To: The Board of Executive Directors
From: The Secretary
Subject: Management’s comments to OVE’s report “Evaluation of IDB Action in the Initiative for Integration of Regional Infrastructure in South America (IIRSA)”

Inquiries to: Mr. Mauro Marcondes- Rodrigues (extension 2310)

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IDB MANAGEMENT’S COMMENTS ON THE
OFFICE OF EVALUATION AND OVERSIGHT (OVE) REPORT:
“Evaluation of IDB Action in the Initiative for Integration of Regional Infrastructure in South America (IIRSA)” – April 2008

EXECUTIVE SUMMARY

- IIRSA (the “Initiative”) was created to strengthen the South American regional integration process. For the first time in history, the countries of the region are engaging in sustained and periodic intergovernmental cooperation to prioritize and develop physical integration infrastructure, Guyana and Suriname having joined in this collective enterprise. At the same time, the Initiative has created a space for horizontal cooperation between the countries, with major support from the IDB.

- The OVE report does not fully capture the complexity and significance of the IIRSA-propelled integration process or accurately assess the Bank’s financial and technical contribution to the Initiative’s construction and operation. The Bank’s contribution goes beyond “setting its own IIRSA objectives and goals” or identifying and financing a project portfolio.

- The report rightly identifies areas where IIRSA has not made headway, points out certain problems that warrant attention, and makes recommendations that could be useful for enhancing IDB support for the Initiative. Nonetheless, in many instances its superficial reading of the available evidence influences the detection of the underlying causes that explain the findings and conclusions presented.

- A key issue for the IIRSA countries pointed up in the OVE report is the importance of the Fund for the Financing of Technical Cooperation for Initiatives for Regional Infrastructure Integration (FIRII) created by the Bank and the need to scale up this facility so the Bank can continue to help the countries develop sound integration infrastructure projects.

- With respect to issues relating to the Bank’s internal organization, it is inaccurate to say that creation of an IIRSA coordination unit distanced the Bank’s operational areas from the Initiative, since that unit, in concert with the regional department managers, decided to retain staff assigned to IIRSA in the divisions (FI1 and FI3) precisely so as not to lose that connection. The document also overlooks participation in IIRSA activities by other Bank units which share common work focuses with the Initiative, in areas such as environment (SDS/ENV), indigenous peoples (SDS/IND), integration (INT/INT), information technologies (SDS/ICT), RE2/FSS, PRODEV, and the MIF, as well as the IIRSA involvement of new units that have come out of the realignment.

- Management hopes that an enhanced understanding of this important Initiative can be gained during the Board discussion, along with an understanding of the commitment
and energy the IDB has put towards construction of the South American integration process. This will give the Board more information to be able to offer guidelines on how to improve the Bank’s contribution to IIRSA’s current mandate and to define the means to capitalize, beyond 2010, on the efforts invested thus far in the Initiative.

I. INTRODUCCIÓN

“IIRSA’s launch was an apt action strategy to address diagnosed infrastructure problems, and the Initiative was underpinned by broad consensuses among the countries and converging visions as to the role of infrastructure and domestic market integration in a globalizing economy.”

1.1 This assertion in the executive summary of the OVE report is of cardinal importance, and should be the conceptual frame for the different components of the analysis. However, in Management’s opinion, OVE does not adequately explore the implications drawable from its affirmation.

1.2 As a result, the report does not fully capture the complexity and significance of the IIRSA-propelled integration process or accurately assess the Bank’s financial and technical contribution to the Initiative’s structuring and operation.

1.3 The report rightly identifies areas where IIRSA has not made headway, such as furtherance of the sectoral integration processes, construction of a shared South American strategic vision, or greater participation by civil society. It also points up certain problems that warrant attention and makes recommendations that could be useful for improving the Bank’s support for the Initiative. Nonetheless, in many instances its superficial reading of the available evidence influences the detection of the underlying causes that explain the findings and conclusions presented.

1.4 Management hopes that an enhanced understanding of this important Initiative can be gained during the Board discussion, along with an understanding of the commitment and energy the IDB has put towards construction of the South American integration process. This will give the Board more information to be able to offer guidelines for enhancing the Bank’s contribution to IIRSA’s current mandate, and to define the means to capitalize, beyond 2010, on the efforts invested thus far in the Initiative.

II. IIRSA: ACHIEVEMENTS AND THE BANK’S ENGAGEMENT

2.1 IIRSA was created to strengthen the South American regional integration process. For the first time in history, the countries of the region are engaging in sustained and periodic intergovernmental cooperation to prioritize and develop physical integration infrastructure, Guyana and Suriname having joined in this collective enterprise.

