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INTER-AMERICAN DEVELOPMENT BANK

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Attached hereto is a document for your information and as background for the Ninety-seventh Meeting of the Committee of the Board of Governors to be held in Santiago, Chile, on 2 July 2009.

The annexes, mentioned herein, are distributed separately in document CA-501-1.

Reference: GN-2518-3(6/09)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

FIRST WORKING PAPER
REVIEW OF THE NEED FOR A GENERAL CAPITAL INCREASE OF THE ORDINARY CAPITAL AND REPLENISHMENT OF THE FUND FOR SPECIAL OPERATIONS:
PROGRESS AND NEXT STEPS

JUNE 15, 2009

CONTENT

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ABBREVIATIONS

COF	Country Office
CPF	Corporate Performance Framework
DSA	Debt Sustainability Analysis
ECD	Early Childhood Education
FSO	Fund for Special Operations
GCI	General Capital Increase
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
HLF	High Level Forum on Aid Effectiveness
IDA	International Development Association
IDB-8	Eighth General Increase of Resources of the Inter-American Development Bank
IFF	Intermediate Financing Facility
IFI	International Financial Institution
KCP	Knowledge and Capacity Building Products
LAC	Latin American Countries
LPGS	Liquidity Program for Growth Sustainability
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
NLF	New Lending Framework
NOF	New Operational Framework
NSG	Non-Sovereign Guarantees
OC	Ordinary Capital
OCFC	Oversight Committee on Fraud and Corruption Central American Bank for Economic Integration
ORP	Office of Outreach and Partnerships
PBL	Policy-Based Loan
PPI	Public and Private Investment
PPP	Purchasing Power Parity
PSFG	Public Sector Financial Gap
RPG	Regional Public Goods
SEDLAC	Socio-Economic Database for Latin America and the Caribbean
SG	Sovereign Guaranteed
SLL	Sustainable Lending Level
TC	Technical Cooperation
TELR	Total Equity to Loan Ratio
TFFP	Trade Finance Facilitation Program
ULA	Unused Lending Authority
VPP	Vice Presidency for Private Sector
VPS	Vice Presidency for Sectors
WEO	World Economic Outlook

EXECUTIVE SUMMARY

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 of the Ordinary Capital and replenishment of the Fund for Special Operations. Management was asked to report progress and next steps with the Committee of the Board of Governors in the third quarter of 2009.

In response to this request, this document addresses several issues referred to in the Governors' resolution. These include the development of a new institutional strategy, an analysis of the nature and scale of demand for IDB support, and advances in the implementation of initiatives to improve the Bank's efficiency and development effectiveness. In this analysis, support of the poorest countries in the region is given particular consideration as a corporate priority, and the ability to promote development through the private sector is emphasized as a key comparative advantage of the Bank. The document also reviews the Bank's contribution to the Region's economic and social progress under the Eighth General Capital Increase of Resources of the Bank (IDB-8). This document addressing the long-term needs is complemented by short-term measures approved by the Board of Executive Directors that expand the financing envelope of the Ordinary Capital (OC) and provide supplemental resource allocations to the FSO countries.

This document will be followed by other reports that incorporate the Governors' feedback and requests for further information, as well as proposals to implement a general capital increase and replenishment of the Fund for Special Operations (FSO).

The Bank's Contribution to the Region under IDB-8

In the 15 years since IDB-8, the Latin American and Caribbean (LAC) region has made progress in economic and social dimensions, although it still lags behind other developing regions. Between 1994 and 2008, the region grew at an average of 3.3 percent per annum, with a cumulative growth of 57.8 percent. Over the same period, poverty rates fell from 45.7 percent to 33.2 percent. Most of the progress in terms of poverty reduction took place between 2002 and 2008, when more robust growth coincided with a reduction in inequality in several LAC countries.

IDB-8 made the Bank the largest source of development finance in the LAC region, and currently provides borrowing member countries more than 50 percent of multilateral financing. Between 1994 and 2008, the Bank financed 1,230 loans for a total $108.6 billion[1]. Since 2007, lending to the region has increased sharply.

The Bank has complied of the explicit mandates from IDB-8, namely lending targets for poverty reduction and social equity, and in support of the poorest countries in the region. Between 1994 and 2008, the cumulative amount of sovereign guaranteed (SG) lending for poverty reduction and social equity amounted to 50.4 percent of the total SG lending

[1] All amounts in the document are in dollars of the United States unless otherwise stated.

volume (excluding emergency lending) and 49.5 percent of total operations. In turn, SG lending to Group II countries totaled 36.8 percent of overall SG lending. These accomplishments are partly due to the Bank's ability to adapt its organizational structure and innovate in its operational management procedures.

Despite the general capital increase of 1994, the Bank has become smaller relative to the region's financing needs. These needs are framed by the region's remaining development challenges and the lingering effects from the current economic crisis. The Bank's capacity to respond to the borrowing member countries' demands for financial and non-financial products in 2010 and beyond is severely constrained.

Sector Priorities and Comparative Advantages: Building Blocks for a New Institutional Strategy

An institutional strategy is about how to make an organization more effective in fulfilling its mission. For the Bank, this strategy should include a clear vision of its priorities and how to meet them, as well as the identification of and plans to build upon its comparative advantages.

Fostering equality of opportunities across a range of areas is a central development challenge in the LAC region. This requires meeting the Millennium Development Goals (MDGs). Although progress in the region has been positive, it is uneven across indicators, and between and within countries. For progress in MDG poverty reduction goals, it is necessary to address disparities in labor opportunities, which in turn cause large differences in earnings and productivity. Another major challenge for the region is to close the growth gap with the rest of the world, while achieving global environmental sustainability and dealing with climate change.

The IDB's proposed institutional priorities tackle these two broad challenges and address the specific requests made by Governors. The priorities include the development of (a) social policy for equity and productivity; (b) infrastructure for competitiveness and social welfare; (c) institutions for growth and social welfare; (d) competitive regional and global international integration; and (d) programs to protect the environment and respond to climate change.

There are specific themes within these five priorities that have strategic value for the region and the IDB over the next decade. These are areas where IDB involvement over the next 10 years can make a substantial contribution to growth and equity, through either public or private operations. They are also areas where the IDB has developed, or may easily acquire, a comparative advantage on the basis of prior experience, good practice, innovation, and ongoing investments in the development of policy-oriented knowledge. The capacity of the Bank to support countries in funding social protection programs and protecting social spending and investment in the face of economic downturns would also enhance its contribution to meeting the region's development challenges.

Comparative advantages may spur from the structural features of an organization, from its trajectory and experience, and from changing conditions in its environment. The main structural advantage of the IDB is its nature as a cooperative where borrowing member countries hold a majority of the voting power. As such, the degree of ownership felt by these countries over the decades has consolidated the Bank's role as a trusted partner that is driven, first and foremost, by the development needs and aspirations of its constituents.

On top of these intrinsic features, the Bank has acquired comparative advantages that include (a) a strong country focus; (b) articulation of public and private sector operations, (c) diversification of financial and non-financial products that allow the Bank to be more responsive to country needs and more consistent in its support for development over time, and (d) the knowledge and capacity to support regional trade and integration. Such advantages are central to the Bank's new institutional strategy and should be developed further.

Complementarity and coordination with development partners is consistent with a renewed Bank focus on developing comparative advantages and adding value for its clients. The Bank has a comparative advantage in the support of development projects as compared to balance of payments and liquidity support, especially after the retooling of the IMF; similarly, it is better equipped to provide advice on the basis of experience and good practice, rather than surveillance. The World Bank and the IDB can complement each other in generating knowledge on development issues and adapting this knowledge to local realities. This may involve working on projects in countries jointly, especially when the scale and complexity of the projects are so large that they exceed the capabilities of any institution alone. Furthermore, there are also growing opportunities for the IDB to work with subregional financial institutions and bilateral cooperation agencies, as well as to coordinate among development partners through agreements such as the Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action of 2008.

Preferential Support to the Poorer LAC Countries

Just as the LAC region lags behind the developed world and the most dynamic emerging countries in several dimensions, there are also significant development gaps between countries in the region. Countries such as Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay have a per capita GDP that is only a quarter of the regional average, and their poverty rates are nearly twice as high as the average for the region as a whole. These gaps are also reflected in most indicators of social welfare and access to services. It has been, and should continue to be, a priority for the Bank to support the efforts of these countries to accelerate their pace of development.

In order to follow through on its commitment to offer preferential support to the poorest countries, the IDB should start by renewing its ability to lend to these countries under pricing and repayment conditions that are consistent with debt sustainability frameworks. These conditions have so far been granted by the FSO, but the concessional terms of loans and the Bank's participation in debt reduction initiatives have depleted the fund. The replenishment of FSO resources and optimization of the financing model should be a key component of the new IDB institutional strategy. IDB's support to poorer and smaller countries in the region should also be reflected in sector priorities for Bank lending and in the development of programs and products tailored to these countries' needs.

Development through the Private Sector

In turn, the ability to promote development through the private sector is a comparative advantage that the Bank should fully acknowledge and exploit. This advantage stems not only from the size of the private sector as a source of investment and job creation, but also from the Bank's capacity to better coordinate private sector operations with those of the public sector. This will allow the Bank to develop a more comprehensive country focus and to exploit synergies with public projects related to improving regulations, investing in infrastructure, or improving competitiveness.

The Bank still has room for improvement in supporting and articulating private sector operations. While a closer link with country programming and cross-cooperation of technical teams can improve the articulation of private and public sector projects, the statutory limit to private sector lending should be reviewed not only in light of demand, but also based on current operationalization as Non-Sovereign Guarantees (NSGs), which mixes risk management with client specialization.

The Demand for IDB Resources

Estimated aggregate financing scenarios were derived from a review, country by country, of current demand based on existing country strategies and programming processes. The results were compared with those produced by a statistical analysis of financing and investment trends in the region.

