INTER-AMERICAN DEVELOPMENT BANK
INTER-AMERICAN INVESTMENT CORPORATION

ANNUAL MEETING OF THE BOARDS OF GOVERNORS

AB-2728
21 March 2010
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CANCÚN DECLARATION

WHEREAS:

The Board of Governors of the Inter-American Development Bank, meeting in Cancun on 20-22 March 2010 to discuss the agreement on a Ninth General Capital Increase for the Inter-American Development Bank:

We, the Governors of the Inter-American Development Bank, declare:

1. We, the Governors of the Inter-American Development Bank, wish to extend our sympathy to the peoples and Governments of Haiti and Chile, both members of the Bank, who experienced devastating earthquakes in recent months. All members of the Bank hereby express their solidarity with the Haitian and Chilean peoples and commit to provide assistance through the Bank as well as through the countries' bilateral programs.

2. This year the global economy is recovering after experiencing the worst crisis in over half a century, and private capital flows to emerging markets are returning. The Western Hemisphere region is contributing importantly to that recovery, though the pace varies by country. The Bank responded to the crisis through a rapid and warranted countercyclical increase in lending, that confirms the role the IDB can and should play in reducing poverty and inequality throughout the region. To ensure that the Bank has adequate capital to meet these objectives, we agree, subject to the completion of all requirements under our respective domestic laws and as further specified in this declaration, to pursue a capital increase for the Bank in the amount of $70 billion dollars. Of this amount, $1.7 billion will be in the form of paid-in capital to be contributed by the various members of the Bank over a five-year period, or 20 percent of their respective contribution obligation each year. We also agree to provide $479 million to cancel Haiti's debt, convert Haiti's undisbursed loans to grants, and ensure a full replenishment of the FSO. Together, these financing commitments will total nearly $2.2 billion in cash contributions to the IDB.

3. This capital increase demands from the Board of Executive Directors and the Bank's Senior Management successful, timely, and complete implementation of

specific reforms on which we all agree, and which are necessary for improving both the focus of the Bank's activities and the effectiveness of the Bank's lending. Nevertheless it is important to highlight that a substantial part of the reforms has already been addressed within the Better Bank Agenda that has been undertaken hand in hand with the GCI negotiations

4. We recognize that the Bank must not simply become larger, but that it must also become more effective at achieving its mandates. Thus, we agree to the following reforms as further detailed in the Overview Framework approved by Governors:

   a. setting clear, written institutional and sector priorities with notional lending targets, particularly for supporting the poorest populations and the poorest countries, regional integration, and climate change investments,

   b. strengthening project quality through strict adherence to clear, written, and objective standards for development and poverty reduction impact,

   c. improving the results measurement framework to identify for every project whether specific and tangible results have been achieved,

   d. enhancing analytical capacity to improve country macroeconomic assessments

   e. increasing private sector access to finance, especially small and medium-sized enterprises, through improvements in the Bank's private sector strategy and policies,

   f. increasing transparency and accountability through best practice disclosure and governance policies, including the results framework, and

   g. ensuring that risk management practices and capabilities meet international best practice standards.

5. In addition to causing tragic loss of life, the earthquake in Haiti has devastated the national economy. The Board of Governors acknowledges that, in order to recover, the people of Haiti need an extraordinary amount of assistance to help them build back to a better standard than before the earthquake and achieve greater stability and prosperity. We therefore agree to modify the existing Grant Facility for Haiti's use in order to receive grant funds in support of financing Haiti's reconstruction and development. The Grant Facility will continue to be separate from the Bank's existing concessional window, the Fund for Special Operations (FSO), and will allow Haiti to suspend its borrowing from the FSO. We also recognize the very important bilateral contributions that countries of the region are making toward Haiti's recovery.