2.2 At the same time, the Initiative has created a space for horizontal cooperation. By omitting mention of this facet the evaluation report overlooks one of the prime
reasons for IIRSA’s creation, on which significant progress has been made despite political changes in the region.

2.3 In this regard, the Bank’s contribution to the Initiative goes beyond “setting its own IIRSA objectives and goals” or identifying and financing a project portfolio, as the report suggests at various points. In fact, the work of the Bank and of the IIRSA Technical Coordination Committee has translated into a set of accomplishments that can be summed up as follows:

a. **Focus and relevance of the IIRSA agenda.** Despite the changing regional political environment, IIRSA’s work agenda has preserved its focus on physical integration infrastructure.

b. **Consensus-building that has facilitated the work of the countries.** The Bank’s interventions have made it possible to build consensuses among governments that otherwise would have been considerably more difficult to forge. In this coordination effort the technical quality of the work has been preserved, as have the interests of the governments as the true and sole members of IIRSA.

c. **Creation of informal technical and institutional networks.** The different government teams engaged in IIRSA since its launch have strengthened a series of communication channels that have helped advance the Initiative’s agenda. Those conduits have helped enhance the knowledge and information available to the governments. IIRSA meetings have provided a forum in which official representatives can assemble and share that information.

d. **Action transparency.** The Bank’s efforts have made it possible to develop and maintain the IIRSA website, which currently offers complete, high-quality information on IIRSA activities, i.e. projects and intergovernmental discussions. Instilling transparency and disclosure practices regarding these matters entailed overcoming internal debates and stances that advocated greater confidentiality and information withholding.

e. **Support for a chapter of the regional integration agenda in the absence of an institutional legal framework.** The OVE report underemphasizes the fact that IIRSA’s agenda is not just confined to infrastructure, but also operates without any formal integration treaty. The Bank has been able to deliver its support despite the absence of such a formal accord. The technical and financial resources furnished by the IDB made it possible for the cooperation arrangement to function. This marks a fundamental difference from the Bank’s regional technical cooperation support to other integration schemes—MERCOSUR and the Andean Community of Nations—which are anchored in integration treaties that make the institutionalization of certain decisions possible. IIRSA’s collective decisions are on record in the minutes of its Executive Steering Committee. The only systematic record is posted on the Technical Coordination Committee web page.
III. THE BANK’S TECHNICAL AND FINANCIAL CONTRIBUTION TO IIRSA

3.1 The OVE report does not give due recognition to the IDB’s substantive technical contribution to the Initiative and the institution’s leadership in introducing innovative tools and other actions that made various IIRSA milestones possible: (i) advances in the form of the first-ever South American consensus on structuring an integration infrastructure project portfolio (IIRSA project portfolio) using the Indicative Territorial Planning methodology; (ii) charting of the “Consensus Implementation Agenda” for 2005-2010, which gave the Initiative a project-execution face;¹ (iii) adoption of a results-based project management system (Strategic Project Management Information System—SIGE); (iv) support for horizontal cooperation between countries in replicating successful practices in other IIRSA countries (the “Exports through Postal Services” and “South American Roaming Agreement” projects); (v) development of new planning methodologies, particularly for production integration and logistics; (vi) technical studies and binational projects of great political complexity (“Cristo Redentor Border Crossing” and “Connectivity Study”—both between Chile and Argentina—or the Ecuador-Peru “Napo River Navigability” project, among others, all financed by the Bank with FRIII resources); and (vii) dissemination of information on IIRSA activities (workshops on the South American Strategic Vision, videos, new web page).

3.2 In at least three IIRSA and Bank action areas the comments in the OVE report are inexact and result in an incomplete or inaccurate assessment.

a. The Indicative Territorial Planning (ITP) process and the IIRSA portfolio. The OVE report recognizes that “the IIRSA project portfolio marks a clear step forward for accords on South American regional development” and acknowledges the merit of this accomplishment. However, it follows on with two criticisms on the technical side that call into question the significance of that progress. Specifically, the report points to quality limitations in the ITP and notes particularly that variables were not factored into the method to be able to rank projects based on their integration impact. This leads to the second criticism on the relevance of the IIRSA project portfolio insofar as a “high proportion of individual country infrastructure projects” have been included, which has kept the Initiative from its “original mandated” regional-integration focus. We do not think that these assertions are supported by the facts, and they reveal a lack of understanding as to the nature and importance of the ITP exercise, as well as the mechanism for incorporating projects into the IIRSA portfolio.