The results of these estimates indicate that demand for IDB lending may range between US$16.5 billion and US$19.8 billion per year in the period between 2010 and 2020. The higher estimate stems from a bottom-up approach based on the actual demands expressed by borrowing countries in the context of their interaction with the Bank. The lower estimate, in turn, responds to a statistical extrapolation of IMF forecasts of public and private investment, adjusted by declining demand on IDB financing as countries develop and improve their access to private capital markets. These estimates involve an increase of between 23 percent and 56 percent over the trend in disbursements in the period 1983-2009.

The demand for resources is likely to be highest for the infrastructure and social sectors, which may claim around 65 percent of total estimated lending, followed by institutional development, environmental protection, and integration. These volumes of lending would also allow the Bank to respond to country needs over the business cycle. Regarding demand for resources from the poorer countries in the Region, the analysis estimates average total annual approvals from 2010 to 2020 of $918 million. This figure is implicitly constraint by the present conditions on the supply of concessional lending. This "revealed demand" estimate is well within the estimated absorption capacity of $1.2 billion for the five FSO countries. Finally, private sector financing of eligible projects in the five strategic pillars of the New Operational Framework (NOF) could range from 4.0 to 5.3 billion dollars per year. [2]

Towards a Better Bank

To increase the Bank's relevance as a development partner, Management has been implementing a series of measures to expand efficiency and effectiveness. These initiatives taken together constitute part of an "Agenda for a Better Bank." This agenda includes (i) improvements to the Bank's organizational capacity; (ii) initiatives to implement the international community's principles of effectiveness; (iii) expansion of the Bank's core business to include knowledge, capacity building, and nonlending value added products; (iv) improvements to risk management; (v) strengthening of the integrity agenda; and (vi) human resource management. These areas are neither exhaustive of the changes undergone by the institution, particularly over the last four years, nor preclude deeper reforms that may be undertaken in the future to strengthen governance, transparency, and efficiency.

Efforts to concentrate resources where they can be more effective, provide more value added, and increase institutional efficiency do not necessarily lead to less lending. In most cases, more lending is required. To meet increased demands for this support, the Bank must improve its efficiency and effectiveness and successfully develop the capacity to address new development challenges in the LAC region.

The substantial increase in lending among borrowing member countries after the realignment of 2007, indicates that demand is highly sensitive to a more responsive and efficient IDB. Additionally, the Bank needs to generate a critical mass of projects in its areas of expertise in order to exploit economies of scale and disseminate experience and lessons learned. An expansion in lending may be a good catalyst for the changes needed to improve effectiveness in complying with the Bank's mission of fostering development in Latin America and the Caribbean, but it will also require such changes for the IDB to play a greater role in responding to these demands.

[2] The New operational Framework (GN-2494) was presented to the Board of Directors in October of 2008.

I. INTRODUCTION

1.1 At the Bank's Annual Meeting in March 2009, the Board of Governors called for Management to "immediately initiate a review of the need for a general capital increase of the Ordinary Capital and replenishment of the Fund for Special Operations."

1.2 Resolution AG-6/09 requested that Management provide "a robust analysis of the nature and scale of long-term demands" to support the continued social and economic development of the LAC region, especially the poorest and most vulnerable countries. This analysis should include "(a) a new institutional strategy that makes effective use of additional resources to support social safety net programs, poverty and inequality reduction, infrastructure investments and climate change; (b) implications of the Bank's capital adequacy framework; and (c) reevaluation of the private sector policy in order to support the region's development."

1.3 The Resolution (AG-6/09) also requested that Management present proposals for: (i) options consistent with the Bank's financial strengths to further expand the Ordinary Capital (OC) financing envelope for a short-term crisis response beginning this year; and (ii) options for accelerating disbursements from and additional resources to the Fund for Special Operations (FSO) with a review of the timeline for replenishment. The Board of Executive Directors has approved a change to the Bank's policy that limits total lending, aligning the IDB with other MDBs, and temporarily increasing the disbursement capacity of the Ordinary Capital. The Board also approved, for 2009 and 2010, supplementary allocations to the four (4) Fund for Special Operations (FSO) borrowing countries[3], as well as an increased allocation to the IDB Grant Facility to provide more resources to Haiti.

1.4 This is the first working document in response to the Governors' requests for an analysis of long-term needs. It addresses the following issues: (i) the requirement for a new institutional strategy, discussed in Sections III and IV, which will include a focus on the region's continued development challenges, the gaps in achieving the Millennium Development Goals (MDGs), and the Bank's strategic priorities and comparative advantages; (ii) the need for a rigorous analysis of the demand for IDB resources, dealt with in Section V, which shows aggregate estimated borrowing needs;[4] (iii) an assessment of the needs of the poorest countries in the region and demand for FSO resources, as well as expected demand for private sector activities, which is presented within the demand analysis; and (iv) the implementation of initiatives aimed at improving the Bank's efficiency and development effectiveness, discussed in Section VI. Additionally, Section II reviews the contribution of the Bank to the region's economic and

[3] Bolivia, Guyana, Honduras and Nicaragua.
[4] A specific country demand analysis has been prepared and is presented in Annex 5.

social progress under the Eighth General Capital Increase of Resources of the Bank (IDB-8).

1.5 Management seeks the Governors' guidance on the issues addressed in this document. A second working paper will follow to address the two remaining requests by the Governors: (i) the implications of the capital adequacy framework; and (ii) the private sector policy. It will also incorporate any issues raised from the analysis and discussion of this first document. While these first two documents will focus on the need for a general capital increase and replenishment of the FSO, a third working paper will concentrate on proposals for their implementation and accompanying governance measures.

II. REVIEW OF THE BANK'S DEVELOPMENT CONTRIBUTION TO THE REGION FROM 1994 TO 2008

A. Assessment Framework

2.1 **The Bank's Eighth General Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations (IDB-8) set out a strategy to guide the IDB's role in the region. As conditions in the world economy and region changed, this strategy underwent periodic reviews.** These updates were primarily part of the *Institutional Strategy* approved in 1999 and the *New Lending Framework* (NLF) adopted in 2002, which was renewed and modified in 2005.[5] While these updates resulted in adjustments and changes to parameters for concessional, policy-based, and private sector lending, the core of the IDB-8 objectives remained substantially unchanged.

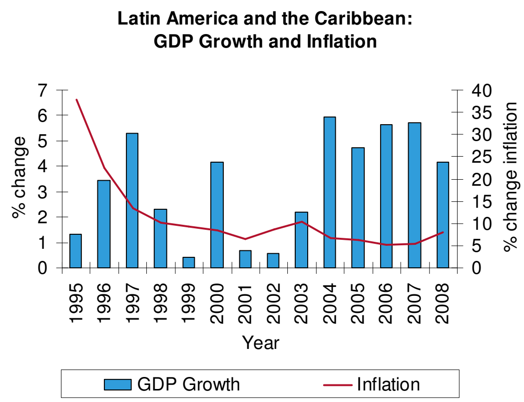
2.2 **This section provides a review of the performance of the Bank given the objectives set out in IDB-8.** It assesses the operational program, related to the expansion of both lending and technical assistance, and also reviews the achievement of the mandates of IDB-8. Notably, the changing world and regional economic context has led to organizational changes within the Bank, which has played a role in achieving the objectives. Finally, a review of the sector contributions of IDB-8 is presented. The operational statistics of the Bank can be found in the statistical annex to this document (Annex 1B).

[5] The New Lending Framework policies (AG-1/02, AG-5/05 and AG-7/09) have been fundamental during IDB-8.

B. IDB Performance since IDB-8

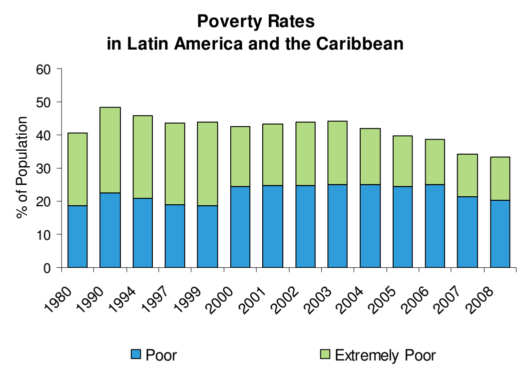
2.3 **In the 15 years since IDB-8, the LAC region has shown progress in economic and social indicators, although it still lags behind other developing regions**. Between 1994 and 2008, the region grew at an average rate of 3.3 percent per annum, with a cumulative growth of 57.8 percent over the period. With an annual population growth of 1.4 percent, per capita income increased by 1.9 percent, reaching an average of US$4,789 in 2008. Three distinctive periods of economic performance have characterized the past 14 years. A period of increased growth in the mid-1990s was followed by a downturn in 1998, exacerbated by the financial and economic crises of 1999 and 2002. An era of renewed growth (with low inflation) began in 2003 (Figure II-1).

Figure II-1



2.4 **Over the last 15 years, the LAC region has advanced in key social indicators, but it is still characterized by inequality**. Poverty rates in the region fell from 45.7 percent in 1994 to 33.2 percent in 2008 (Figure II-2). In absolute numbers, the poor population in the region fell from 218 to 192 million. If the same poverty rates of 1994 prevailed in 2008, the number of poor would be 265 million. Since the pace of economic growth accelerated after 2003 and income distribution improved in several countries, progress in poverty reduction accelerated between 2003 and 2008, as seen in Figure II-2. During this time, nearly 50 million people in the region overcame poverty. Nevertheless, income distribution remains very unequal and the region has had the highest average Gini index in the world for the last 40 years (over 50 percent).[6] Annex 1-A provides statistical information on the evolution of the region's economic performance since IDB-8.