6. We agree to separately provide $479 million to finance the cancellation of Haiti's debt and remaining local currency conversions to the FSO in a manner that provides immediate grant financing to Haiti and converts undisbursed loans to Haiti to grants. For those countries remaining within the FSO, we commit through these funds to ensuring that the FSO is fully replenished for the next decade. Before 2020 Governors will review the need for a new FSO Replenishment.

7. We will assure the Bank's continued support for Haiti's reconstruction and development through a commitment to provide $200 million annually in transfers of OC income to the Haiti Grant Facility through 2020.

8. We agree that the Bank will implement an income management model that will incorporate the new capital adequacy policy, lending program, loan charges, technical assistance grants, and commitments on transfers in a way that will set the Bank on a firm financial footing, preserve its AAA rating, rationalize the allocation of resources through a comprehensive and simultaneous approach, and allow capital to grow over time through the retention of income.

9. We commit to a rigorous and time-bound reform agenda (as set forth in the Overview Framework), including certain reforms that will be completed before the capital increase contributions are finalized. We agree to ensure the success of our reform agenda by holding a mid-term review halfway through the five-year capital contributions period. This review will allow us to assess progress against a schedule for reform implementation, as set forth in the Overview Framework.

10. Lastly, as was the case in previous GCI processes and based on this declaration, the Board of Executive Directors and Senior Management will have a 60-day period to prepare the final GCI technical document that incorporates agreed amendments to document CA-511 (including the specific reforms set forth in the Overview Framework), and its required legal instruments, for submission to the Board of Governors in order to proceed with a formal voting.

INTER-AMERICAN DEVELOPMENT BANK INTER-AMERICAN INVESTMENT CORPORATION

ANNUAL MEETING OF THE BOARDS OF GOVERNORS

OVERVIEW FRAMEWORK FOR THE NINTH CAPITAL INCREASE

21 March 2010

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ABBREVIATIONS

ADB	Asian Development Bank
BSC	Balanced Scorecard
CIDA	Canadian International Development Agency
CPF	Corporate Performance Framework
DEF	Development Effectiveness Framework
DEM	Development Effectiveness Matrix
DEO	Development Effectiveness Overview
EFS	External Feedback System
GCI	General Capital Increase
GDP	Gross Domestic Product
GNP	Gross National Product
IDA	International Development Association
IDB	Inter American Development Bank
KCP	Knowledge and Capacity Building Products
LAC	Latin America and the Caribbean
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
NOF	New Operational Framework
NPC	Non Personnel Cost
OPC	Operations Policy Committee
OVE	Office of Evaluation and Oversight
PBB	Performance-Based Budgeting
PC	Personnel Cost
PMR	Progress Monitoring Report
PTI	Poverty Targeted Investment
QBR	Quarterly Business Reviews
RF	IDB Results Framework
SC	Strategic Core
SG	Sovereign Guaranteed
TC	Technical Assistance
XPMR	Expanded Performance Monitoring Report
WB	World Bank

I. BACKGROUND

The purpose of this document is to present an overview framework for the evaluation of institutional reforms agreed as part of the Ninth General Capital Increase of the Inter-American Development Bank (IDB). The Governors recognize that a substantial part of the reform agenda has already been addressed within the context of the Better Bank Agenda which is being implemented in parallel to discussions on a General Capital Increase (GCI). However, there are key reforms that remain, and given that the introduction of certain reforms necessarily takes time, the following mechanism for addressing these reforms is to be put in place.

The set of reforms outlined below is to be successfully completed (as defined below) by March, 2013. The basic elements of the overview process are an evaluation by the Office of Oversight and Evaluation (OVE) of the following conditions and consideration of that evaluation by Governors on or before March 31, 2013. Governors will then formally determine that reforms have been implemented before the final capital subscription will be made.