¹ With respect to the final agenda makeup, contrary to what the report argues, all the projects comprising the Consensus Agenda form part of IIRSA’s action areas, pertaining either to infrastructure projects in the Integration and Development Hubs or to one of the sectoral integration processes, e.g. the “Exports through Postal Services” and “South American Roaming Agreement” projects.
ITP is a tool that has been widely validated and recognized by the IIRSA countries. It has made consensus-building possible on regional integration infrastructure, drawing on the experience of officials from ministries of planning, public works, transportation, energy, and telecommunications in the 12 South American countries. This was achieved despite the absence of a uniform database for IIRSA projects (lack of prefeasibility and feasibility studies, etc.), as the evaluation report rightly notes.

ITP is a planning tool, not an infrastructure design tool. A more thorough understanding of the territory enables consideration of broader aspects of the integration process, moving from a traditional “corridors” approach toward an Integration and Development Hub (IDH) structure, which makes it possible to consider the integration and sustainable-development benefits of strictly national “individual country” projects. In this regard, the country technical experts’ structuring of project groups by IDH made for a more rational structuring of projects to pursue in each hub.

Naturally there are information limitations for many projects in the IIRSA portfolio, which highlights the countries’ need for technical support from the Bank. Indeed, the aim is specifically to remedy shortcomings through relevant prefeasibility and feasibility studies, even in the absence of specific methods for measuring asymmetries, externalities, and other inherent elements of integration projects. In this regard, the OVE report acknowledges the importance of the FIRII created by the Bank and the need to scale up that facility.

Moreover, ITP is an iterative, ongoing process. Its results are still being refined within IIRSA thanks to efforts to develop tools to improve available data (IIRSA project database and SIGE). This gradual improvement of information attests to the importance of the Bank’s contribution in the context of the Initiative to enhance the infrastructure planning process.

The aforementioned limitations do not, in themselves, justify the questions the evaluation raises concerning the quality of work both in terms of ITP and the IIRSA project portfolio for integration purposes. In any event, the existing shortcomings are nothing less than an incentive to continue working to continue improving the quality of the process and of the available information.

b. **Innovative financing mechanisms.** The report notes that “IIRSA has fallen far short in these action areas,” but does not offer a consistent reflection on the
expectations that surrounded IIRSA at its launch.\textsuperscript{2} There was an assumption that the Initiative should find a mechanism to address all the pent-up demands as well as find solutions to fiscal strictures (such answers being, in reality, nonexistent in the realm of healthy economic practices).\textsuperscript{3} All the other support areas requested by the countries were explored within IIRSA to attract the private sector to integration infrastructure ventures. For example, innovative mechanisms were developed for financing IIRSA projects, such as the IDB guarantee program for the IIRSA Northern Amazon Hub\textsuperscript{4} and a similar vehicle for IIRSA Sur, structured by the CAF—both projects in Peru. Preferences as to forms of public and private participation have been shifting in the countries, each responding to its own preferences, and the Bank’s support has helped address the new demands.

Over the years, the governments of the IIRSA member countries have become aware of a serious bottleneck: the countries’ ability to prepare sound infrastructure projects as financial constraints, particularly fiscal strictures, have eased. In this regard, the Bank has made a substantive contribution to the sectoral process with new financing products, by means of the FIRII, as the report acknowledges in recommending this facility’s replenishment in the short term. The importance of the FIRII is reflected in the speed with which other institutions, like the CAF, have created similar facilities.

c. The Bank and its ability to help advance integration processes. The OVE report maintains that the “Bank has not created the kind of spaces for analysis of the political economy of integration processes that could add value to its coordination and management function through an up-to-date vision of the integration process.” Management does not think this to be a valid assertion. The report at this point ignores the integration-furthering work performed by several Bank units, particularly INT (VPS/INT) and INTAL (VPC/INL). That work has been anchored in an array of products: technical cooperation,

\begin{itemize}
\item The evaluation report leaves out other Bank initiatives, such as the 2003 establishment of a new specific lending facility for transnational projects. With support from that facility three border crossing projects have been funded, between Peru and Bolivia, Chile, and Ecuador (Sector Facility for Transnational Infrastructure Projects).
\item The Bank, however, provided a useful forum for the region’s countries to make known their views: in the “Letter of Lima” declaration drafted during the Bank’s March 2004 Annual Meeting the finance ministers expressed their opinions on how fiscal strictures and debt sustainability concepts were hampering development of public investment projects. The declaration explicitly mentions IIRSA and integration infrastructure. The appeal was heard and prompted a review of criteria by the International Monetary Fund (IMF) that subsequently translated into technical criteria applied by that institution.
\item The guarantee was an innovative way to interest the private sector in an integration infrastructure venture. It enabled the concessionaire to sell over US$200 million in bonds on the international market.
\end{itemize}
regional policy dialogue, meetings of academic networks, seminars and other forums, and publications, to name only the leading instruments.

