growth suggests that demand for Bank lending is highly sensitive to the increased responsiveness and efficiency of the Bank's operations.

- The IDB Board of Executive Directors approved the Bank's Development Effectiveness Framework (DEF) in October of 2008. The DEF aims to improve the effectiveness of the Bank's products through standards and metrics for evaluation, and monitoring of results. The DEF is attached to this submission.

II. Aid Effectiveness and a General Capital Increase

In the 15 years since the Eighth General Increase in the Resources of the Bank, the IDB has become the main source of development finance for the Latin American and Caribbean region, with loan approvals of \$108.6 billion.

From 2007 onwards, amid the global economic crisis, IDB lending increased sharply. As a result, IDB's ability to effectively face development challenges in LAC is now constrained by its financial capacity. Despite the capital increase of 1994, over the last 15 years the Bank has become smaller compared to the Region's financing needs. The lending program that the Bank can support is nearly half its real value in 1995.

Therefore, at the Bank's Annual Meeting in March 2009, the Board of Governors called for Management to initiate a review of the need for a general capital increase. A key component of this review has been an agenda for enhancing the Bank's effectiveness as a development partner. In October, Governors agreed to begin the process of addressing the main issues involved in a GCI, and to reach a decision by March of 2010 at the Bank's annual meeting in Cancun. In parallel, and according to a mandate from the Governors, Management is conducting a public consultation of the general capital increase.