Figure II-2



2.5 **Additionally, the LAC region has experienced a sweeping consolidation of democracy.** Since 1994, presidential elections have been held in the region with

[6] The Gini index is a measure of inequality where zero is perfect equality and one hundred is total inequality.

overall turnout rates that are comparable to those of consolidated democracies, and all currently sitting governments are backed by the popular vote. All sixteen thousand municipal governments in the region are also led by democratically elected authorities. Over the last 15 years, many governments have improved their financial management, internal control, and accountability systems. However, in terms of bureaucratic capacity and the state apparatus, professionalism of public servants, and effectiveness of government institutions the region still lags considerably the industrial world and fast-growing developing countries.

1. Operational Performance

2.6 **Since the last capital increase, the IDB has become the largest source of development finance in the LAC region and currently provides borrowing member countries more than 50 percent of multilateral financing.** Between 1994 and 2008, the Bank financed 1,230 loans for a total of $108.6 billion (including emergency lending). Of this amount, $66.6 billion (61.3 percent) was investment lending with sovereign guarantee and $9.1 billion (8.4 percent) was investment lending without a sovereign guarantee; $20.7 billion (19.1 percent) was policy-based lending and $12.2 billion (11.2 percent) was emergency lending (see Figure II-3).

Figure II – 3

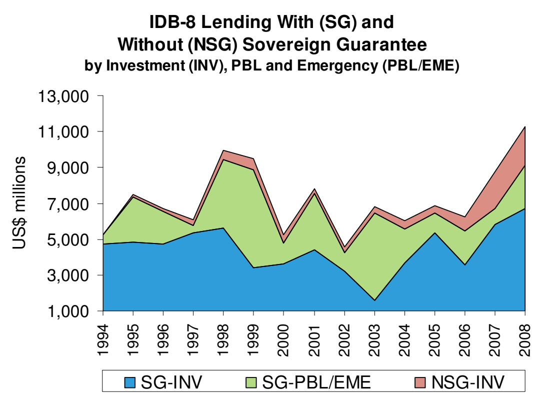
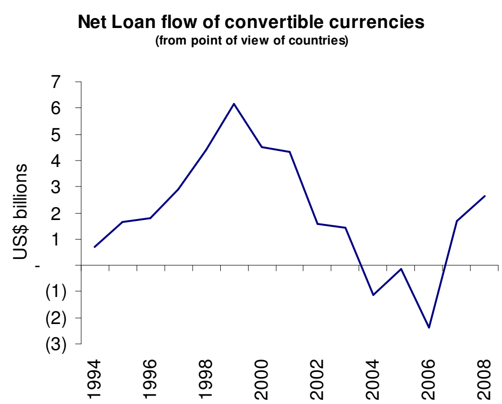


Figure II – 4



2.7 Figure 2.4 above, shows that beginning in 1994, net loan flows to borrowing member countries increased from almost zero to a maximum of $6.17 billion in 1999. Flows were negative from 2004 through 2006, reflecting the drop in lending volume in the 2002-2004 period. Net loan flows have been positive and increasing in 2007 and 2008.

2.8 **Since 2007, lending in the region has increased sharply, driven by investment projects (with and without sovereign guarantee), rather than policy-based and emergency loans.** Reforms implemented as part of the 2007 realignment led to high approval levels (even before the crisis) of $8.8 billion in 2007 and $11.3 billion in 2008 (83 percent in investment loans); record high disbursements of $7.1 and $7.6 billion in 2007 and 2008, respectively; and a 30 percent increase in lending to subnational governments. In particular, the reforms also prompted (i) greater organizational capacity by increasing technical specialists and focusing resources; (ii) an expansion of the product and client base in 2006 with the Governors decision to increase lending without a sovereign guarantee; and (iii) reductions in transaction costs for clients and project approval and disbursement times.

2.9 **During IDB-8, the Bank has become the main source of multilateral concessional lending for the region's poorest countries, accounting for 55 percent of their outstanding multilateral loan balances.** Between 1994 and 2008, the Bank provided $6.6 billion of FSO lending to eligible countries, disbursing $6.7 billion.[7] This capacity was generated by the $l.0 billion in contributions to the FSO under IDB-8 and by repayments from previous lending. Beginning in 1997, the Bank participated in the Highly Indebted Poor Countries (HIPC) debt relief initiative for the five FSO borrowers. In 1999, the Bank had projected sharp reductions in already limited resources for FSO lending. In an historic decision, the regional borrowing countries agreed to the conversion over time of the equivalent of some $2.4 billion in their own local currencies held by the Bank, to be used to sustain the convertible currency concessional lending and technical cooperation program for the poorer countries and to help reduce the debt service burdens of the HIPC countries. In 2007, Governors approved debt relief under the Multilateral Debt Relief Initiative (MDRI), forgiving approximately $3.4 billion in principal payments and $1 billion in interest payments. This debt relief was done with no new contributions to the FSO, which further reduced its financial capacity.

2.10 **Additionally, IDB-8 opened a new window for direct lending to the private sector without a sovereign guarantee.** Initially, lending was targeted exclusively towards investments in infrastructure and public utility projects that provided services previously performed by the public sector. A limit of 5 percent of annual commitments was established. This was later raised to 5 percent of total outstanding loans, with a further increase to 10 percent in 2001. In 2006, Governors expanded the scope for lending without sovereign guarantees to include entities such as public-private partnerships and public and subnational entities, and also allowed the Bank to lend directly to financial institutions and companies active in all sectors, subject to a negative list. More than 22.5% of Bank lending to the private sector (SCF loans) went to Group C and D countries over the IDB-8 period.

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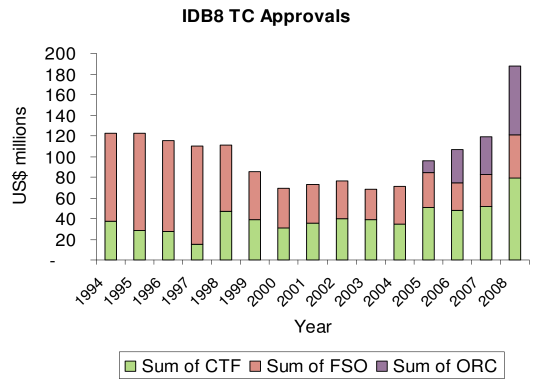
[7] Given the limited amount of resources available, eligibility for FSO resources in IDB-8 was restricted to the poorest, least developed countries in the region: Bolivia, Guyana, Haiti, Honduras, and Nicaragua.

2.11 **The Bank expanded its support of policy reform, institutional strengthening, and capacity building through a strengthened focus on Technical Cooperation (TC).** Non-reimbursable TC approvals have grown during IDB-8 from $117 million in 1994 to $186 million in 2008. During this same period, 40 percent of all TC resources were directed to the poorest countries in the region (Figure II-5).

Figure II – 5



2. IDB-8 Mandates

2.12 The main mandates from IDB-8 included lending targets for poverty reduction and social equity of 40 percent of the volume and 50 percent in number of operations. Initially, IDB-8 had an indicative goal of 35 percent of total lending that was to be directed to Group C and D countries, the smallest countries in the region. In 1998, Governors decided that since the purpose of this goal was to ensure that the Bank pays adequate attention to the poorest countries in the regions, it changed the parameter to one based on per capita income and the poorest countries in the region were defined as Group II[8].

2.13 **The Bank has fully complied with both targets for poverty reduction lending and support to poorest countries.** Between 1994 and 2008, the cumulative amount of sovereign guaranteed (SG) lending for poverty reduction and social equity projects and these types of components in other loans was $44 billion in 531 projects. This represents 50.4 percent of the total SG lending volume (excluding emergency lending) and 49.5 percent of the total number of operations. In turn, SG lending to Group II countries totaled $32.1 billion, 36.8 percent of total SG lending.

3. Evolution of the Organizational Structure

2.14 **The institutional accomplishments after IDB-8 are partly due to the ability of the Bank to adapt its organizational structure and innovate in its operational management procedures.** Two institution-wide reorganizations, in 1994 and 2007, have aimed to position the Bank to better respond to clients' demands. In 1994, the Bank was reorganized on a geographic region basis, creating three regional operational departments with full responsibility for the Bank's work with member countries—from programming to project design and implementation—, and it created a window to provide direct lending to the private sector. In 2007, in order to correct inefficiencies of the regional model, the realignment created a

[8] Per AB-1960, Group II countries were those with GNP per capita below $3,200 (in $ of 1997)

matrix structure to improve allocation of staff in client-facing departments and improve institutional efficiency.

2.15 **Since 1994, the Bank's administrative budget (gross expenditures) has remained steady in real terms, while operational volume has increased.** Between 1994 and 2008, the number of projects approved increased by 163 percent (from 48 to 126) and the number of projects in the portfolio increased by 96 percent (from 289 to 567). As the indicators in Table II-1 demonstrate, the Bank performs efficiently compared to other multilateral institutions. For example, the Bank's administrative gross budget's annual nominal growth rate is below that of comparator institutions. The ratios that show administrative expenses to headcount and number of projects approved show the IDB is below the average among comparator institutions. The ratios of loan disbursements to administrative expenses and headcount demonstrate the Bank's cost of disbursements is also below the average of comparator institutions.

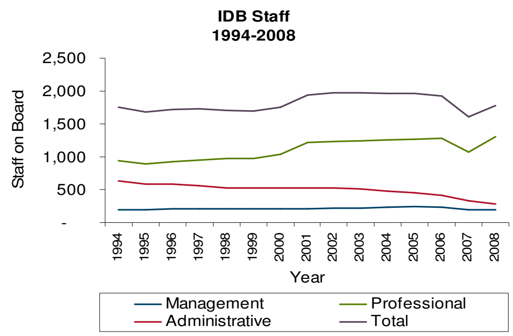
Table II – 1.[9] 2001–2007 Average Comparator Ratios[10]

Indicator	IDB	IBRD&IDA	AsDB
Annual Administrative Gross Budget Nominal Growth Rate	4.00%	6.10%	6.60%
Actual Administrative Gross Expenses per Project Approved	$4.7m	$7.7m	$3.4m
Actual Headcount per Project Approved	22	34	28
Annual Loan Disbursements / Actual Administrative Gross Expenses	$15.7m	$9.4m	$17.1m
Annual Loan Disbursements / Actual Headcount	$3.5m	$2.2m	$2.2m
Adjusted Administrative Gross Admin. Expenses as a Percentage of Operating Income [1/]	60.50%	58.50%	19.80%
Operating Income / Actual Headcount	$513K	$208K	$288K

[1/] In 2007, the IDB ratio was substantially impacted due to two factors: (a) a lower operating income and (b) a charge to the OC for $55 million for realignment costs.