The following reforms shall be completed on the schedule indicated:

	Specific conditions to be met	*Target date*
Clarify key institutional priorities.	Governors affirm the following institutional priorities: (a) reducing poverty and inequality; (b) ensuring sustainable development; (c) addressing sustainable energy and climate change (d) addressing the special needs of the poorest countries, (e) promoting regional integration, and (f) fostering development through the private sector.	Prior to signature of final agreement.
Adopt sector strategies and notional lending targets to address urgent regional needs.	Governors instruct Management to submit for Board consideration strategies (by target date) to promote: (a) regional integration infrastructure and technical assistance, (b) better education performance, (c) broader private sector access to finance, particularly for SMEs, (c) renewable energy, and (d) climate change adaptation and mitigation. Governors also direct Management to integrate lending targets into performance evaluations and budgeting policies by target date.	Q1, 2011.

	Specific conditions to be met	*Target date*
Adopt a comprehensive Income Management Model.	Governors adopt a model that allocates income to cover the following constraints: • Minimum annual transfers of $200 million to the grant facility for Haiti • A capital accumulation rule that preserves the financial soundness of the bank • Loan charges set as to cover administrative expenses consistent with the Bank's multiyear budget. • Parameters of the Capital Adequacy Policy • FSO administrative expenses fixed at 3 percent, non-reimbursable TC fully funded by OC • Pricing adjusted to meet these constraints	Prior to signature of final agreement, and operable for FY2011 budgeting process.
Disclose project-level reporting with stronger metrics.	Governors direct Management to provide public disclosure in the Development Effectiveness Overview (DEO) of ex-ante project-level evaluability analysis, compliance with institutional priorities, and ERR calculations for projects approved that year, and ex-post impact evaluations for any projects evaluated in that year, including for NSG projects.	Prior to signature of final agreement.
Ensure quality of loan portfolio through use of new development effectiveness matrix.	Governors endorse a further strengthening of the Operations Policy Committee by the President of the Bank and Senior Management to ensure that projects meet minimum development effectiveness thresholds as assessed in consultation with the Chief Economist office.	Prior to signature of final agreement.
Strengthening Development Effectiveness	Governors direct Management to produce the DEO annually, incorporate OVE recommendations previously endorsed by the Board of Executive Directors and consider future OVE recommendations to improve loan quality.	Prior to signature of final agreement.
Staffing and resourcing the new Inspection Mechanism (ICIM).	Governors direct Management to rapidly staff and implement the new Inspection Mechanism with phased-in coverage of all Bank policies by the time of the overview process.	Q2, 2010 for phasing-in of all policies
Adopt a new disclosure policy consistent with best practice.	Governors instruct Management to implement a new disclosure policy that meets the highest standards applied by other Multilateral Financial institutions including the following elements: • The replacement of a "positive list" of disclosed policies with a limited "negative list" • Presumption of disclosure • Release of Board/Committee minutes • Independent appeals mechanism • Voluntary disclosure of ED's statements • Disclosure of project-level results	Prior to signature of final agreement.

	Specific conditions to be met	*Target date*
Adopt process to update environmental and social safeguards.	Governors instruct the Board of Executive Directors to adopt a revised set of environmental and social safeguards fully consistent with the recommendations of the independent advisory group on sustainability in its final report, and a revised set of social safeguards in line with international best practices.	Q 1 2011
Expand private sector operations.	Governors agree that private sector operations shall be capped at 20% of the Bank's Equity through 2012, after which private sector operations will be subject to the Bank's new NSG strategy and capital adequacy policy.	Prior to signature of final agreement.
Adopt results-based budgeting.	Governors direct Management to develop and adopt a corporate strategy for results-based budgeting for the FY2011 budget.	To be part of FY11 budget, October 2010.
Implementation of the new capital adequacy policy.	Governors direct Management to implement the new capital adequacy policy as approved by Board of Executive Directors.	Q2, 2010.
Ensure adequate safeguards against lending into unsustainable macroeconomic situations.	The Chief Economist and Research Department of the Bank will produce rigorous assessments of macroeconomic sustainability based on objective criteria when called for by country conditions; loans for consideration by the Board of Executive Directors shall meet the criteria.	Prior to signature of final agreement.