IV. THE BANK’S INTERNAL ORGANIZATION FOR ITS IIRSA ENGAGEMENT

4.1 The OVE report states that “the lack of incentives for internal ownership of the Initiative has limited the Bank’s effectiveness in achieving IIRSA substantive objectives” and that creation of an IIRSA coordination unit distanced the Bank’s operational areas from the Initiative.

4.2 A necessary consideration in analyzing these assertions is that the evaluation did not capture the various dimensions of a physical integration initiative and, therefore, the IIRSA substantive objectives referred to might possibly be reduced to the project financing component. While that is an important facet of the IDB’s activity, it was not the only objective in deciding to support IIRSA’s creation.

4.3 It is likewise inaccurate to say that creation of an IIRSA coordination unit distanced the Bank’s operational areas from the Initiative, since that unit, in concert with the regional department managers, decided to retain staff assigned to IIRSA in the divisions (FI1 and FI3) precisely so as not to lose that connection. Seemingly, the evaluation did not consider the complexity of the Bank’s relationship with the countries in structuring the lending programs.

4.4 As a result of this bias, the report overlooks the IIRSA involvement of other Bank units that share work focuses with the Initiative, in areas such as environment (SDS/ENV), indigenous peoples (SDS/IND), integration (INT/INT), information technologies (SDS/ICT), RE2/FSS, PRODEV, and the MIF, as demonstrated by the significant number of joint actions and operations carried out, or the participation of specialists from those units in numerous IIRSA meetings and activities. This collaboration continues today with the units that inherited the above-mentioned remits (VPS/ESG, SCL/GDI, SCL/SCT, INT/INT), as well as with the new infrastructure sector units.

4.5 The evaluation report errs in affirming that the Bank’s IIRSA budget appropriation went to “administrative expenses for the IIRSA institutional structure at the IDB.” Management wishes to clarify that the personnel expenditure is actually part of the specialized technical support the Bank provides to the Initiative, and that a significant portion of the budget allotment for the Initiative was expended on consultants’ technical support on a host of topics: development of tools and methodologies for IIRSA; tools to support execution of IIRSA portfolio projects (the SIGE); studies for sectoral integration processes, and preliminary technical studies for IIRSA projects that have subsequently been added to the Bank’s pipeline, whether as loans or technical cooperation operations financed by the FIRII and other funds.
V. GROWTH IN INTRAREGIONAL TRADE

5.1 Contrary to the OVE report’s mention of the “relative loss of momentum in intraregional trade,” 2003 marked the start of a growth phase of trade in South America, a definite change from the 2000-2002 crisis years and also from the 1996-1999 span when trade had grown, albeit at a slower pace. Between 2003 and 2006, the rise in intraregional trade was driven by a combination of world price patterns and mounting trade volumes. In fact, the physical volume of trade, an approximate measure of traded volumes, expanded faster than in prior periods. Trade with South American countries grew more rapidly than with the rest of the world in every country in the region except Chile and Paraguay.

VI. IIRSA AND THE INTEGRATION SCENARIO: RECOMMENDATIONS ON THE BANK’S ROLE

6.1 Moving on to the Recommendations section, the OVE report essentially recommends framing a strategic analysis of IIRSA within the South American integration dynamic, and suggests the need for “best practices” efforts: greater and better internal coordination, tailoring new financial products to the particularities of integration projects, and innovative evaluation methods suited to the special features of those projects.

6.2 As mentioned in the introduction of this document, Management believes that the OVE report makes a positive contribution to charting changes that can enhance the Bank’s IIRSA engagement, but that it is important to underscore several points.

6.3 First, new methods and financing facilities tailored to integration infrastructure development are undoubtedly required. Nonetheless, it is essential that such innovations be put forward as real solutions to problems coming up in the Bank’s work on the ground. Otherwise, there is a risk of wasting time and resources on what could be largely irrelevant supports that fail to meet the needs of the countries.

6.4 Second, and perhaps more importantly going forward, is the role the Bank should assume beyond 2010. The South American integration process unquestionably needs to be tracked and furthered by the Bank’s various units using the tools at their disposal. However, what is most essential is the countries’ resolve and ownership of regional integration. Here perhaps we could look to OVE’s own conclusion noted at the beginning of this document regarding IIRSA and its origins. As characterized there, the Bank’s signal contribution at the time was to offer a response and commitment to support the existing “broad consensuses among the countries.”

6.5 The future formula will likely not have to differ much from the formula essayed in the past: the Bank must be willing to listen and to pick up consensuses on regional integration and assess their content and import. This is the starting point from which to design actions and mechanisms to help advance such consensuses.