2.16 **The number of IDB staff has remained relatively constant between 1994 and 2009**. The headcount was 1,758 in 1994 and is 1,772 in 2009, with a 38 percent increase in professional staff (from 934 in 1994 to 1,287 in 2009). As Figure II-6 indicates, headcount rose to 1,940 in 2001 following the conversion of long-term consultants, and has dropped twice: in 1995 (to 1,682) and in 2007 (to 1,606), following mutually agreed separation programs.

Figure II-6



[9] This table was adapted from GA-242-7.

[10] This information is based on data from S&P Supranationals Special Edition 2008. Confirmation of the data, policies, and practices of other institutions may only be provided by those institutions.

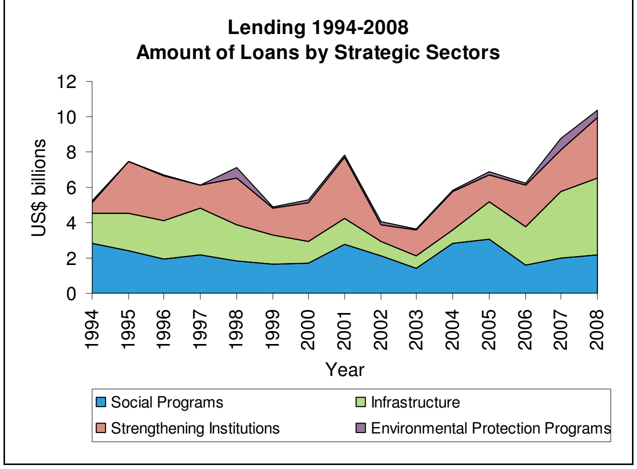
2.17 **During IDB-8, new non-regional members have joined the Bank.** Korea joined the Bank in 2005, becoming the second Asian member. In 2009, China became the 48th member country of the Bank.

C. Contribution to the Region since IDB-8

1. Contribution in Strategic Sectors[11]

2.18 **The evolution of Bank lending by sectors in the last 15 years has been characterized by the stability of support to social sector programs.** Additionally, there was significant growth in infrastructure and strengthening institutions (from $1.7 billion and $639 million in 1994 to $4.3 billion and $3.4 billion in 2008, respectively), as shown in Figure II-7. In terms of composition of total loan approvals, in 2008 over 75% of loans approved were either for infrastructure or strengthening institutions, while in 1994 these two sectors together represented under 45% of the portfolio. Additionally, environmental protection programs have increased from $82 million in 1994 to $394 million in 2008. In the following paragraphs, a review of lending by strategic sector is presented, along with sample outputs achieved during the period of IDB-8.

Figure II-7



2.19 ***Social Programs.* Lending focused on the most vulnerable segments of the population with the objective of enhancing human capital formation.** Financing reached $32.6 billion with $27.4 billion disbursed. Investments reached $5.6 billion in education and $2.7 billion in maternal and child health and nutrition. Conditional cash transfer programs totaled $6.15 b in 13 countries. Other social programs focused on slum improvements

Table II – 2

Social Programs	
Output Indicators	**1994-2008**
Education	
· Classrooms built or upgraded	71,099
· Teachers trained	931,151
· Students Benefited	22,048,326
Health & Social, Labor	
· Personnel Trained	4,091,815
· Number of facilities built or upgraded	297,633
· Individuals benefited	100,407,057
Urban Development	
· Houses built or improved	214,894
· Families benefitted	1,690,936

[11] In this section, all sample outputs have been derived from Project Completion Reports (PCRs) and Project Progress Monitoring Reports (PPMRs).

and actions to boost the productivity of small farmers and microenterprises. Additionally, $6.7 billion financed programs for urban development and housing at the national and subnational levels and the preservation of the sociocultural heritage of traditional communities and indigenous groups, among other programs. Policy-based lending reached $4.6 billion.

2.20 ***Infrastructure.* Financing for infrastructure increased access to public services by the poor and the competitiveness of businesses.** Lending totaled $30 billion, with disbursements of $25 billion. Lending included transport operations for $11.9 billion, energy investments of $7.9 billion, and water and sanitation programs for $6.2 billion. Additionally, support for agriculture and rural development amounted to $3.6 billion for rural community development, irrigation, land titling and registration, agricultural reactivation, and generation and dissemination of agricultural technology, among others sectors. Policy-based lending in these sectors to strengthen and improve the capacity and efficiency of countries to manage public services reached $1.3 billion.[12]

Table II – 3

Infrastructure	
Output Indicators	**1994-2008**
Agriculture	
· Land improved through irrigation/drainage (ha)	484,666
· Families benefitted	3,161,533
Energy	
· Transmission lines installed/upgraded (km)	6,442
· Distribution lines installed/upgraded (km)	1,807
· Households benefited	539,471
Transport	
· Roads built or upgraded (km)	732,372
Water and Sanitation	
· Households connected to water supply	4,232,437
· Households served with sanitation connection	2,272,201
· Water/Sewer systems built or upgraded	862

2.21 ***Strengthening institutions.* Operations contributed to improve fiscal balances, public management, and protection of rights.** Lending totaled $31.5 billion with disbursements of $26.2 billion. Development of capital markets accounted for $2.4 billion, and multisector credit and pre-investment programs, including SME financing, accounted for $7 billion. Financing for reform and modernization of the state reached $18.5 billion, and included support

Table II - 4

Strengthening institutions for growth	
Output Indicators	**1994-2008**
Finance	
· Credit lines	546,894
· Projects/operations benefitted	170,092
Institutional Capacity	
· Civil servants trained	1,466,093
· Information systems and improved processes	1,314

[12] 91 percent of PBL operations in transport, water and sanitation, energy, and agriculture were for Group II countries.

for public resource management, tax and customs administration, and judiciary reform, among other areas. Between 1994 and 2008, the Bank was particularly active in supporting decentralization, providing resources to hundreds of regional and local governments. Policy-based lending amounted to $14.4 billion, of which $13.1 billion was for reform and modernization of the state.

2.22 ***Environmental protection programs*. Operations in this area focused on improving environmental management**. Total lending was $2.6 billion, with $2.3 billion in disbursements. Investments included among other areas, improving the management of natural and water resources; natural disaster recovery programs; strengthening regulatory frameworks and institutions; increasing forest cover, biodiversity and energy efficiency; resettlements; and environmental education and training. Policy-based lending amounted to $400 million.

Table II - 5

Environmental Protection Programs	
Output Indicators	**1994-2008**
Environment	
· Protected land (ha)	90,651
· Hydric Regulation Works	1,847

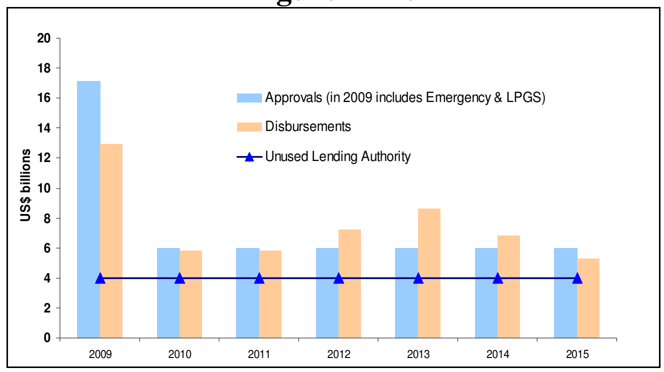
2. The Bank's Ability to Continue to Contribute to the Region

2.23 **Despite the general capital increase of 1994, the Bank has become smaller relative to the region's financing needs.** IDB lending displayed an upward trend beginning in the debt crisis of the early 1980s and until the emerging market financial crises of the late 1990s. This trend reversed from this point forward. The Bank's current disbursements relative to the average share of gross public and private capital formation for the period between 1983 and 2008 has fallen. The same is true for other indicators. Despite record lending levels in the last two years, IDB's disbursements in 2008 fell short of historical trends by $2 to 5 billion.

2.24 There is also a significant gap with respect to the five poorest countries of the region that depend upon resources from the FSO. When measured in *real terms* (2008 U.S. dollars), the annual average resources available for concessional lending decreased substantially between 1994 and 2008. The decrease is more marked after implementation of IDB-07 relief and, if no measures are taken, will continue until the FSO is depleted.

2.25 **The Bank's current capacity is not commensurate to the region's expected needs for the next decade**. The region's remaining development challenges and the lingering effects from the current economic crisis frame these needs. The Bank's capacity to respond to borrowers' demands in 2010 and beyond, illustrated in Figure II-8, is severely constrained. To maintain a sustainable lending level, the annual regular lending program will be limited to $6 billion, well below the demand projections presented in Section V of this document, and annual disbursements will be restricted to $5.8 billion.

Figure II – 8



III. LATIN AMERICA AND THE CARIBBEAN TOWARDS 2020: TACKLING THE CHALLENGES OF EQUAL OPPORTUNITY AND GLOBAL SUSTAINABILITY

3.1 In Resolution AG-6/09 on the Status of Bank Resources, the Board of Governors requested that Management develop a new institutional strategy to make effective use of additional resources, with an emphasis on support to safety net programs, poverty and inequality reduction, infrastructure investments, and climate change. In response to the Governors' request, this section describes the main challenges faced by the region, and discusses how the Bank's Strategic Priorities effectively address the four areas of support specifically requested by Governors.

A. Main Development Challenges

3.2 **Though constituted mostly by Middle Income Countries (MICs), the LAC region is one with substantial development gaps and dramatic inequalities.** On the whole, macroeconomic management in the region improved notably in the last decade. This improvement, together with unusually favorable international conditions in the 2002–2008 period, allowed faster economic growth in the region than in the seven richest countries in the world as well as the Asian MICs, excluding China and India. Nonetheless, over a longer perspective, growth in the LAC region has lagged behind growth in other emerging regions. In parallel, despite reduced inequalities over the last decade in some of the most unequal countries such as Brazil, Chile, Colombia, Mexico, and Venezuela, persisting inequities create bottlenecks for faster growth, greater social inclusion, and sustainable poverty reduction. The region's integration into the world economy is also uneven and its trade performance lackluster compared with that of developing countries in Asia and the Pacific.

3.3 **Two of the main development challenges for the LAC region are to foster equality of opportunities across a broad range of areas and to close the growth gap with the rest of the world while contributing to global environmental sustainability.** The region faces the immediate challenge of weathering the current global financial crisis to maintain its hard-won gains in macroeconomic stability. Beyond that, if the trends are sustained over the next 10 years, the LAC countries will reap the benefits of 20 years of macroeconomic discipline, continuing democratic rule, and consistent social policies. Demographics will also help as dependency ratios will be at a historical low until 2030—a phenomenon that the IDB singled out as a demographic window of opportunity due to its effects on overall productivity.[13]

1. Fostering Equality of Opportunities[14]

3.4 **The LAC region has large inequalities of opportunities within and between countries, despite notable improvements in access to basic services and key indicators.** Unequal opportunities translate into unequal outcomes across a broad range of measures of social welfare. Democracy has given increased voice to segments of the population that historically have been excluded from the benefits of development. Yet, the LAC region remains one of the most unequal regions of the world. This is true for a range of monetary and many nonmonetary indicators from education, health, and access to basic infrastructure—such as potable water and sanitation—, to financial and judicial services and key determinants of people's own self-worth and standard of living, such as having good jobs. Differences in race, ethnicity, and gender are still important determinants of unequal access to opportunities.

3.5 **Equality of opportunities is critical for growth and sustainable poverty reduction.** Growing empirical evidence shows that inequality of opportunities across a broad range of areas hampers economic and social growth. Among other barriers, high levels of inequality in access to good jobs, credit and capital markets, and institutions in charge of enforcing the rule of law, among others, leads to forgone economic opportunities for some with high economic potential. Such inequalities also lead to inefficient production and investment choices by firms and households who have entrenched economic positions, displayed rent-seeking behaviors and exercised undue influence on key institutions. Unequal access to education, health services, justice and housing, among others, reproduces structural conditions that are determinants of social exclusion.

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[13] IDB. 2000. *Development beyond Economics.* Economic and Social Progress in Latin America: 2000 Report. Washington, DC: IDB.

[14] Data for this section comes from: (i) *The 2008 UNDP report on MDGs* (http://www.undp.org/mdg/basics_ontrack.shtml); (ii) *Global Monitoring Report 2008: MDGs and the Environment,* The World Bank (2008); (iii) Socio-Economic Database for Latin America and the Caribbean (SEDLAC); and (iv) IDB staff's own calculations.

3.6 **Fostering equality of opportunities requires, among other actions, accelerated progress in meeting the Millennium Development Goals (MDGs).** Table III-1 shows that, for the region as a whole, progress has been positive but uneven among various indicators, and between and within countries (e.g., the rural/urban divide). Clearly, progress ought to be assessed vis-à-vis the goal: for example, Argentina's small progress towards primary education completion is explained by its almost universal coverage to begin with, as is Chile's null progress in increasing access to safe drinking water in urban areas. That said, if progress towards completion of MDG's had been linear on a year-to-year basis between 1990 and 2007, the overall completion rate should have reached 68 percent across all indicators. Table III-1 shows that in many cases this is not the case.[15]

Table III-1. Latin America and the Caribbean: Progress towards Meeting the MDGs

LATIN AMERICA AND THE CARIBBEAN: PROGRESS TOWARDS MEETING THE MDGs

	Halve between 1990 and 2015, the proportion of those whose income is less than $1/day	Halve between 1990 and 2015, the proportion of those who suffer from hunger	Ensure that by 2015 children everywhere (girls and boys) complete primary schooling	Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	Halve between 1990 and 2015, the proportion of those w/o access to safe drinking water	Halve between 1990 and 2015, the proportion of those w/o access to safe drinking water, urban	Halve between 1990 and 2015, the proportion of those w/o access to safe drinking water, rural
Argentina	24%	-23%	1%	**69%**	**67%**	**67%**	**57%**
Bolivia	42%	36%	66%	**68%**	**100%**	**111%**	**78%**
Brazil	127%	67%	59%	**76%**	**94%**	**114%**	**13%**
Chile	150%	100%	63%	**79%**	**100%**	**0%**	**90%**
Colombia	45%	35%	38%	**75%**	**25%**	**100%**	**-9%**
Costa Rica	92%	67%	50%	**61%**			
Dominican Republic		0%	41%	**79%**	**138%**		**147%**
Ecuador	78%	75%	29%	**89%**	**163%**	**178%**	**154%**
El Salvador	63%	17%	23%	**81%**	**103%**	**108%**	**77%**
Guatemala	61%	-88%	13%	**80%**	**162%**	**182%**	**157%**
Haití		55%		**68%**	**42%**	**50%**	**31%**
Honduras	50%	9%	23%	**55%**	**0%**	**75%**	**-48%**
Mexico	107%	0%	54%	**81%**	**144%**	**164%**	**117%**
Nicaragua	76%	20%	11%	**97%**	**60%**	**-22%**	**63%**
Panama	-9%	-38%	53%	**48%**	**40%**		**19%**
Paraguay	19%	33%	51%	**47%**	**79%**	**137%**	**29%**
Peru	90%	143%	42%	**97%**	**77%**	**55%**	**75%**
Uruguay	18%	114%	6%	**53%**			
Venezuela (Bolivarian Rep. of)		-127%	27%	**31%**			

Source: ECLAC, Panorama Social 2008

3.7 **Progress towards the MDGs in poverty reduction will be achieved only by tackling disparities in labor opportunities, which stand behind large differences in earnings and productivity.** Extreme poverty in the region fell from 22.5 percent in 1990 to an estimated 12.9 percent in 2008. Nonetheless, several LAC countries could be unable to meet the MDG target of reducing by half the percentage of population living in extreme poverty by 2015. In 2007, 190 million people still lived in poverty in the LAC region, of which more than 65 million were living in extreme poverty. The reduction in extreme poverty is partly a result of improved macroeconomic stability, increased remittances in some cases, and a new generation of targeted programs that are more effective in reaching the poor. However, *sustained poverty reduction* cannot be achieved by these programs alone; rather raising the productivity of poor workers is indispensable.

[15] Annex 2 provides a more detailed account of progress towards the MDGs in education, health, and water and sanitation.

3.8 **Unequal access to high productivity jobs is a major barrier that needs to be overcome**. Labor market and social security institutions in the LAC region tend to protect formal sector workers at the expense of informal workers. More than half of the employed LAC population work in the informal sector in insecure, unstable, and low productivity jobs with no social security coverage or training opportunities. In turn, poor workers account for a disproportionate share of informal employment. Despite macroeconomic stability, on the whole the region has been unable to break the vicious circle of informality, low productivity, and poverty. GDP per worker grew only 0.6 percent on average between 1992 and 2006. Faster growth in labor productivity is essential for sustained increases in workers' real wages and earnings. This growth process cannot be substituted by increasing transfers through a growing set of increasingly disjointed ad-hoc social programs.

3.9 **Better formal firms are needed to create better formal jobs with social security coverage.** In the LAC region, informality in employment is mirrored by informality of firms. In many countries in the region there are many firms that are very small and fail to comply with tax and social security regulations, and may only exist because of this. There are millions of informal jobs because there are millions of informal firms, characterized by little access to credit, precarious conditions and high failure rates, and few investments in labor training and technology adoption. Many of these informal firms are not registered and at times not even captured in the economic statistics. But the data of those firms that are captured show reasons for concern. Over two-thirds of employment in the LAC region and 40 percent of GDP is generated by small and medium enterprises (SMEs). Yet, 46 percent of small and 41 percent of medium enterprises in the region report that limited access to credit represents a significant obstacle for their growth (compared to 19 percent and 13 percent, respectively, in OECD countries). Combating informality is critical to reach poverty reduction goals and indispensable for greater social cohesion. Moreover, because informality is a source of low productivity, combating it is also a priority on the region's growth agenda.

2. Closing the Growth Gap in the LAC Region while Contributing to Global Environmental Sustainability

3.10 **The LAC region must increase growth while remaining committed to confront, arguably, the largest challenge faced by humanity in this century: achieving global environmental sustainability and dealing with climate change.** The challenges here are vast because the processes that modify the world's climate and degrade its natural environment are characterized by uncertainties and large externalities, often extending their effects beyond national borders. To be effective, in many cases interventions need to be implemented at the regional or even global level, which requires closer policy coordination and cooperation between countries than has been experienced in the past. Another challenge is the incomplete understanding of the underlying physical processes and their relationship to economic behavior. Developing the right mix of regulations and market incentives to save on energy and diversify its sources is also work in progress, as is the development of the institutions required to sustain efficient markets for trading in pollution permits. Understanding the implications of changes in global climate is central for the many countries that are strongly exposed to natural disasters, such as floods, droughts, and hurricanes.

3.11 **With 15.5 percent of the world's land area and 8.5 percent of its population, the LAC region has an important role to play in the safeguard of the environment. The region emits 12 percent of global greenhouse gases, which is substantially less than other emerging economies.** Yet, the effects of global warming in the region are evident, including the recent disappearance of an 18,000-year-old glacier in Bolivia and changing weather patterns that are affecting the region's agriculture.

3.12 **Progress in environmental sustainability, as measured by the relevant MDG indicators, has been mixed**. The LAC region has increased the percentage of terrestrial and marine protected areas from 7.3 percent in 1990 to 18.8 percent in 2005, placing it ahead of the rest of the world. However, the rate of annual deforestation (in terms of thousands of square kilometers) is still the highest in the world. CO_2 emissions increased by 40 percent from 1990 to 2005, and while this is below the average for developing regions (which doubled emissions over the same period), the region's continued industrialization reinforces the challenge of reducing emissions to achieve environmental sustainability.

B. Alignment between IDB's Institutional Priorities and the Region's Main Development Challenges

3.13 **IDB's proposed institutional priorities are well aligned with the region's main development challenges**. The five institutional priorities proposed below address the two broad development challenges described above and, more particularly, deal with the four specific requests made by Governors in Resolution AG-6/09.[16]

3.14 **Within the five priorities, there are specific themes that have a strategic value for the region, and therefore for the IDB, over the next decade.** They include areas of ongoing involvement where there are still unexploited opportunities or unmet needs and new areas linked to the region's evolving development, or where the Bank should deepen its incursion in response to Governors' mandates. These are areas in which substantial IDB involvement over the next 10 years may make substantive contributions to growth and equity through either public or private operations. They are also areas in which the IDB has developed or may easily build a comparative advantage on the basis of prior experience, good practice, innovation, and ongoing investments in the

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[16] These institutional priorities are based on the proposal to update the strategic framework that guides Bank's operations New Operational Framework, GN-2494.

development of policy-oriented knowledge. These areas are preliminary listed below under each of the five priorities.

1. Social Policy for Equity and Productivity

3.15 **In order to achieve sustainable poverty and inequality reduction, LAC countries need a new generation of social programs that foster equality of opportunities for everyone regardless of labor status, race, ethnicity, or gender.** The focus needs to be placed on increasing the quality and relevance of education, improving health outcomes, protecting households against risks, and redistributing income effectively while, at the same time, fostering increases in labor productivity. The region needs social programs to enhance labor market performance, as judged by their capacity to create jobs with higher wages and social security coverage. Areas of Bank’s strategic engagement with the region include:

a. **Building well-articulated safety nets.** In the last decade, many countries in the region have developed targeted poverty alleviation programs, which have a proven record of reducing income poverty and contributing to improve basic health and educational indicators. Many of these programs have been implemented with technical and financial support from the Bank, and the accumulated expertise provides a unique platform for the Bank to continue work in the future, expanding coverage of programs where they are lacking or improving their functioning in countries that have them. However, a distinction is needed between programs focused on transferring income to poor households while investing in their human capital, and programs to protect them against risks such as death, loss of employment, health problems, permanent disability, or absence of income after retirement. Social security programs traditionally provide protection against those risks, but their coverage in most LAC countries is associated with having a formal job. Thus, the absence of social security coverage for poor workers (or, alternatively, the prevalence of informal employment among poor workers) is a major obstacle for improved social protection of poor households. In turn, it should be stressed that such protection should not be provided with programs that try to substitute social security, because that may lock poor workers permanently out of a formal job and into low productivity informal activities. Thus, there are major conceptual and operational challenges in designing targeted poverty programs that are well coordinated with other social programs, particularly social security. Given its knowledge of and engagement with the social sector, and its expanding involvement in the area of labor markets as described below, the Bank is in a very strong position to support countries facing these challenges.

BOX 3.1
LATIN AMERICA AND THE CARIBBEAN'S CONDITIONAL CASH TRANSFER WAVE: CONCRETE RESULTS IN REDUCING POVERTY AND INEQUALITY

Twelve years ago, an innovative anti-poverty program began in Mexico, proposing that in order to close the gap in human capital accumulation of the very poorest, demand for health, nutrition and education services had to be promoted through incentives accruing directly to households; while at the same time redistributing income in the most cost-effective manner possible. The proposal was counter-intuitive to prevailing social policy in many ways: providing cash instead of food or food vouchers; working on the demand side instead on the supply of services; letting families optimize the consumption of resources; and conditioning on very few but critical behavioral changes. All these were fairly untested notions of social policy at that time. Only Brazil had been implementing targeted educational subsidies conditioned on attendance. While these state-run programs were at the forefront of innovation, program results have not been systematically documented.

Twelve years ago, Jose Gomez de Leon Cruces (PROGRESA's first program director) was explaining the logic of the program and the need to design the most rigorous evaluation possible to a conference room at the IDB full of academics and policy makers. This first meeting was coordinated and sponsored by the Poverty Unit of the Bank. Since that day, the Bank has been a relentless partner of what has been recently called "the Conditional Cash Transfers (CCTs) Wave". That meeting sparked two new programs and two new rigorous evaluations: in Honduras and Nicaragua. Both programs financed by the Bank within two years of the launching of PROGRESA in Mexico. Colombia followed shortly. Today, sixteen LAC countries have implemented some variation of a CCT program, and the Bank has played some advisory role, even in the absence of financing, to most of them. IDB has been a source of knowledge generation and knowledge transfer, both operationally and in the evaluation of those programs to this day.

CCTs evaluations have generated evidence-based results along the multiple dimensions that the programs target. CCTs have proven, time and again, to reduce short-term poverty and contribute to important reductions in overall inequality (particularly for programs with greater coverage like Brazil's Bolsa Familia or Mexico's Oportunidades). They increase the use of education and health services, improve the nutritional status of at-risk poor children and boost school progression, among other outcomes. They have also exerted a positive influence on the public sector reform agenda, by promoting the replacement of poorly targeted and ineffective income support mechanisms, by helping strengthen a results culture in the public sector, and by increasing the accountability of education and health service providers, among others. In the future, the challenge is going to be the articulation of these programs with other social programs, particularly social security.

b. **Improving the functioning of labor markets for higher productivity and increased coverage of social security.** For more than two decades, the LAC region's labor productivity growth has lagged far behind that observed in other emerging economies. Moreover, informality has increased and social security and pension coverage has stagnated. The combination of poorly designed social and economic policies has prevented the upgrading of productivity in small and medium size firms, which employ a large and growing share of the workers in the region. Additionally, it has discouraged the shift of workers from low productivity informal jobs without social security coverage to high productivity formal jobs with such coverage. This trend has been particularly harmful for poor workers. Over the medium term, the IDB aims to strengthen its position as a key partner for the region on labor market issues. The Bank has focused on an agenda encompassing training, labor intermediation and information services, and temporary employment programs. It is important to pursue this agenda given the large gaps in labor productivity. At the same time, to better understand the impact of these systems on firms' decisions to invest in labor training and other measures to increase productivity and on the workers' incentives to move out of informal work market, the Bank should pursue an agenda focused on the design and financing of social insurance systems (social security, pensions, unemployment insurance, and health insurance). The Bank will work across the region to improve the functioning of labor markets as part of its agenda to increase both productivity and the share of formal employment in total employment and to reduce the existing gap in social security coverage between LAC and OECD countries.

c. **Raising the quality and equity of education.** Despite broad gains in enrollment over the past decade, gaps in coverage persist in LAC countries in preschool and secondary education compared to countries with similar levels of income, while quality is a serious challenge across the board. An estimated 57 percent of children between the ages of three and five are enrolled in preschool in the region versus 75 percent for the OECD; at the secondary level, an estimated 48 percent of the cohort aged 15 to 19 has finished ninth grade in LAC countries vis-à-vis 98 percent in OECD countries. The results of standardized international tests (e.g., PISA) show that LAC students perform well below what would be expected given the income level of their respective countries. For example, the average LAC student scored 394 points on the 2006 PISA science test, while according to income level the score should be around 465. The Bank has traditionally been involved in extending coverage and this work needs to continue in preschool and secondary education in the years ahead. In parallel, the Bank is developing strong expertise to help countries to increase the quality of education, focusing on early childhood development and improving the quality of teachers.

d. **Promoting equity in health outcomes**. Progress in health and nutrition over the last decade has been uneven, a result partially related to low levels of inputs. Compared with OECD countries, health systems in LAC countries rely heavily on out-of-pocket financing, exposing households to the risk of impoverishment if a member falls ill. Unsurprisingly, less educated groups, ethnic minorities, and rural populations suffer relatively more from limited access to health care. As a result of its participation in health reforms in various countries, and its involvement in many targeted poverty and nutrition programs, the Bank has developed a strong expertise on issues of primary health care. Given the high rates of under nutrition and lags in basic health indicators in some LAC countries, the Bank needs to work with governments and other actors to spur progress towards health MDGs. By 2020, under-five mortality rate and maternal mortality ratio should be reduced, respectively, below 8.3 deaths per 1000 live births and 86 deaths per 100,000 live births; by the same date, prevalence of underweight children less than five years of age should be reduced below 3.5 percent. On the other hand, the epidemiological transition from infectious to non-communicable diseases poses new challenges to the whole region; these more complex pathologies create new budgetary and operational demands. The Bank is investing in the design of new operations to promote preventive health protocols in the region's public health systems and is reinforcing its partnership with regional and global actors with expertise in the control of specific diseases. These are new areas of Bank involvement, where its knowledge of the region's health systems provides a strong comparative advantage for future operations.

e. **Tackling cross-cutting gender and diversity issues.** The inequality gaps in the LAC region translate into unequal gains on gender indicators such as MDG3. While health outcomes such as maternal mortality have improved dramatically, disparities persist. Women living in rural areas, particularly those of African or indigenous descent, are not making as many gains as urban women. Additionally, gender and ethnic inequities prevail in labor market outcomes even when members of minority groups reach higher levels of education. Based on these disparities, the Bank should focus its support on specific areas, such as indigenous people's rights and representation; indigenous women's health, education, and labor market outcomes—creating an enabling environment to improve females' labor outcomes and productivity—; and strengthening of legal frameworks. As part of the Bank's work on labor markets, special attention is being paid to the conditions that limit better outcomes for women and to the measures that can improve them, such as developing large-scale day care centers or promoting changes to labor and social security regulations that may inadvertently discriminate against women (as is the case, for instance, with domestic workers).

2. Infrastructure for Competitiveness and Social Welfare

3.16 **The region needs to step up investments in productive infrastructure to close the gap with other regions of the world.** Transportation is critical, given the large positive externalities associated with low transport costs, as well as the importance of dense transportation networks for balanced regional development and to break the geographical isolation of entire communities. Access to sustainable sources of energy and low cost telecommunications contributes to raise labor and capital productivity and also has direct effect on households' welfare. Only competitive firms can create and sustain jobs with higher labor productivity, but these firms need basic infrastructure to enhance their competitiveness in a globalized world. Investment in infrastructure is also critical to raise households' welfare along critical dimensions, such as access to water and sanitation. The Bank's strategic engagement with the region includes the following areas:

a. **Access to water and sanitation for all**. Some 49 million people do not have access to improved drinking water in the LAC region, while 72 million people still lack piped in-site water services. At the same time, 124 million lack improved sanitation facilities and in urban areas, 79 million do not have access to sewerage service. Less than 15 percent of wastewater receives some type of treatment before being discharged, contributing to high pollution levels in water bodies. The region falls short from universal coverage in potable water by 172 million people and in sanitation services by 239 million people, most of which are in the most vulnerable segments of the population. Improving water and sanitation services has been an important part of IDB work in the region since 1961. Most of its financing has gone into funding infrastructure for potable water production and distribution and wastewater collection and disposal. Significant support has also been given to sector institutions, particularly water operators and regulatory entities. The Bank can support countries to further narrow the gap towards universal coverage by 2020.

BOX 3.2
THE WATER AND SANITATION INITIATIVE:
UNIVERSAL ACCESS FOR THE REGION

In 2007, the Bank launched the Water and Sanitation Initiative (Initiative), as a response to the challenges facing the Region in the sector. The Initiative's goal is to help Latin American and Caribbean countries achieve universal access to these services. It is carried out by the Water and Sanitation Division, and implemented through four (4) programs, which are part of a medium-term action plan (2007-2011). The **100 Cities Program** aims to extend coverage and improve service quality to cities. The program has already reached 95 cities. The **3,000 Rural Communities Program's** objective is to address the needs of rural communities through the empowerment of community-based organizations. The program has reached 839 rural communities to date. **Water Defenders** provides funding for the protection of water sources, water decontamination, and wastewater treatment. Funding has been approved for 19 priority micro-watersheds. The **Efficient and Transparent Utilities** supports improvements in performance and transparency of water companies in the Region. The program has supported 60 utility companies throughout the Region.

To achieve its goals, the Initiative also contemplates support through both **financial and non financial instruments**. These include: (i) **Spanish Water and Sanitation Cooperation Fund,** to which the Spanish Government has contributed US$400 million for grants to countries in the Region; (ii) **Aquafund,** a fast-disbursing fund for technical assistance and project preparation, which has provided more than US$2.5 million in non reimbursable financing; (iii) **Water Operator's Partnership**, a cooperation with UN-Habitat aimed at promoting partnerships among water operators throughout the region (six partnerships have already been established and several training programs have been developed); (iv) **Strategic Sector Plans**, which define the Bank's intervention in the sector (12 sector plans have been completed; 11 are in preparation, and 3 more are being launched this year); and (v) **Energy Efficiency Program,** developed in partnership with SECCI, with the objective of reducing the energy consumption of water operators.

Since the launching of the Initiative, approvals in the sector have surpassed $2.3 billion, meaning that the Bank has allocated 1.5 times more resources to the sector than in the previous seven years in water and sanitation, thus becoming the main source of financing for the Region in the sector. Between 2009 and 2011, approvals of at least $1 billion per year are expected.

b. **Stepping up investment in basic and productive infrastructure.** In the last 15 years, the region has made progress in indicators of access to basic and productive infrastructure. Nonetheless, gaps in the availability and quality of roads, electricity networks, and related infrastructure are large; the annual investment needed to close such gaps amounts to $114 billion, or 2.8 percent of the region's GDP. The Bank's presence in these sectors has been strong in the past and will remain so in the future. Based on comparative advantages acquired over many years, the Bank is continuing its work in these areas, while playing an increasingly important role in new areas such as supporting renewable energy projects and providing environmentally sustainable transport alternatives in congested cities.

3. Institutions for Growth and Social Welfare

3.17 **Strong and effective institutions are determining factors of a country's development**. There is ample evidence that countries that have benefited more from economic reforms are those that have advanced the most in implementing successful institutional reforms. Successful decentralization in the delivery of social services, for example, requires the existence of subnational institutions that operate under a framework of transparency and accountability. Another example is credit; strong private sector institutions and effective regulatory capabilities are indispensable for the development of credit markets, in particular, and financial markets, in general. Yet another example is the critical role that well-functioning institutions responsible for citizens' security play for social welfare. Areas of strategic engagement of the Bank with the region include:

a. **Expanding access to financial services.** Access to formal credit by micro, small, and medium enterprises is a major driver for job creation and economic growth. Even though over two-thirds of employment in the LAC region is generated by SMEs, diseconomies of scale and other factors make it challenging for them to expand successfully. Besides sharing similar structural challenges with more developed parts of the world, SMEs in the region face shallow financial markets, difficult and costly formalization procedures, very limited risk protection, and insufficient technological and logistical resources to access markets. Regarding financing, empirical data indicate that small-sized enterprises in the region, for example, obtain around 18 percent of their investment funding from formal financial institutions, compared to around 31 percent in OECD countries; in the case of medium-sized enterprises, the numbers are 22 percent and 35 percent respectively. The Bank has played a key role in funding SMEs during the last fifteen years and can further contribute to reduce the financing gap over the next decade. In the period between 1994 and 2008, the Bank catalyzed over $30 billion in SME lending through second-tier vehicles, facilitating access to finance for more than 238,000 SMEs and approximately 480,000 microenterprises. The Bank's role as the principal provider of term funding and technical knowledge and expertise may become increasingly important given the potential structural effects of the current financial crisis in financial flows to the region. The Bank's support to clients' efforts to mitigate SME financing constraints on productive investment, in particular by mobilizing local resources, will become increasingly central in the post-crisis future.

b. **Fiscal efficiency and sustainability.** Sustainable and responsive fiscal policy is an essential part of the foundation for equity and growth. Fiscal policy is responsive when decisions on revenues and expenditures reflect citizens' priorities. Decentralized government, enabling local governments to raise their own revenues and determine expenditures, is a powerful tool for responsive fiscal policy. The region's share of overall public expenditure at the subnational level is about 19 percent (10 percent of GDP), still significantly below the 30 percent (20 percent of GDP) in the OECD. Bridging these gaps will require a partnership with multilateral institutions. The IDB has already positioned itself as a trusted partner in these areas by creating a strong institutional knowledge base, articulating a variety of programs and tools, and developing a solid and long-lasting partnership with both national and subnational authorities. It is expected that decentralization will continue to be an important area of Bank work in the future. Maintaining low deficits and low levels of debt are part of the conditions necessary for macroeconomic stability, which in turn is necessary for sustainable growth. Despite improved economic management, the LAC region still faces challenges toward fiscal sustainability. To maintain the region's level of public debt at no more than 40 percent of GDP, the structural fiscal deficit would have to be reduced by 4 percent of GDP over the next five to six years; this would require an increase in fiscal revenues of around 3 percent of GDP. Given its experience on fiscal and social policies, the IDB is well posed to help LAC governments carry out reforms to strengthen their fiscal stance while at the same time insuring that fiscal changes are compatible with increased equity.

BOX 3.3
IDB'S SUPPORT TO SUBNATIONAL AND LOCAL GOVERNMENTS

Until the late 1990's, the Bank channeled support to subnational and local governments (SLGs) indirectly through operations with central governments. Though largely successful, these operations were not always in tune with the SLGs expectations and were often affected by lack of alignment between SLGs and the central governments' priorities. Since then, the Bank has been opening new avenues for providing direct support to SLGs, initially with sovereign guarantee only and without a specific strategic framework. In 200, the Bank presented its Sub-national Development Strategy, followed more recently with the establishment of a non-sovereign guaranteed window to which SLGs are eligible to apply.

Over the last ten years, the Bank has developed a strong track record in terms of supporting decentralization processes and strengthening SLGs. In terms of support to fiscal decentralization and SLG infrastructure, the Bank has reached over 150 SLGs either directly or through operations coordinated by central governments, for a total of close to $5.3 billion since 1996. These efforts have generated important new methodologies and lessons learned, including: (i) opening spaces with central governments for substantive policy dialogue regarding SLGs; (ii) operational products that ensure both flexibility and quality, under robust monitoring and evaluation frameworks; (iii) efficient and client-oriented project cycles led by teams in the field; (iv) specific diagnostic instruments and technical tools for SLGs; and (v) synergies with non-lending instruments that operate at the SLG level, such as PRODEV.

Looking forward, the Bank's capacity to mobilize resources to SLGs and provide high value operational and technical products will continue generating high levels of demand from central governments who are increasingly aware of the importance of SLGs for overall stability, growth, and service provision, as well as directly from the SLGs themselves

c. **Improving citizens' security with effective institutions and civil society involvement.** Violence is a serious development issue in the region that hinders growth and disproportionately affects the poor. Fear of crime raises economic costs, degrades peaceable coexistence in a democratic society, inhibits new investment, raises the cost of doing business, saps funding from other public policy priorities, and erodes trust in institutions, especially those responsible for the rights and obligations of individuals. The homicide rate in the LAC region is the highest in the world: 27.5 per 100,000 inhabitants per year, compared to 1.9 in OECD countries. Studies show that violence is highly correlated with inequality; based on averages, almost all LAC countries are both more unequal and more violent than OECD countries. The multifaceted nature of violence and its complex causal relationships may have deterred other multilateral institutions from supporting projects in this area, but the IDB has not been deterred. The Bank supports projects to increase citizens' security in the region under a broad vision, including a focus on social rehabilitation, modernization of criminal justice, prevention of school violence and violence against women, and prevention of organized crime and money laundering, among others areas. The Bank's comprehensive perspective is unique among MDBs and its portfolio represents 72 percent of the total resources that MDBs have invested in the region to improve citizens' security. Some current challenges for the region are to reduce its homicide and victimization rates and to improve the citizens' perceptions of insecurity on the streets. Given its already acquired comparative advantages in this area, the Bank can play an important role in bridging these gaps and can significantly expand its operations in citizen security.

BOX 3.4
THE ECONOMIC AND SOCIAL COSTS OF VIOLENCE:
MAINSTREAMING CONTROL OF DOMESTIC VIOLENCE IN THE REGION'S AGENDA

The Bank was one of the first multilateral development banks that began working on issues of social (or street) violence to raise the awareness of policymakers and the general public about the high social and economic costs of violence and the need to address the problem. As part of this work, the Bank has made research contributions that highlight the economic and social costs of domestic violence and the links between this form of violence and social violence. The Bank used these studies, through its technical cooperation and lending vehicles, to mainstream the concern with domestic violence in its own agenda and the agenda of governments and civil society in the region.

To highlight the institutional commitment to addressing domestic violence, the Bank declared the issue as one of its "flagships". The Bank's research agenda aimed to demonstrate the magnitude of the problem, the prevalence of violence against women in LAC and what the Bank should do to curb this type of violence. The Bank also established an External Advisory Council on Women in Development. In 1997, in collaboration with other multilateral organizations, the Bank organized a regional conference on domestic violence that included 400 invited participants and reached an audience of more than 20 million in the United States and Mexico. This conference reinforced the potentially significant use of the media and social communication to help address some of the pressing social issues that have concerned the Region for several years. The Bank published in 1999 the book *Too Close to Home: Domestic Violence in the Americas* (Morrison and Biehl, eds), the first such publication by an MDB.

Lending operations in the area of justice and legal reform began to include activities for the control of domestic and social violence and activities to legislate on the issue. The first two "stand-alone" antiviolence operations (in Colombia and Uruguay) were approved in 1998 and one more for Jamaica in 2001. The three of them integrated domestic violence activities as actions that seek to increase citizen security. During the period of 2002-2005, a total of 5 loans totaling $128.1 million and 18 technical cooperations for $2.9 million in the area of citizen security/violence prevention, were approved by the Bank.

4. Competitive Regional and Global International Integration

3.18 **Since the late 1980s and early 1990s, the LAC region has begun to pursue an aggressive multipolar economic integration strategy.** As of 1985, the region's measure of economic openness has increased from 28.8 to 47.9 percent (as given by the ratio (exports + imports)/GDP), while intraregional trade as a percentage of total trade (a measure of regional integration) rose from 10 to 17 percent. Over the past two decades, most countries in the region have signed and implemented multilateral and regional trade agreements; others have pursued unilateral commercial liberalization. Despite considerable progress, trade performance in LAC countries is still lackluster compared with OECD and developing countries in Asia. In 2007, 14 out of 21 LAC countries fell below the Asian average inter-regional trade as a percentage of total trade and the same number of countries also scored below the OECD average level of economic openness, while at the same time exhibiting a wide dispersion ranging from 22 to over 150 percent. Investment in areas such as the administration and potential harmonization of rules of origin, customs procedures, sanitary and technical standards, and upgrading trade-related institutions is needed to take full advantage of the benefits of market openings. In the past, the Bank has participated in relevant initiatives such as FTAA, ARCO, and various bilateral FTAs, providing financing and advice, and is expected to continue this work given the unfinished status on many of these reforms.

3.19 **The Bank should expand this traditional agenda to include new issues associated with trade in services, such as technical know-how and financial flows, and it should design convergence mechanisms among existing bilateral and regional trade investment agreements.** As integration extends to goods and services not previously traded, and from trade flows to capital and labor flows, there are further gains to be exploited. Moreover, the Bank should provide novel forms of financing for regional infrastructure projects as well as for the adoption of regional standards.

5. Protecting the Environment and Responding to Climate Change

3.20 **The IDB has the largest lending portfolio of development banks in the region, and thus should have a strong presence in the areas of environmental protection, sustainable energy, and climate change. The Bank should help countries to understand these phenomena and design the right policies to deal with them, as well as enhance the countries' institutional capabilities to implement the policies.** In order to do so, the IDB has been strengthening its expertise and expanding its capabilities in this sector. The Bank has launched and is expanding its Sustainable Energy and Climate Change Initiative (SECCI) (GN-2435-1). As part of a response to a truly global challenge, the Bank is also establishing new coordinating mechanisms with other multilateral agencies to tap ideas and finance sources for projects in energy efficiency and environmental protection.

3.21 **Local interventions to protect vulnerable populations from drastic deteriorations in their welfare will be fundamental from now until 2020**. To achieve a 15 percent reduction in carbon emissions from a 1990 baseline scenario, the region should further develop the adequate institutional and regulatory frameworks to allow investments in sustainable transport, alternative fuels, renewable energy, and energy efficiency. In addition, the region needs to adapt to climate change impacts in priority sectors such as water supply, agriculture, and energy. Through SECCI, the IDB is stepping up its support to countries to reduce their carbon footprints and to carry out local remedial interventions. This initiative applies a multisector approach to encourage LAC countries to shift development patterns towards a low-carbon economy, while adapting to the new realities of climate trends. Its core objectives are to expand the development and use of renewable energy sources, improve energy efficiency technologies and practices, and increase carbon finance in the region, as well as to promote and finance strategies that reduce the regions' vulnerability to climate change.

3.22 **Through the five institutional priorities mentioned earlier, the Bank can help the region address its main development challenges in the future and comply with the request expressed by Governors in their resolution of March 2009**.

This can be accomplished through a combination of on-going IDB programs and the development of new areas, as summarized in Table III-2.

Table III-2. Main Areas of IDB Involvement in the Region

Sector Priorities	On-going Involvement	Development Areas
1. Social policy for equity and productivity		
Safety nets for the poor	Expansion and improvement of conditional cash transfer programs; temporary employment programs	Incentive-compatible design of social safety nets; articulation with labor markets
Labor markets	Training, labor intermediation services	Design and financing of social insurance systems; expansion of social security to informal workers
Education	Expansion of coverage in preschool and secondary levels	Early childhood development; school to work transition; improving quality across the board
Health	Expansion of access to basic health and nutrition services	Preventive health protocols; tackling epidemiological transition
Gender and diversity	Expansion of basic services and social safety nets to Afro-descendents and indigenous communities	Labor market outcomes for women; narrowing gaps in indigenous women's education and health outcomes; strengthening the legal framework against discrimination
2. Infrastructure for competitiveness and social welfare		
Basic services	Infrastructure investment to expand access to water and sanitation	Governance and efficiency of the water and sanitation sector; waste management
Productive infrastructure	Expansion of transport and energy infrastructure	Sustainable transport alternatives in urban areas; energy efficiency
3. Institution for growth and social welfare		
Financial services	Strengthening SME lending through second-tier vehicles	Institutions and policy reforms for improved credit markets
Fiscal efficiency and sustainability	Institutional strengthening at national and sub-national levels; continued support to decentralization agenda	Tax policies and administration; public expenditure management
Citizens' security	Social rehabilitation; modernization of criminal justice	Multidimensional interventions in citizen's security; anticorruption and anti-money laundering initiatives
4. Competitive regional and global international integration		
Trade and Integration	Negotiation and implementation of trade agreements; trade facilitation and customs procedures; administration and harmonization of trade regulations (rules of origin, Sanitary and Phytosanitary (SPS) measures, standards); upgrading of institutions for export and foreign investment promotion; regional infrastructure corridors; promotion of regional goods (Regional Public Goods Program)..	Convergence mechanisms among bilateral, regional and multilateral agreements; trade security and logistics; harmonization of regulatory frameworks for capital and labor migration; trade in services; innovative financial instruments for multi-country projects; large-scale Regional Public Goods (RPGs).
5. Protecting the environment and responding to climate change		
Environment and climate change	Development of institutional and regulatory frameworks to allow investments in sustainable transport, alternative fuels, renewable energy and energy efficiency	Climate change adaptation in priority sectors such as water, agriculture, and energy; development and use of renewable energy sources, energy efficiency technologies and practices, and carbon finance; risk management for natural disasters

C. Addressing the Needs of the Poorest Countries in the Region

3.23 **While the LAC region lags behind the developed world and the most dynamic emerging countries in several dimensions, there are also significant development gaps between countries in the region**. Countries such as Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay have a per capita GDP that is only a quarter of the regional average, while poverty rates are nearly twice as high as the average for the region as a whole. These gaps are also reflected in most indicators of social welfare and access to services.

3.24 **For many years, the Bank has provided preferential assistance to the poorest and most vulnerable countries in the region**. Since its inception, the Bank has provided financial and technical assistance to these countries under concessional terms. IDB-8 included specific lending targets to the poorer and smaller countries and Resolution AG-6/09 continues this commitment by calling Management to generate proposals to support social and economic development in the region "especially [for] the poorest and most vulnerable countries [and people]."

BOX 3.5
MANAGING RISKS FROM NATURAL DISASTERS:
FINANCING EXTRAORDINARY EXPENDITURES DURING EMERGENCIES

Natural disasters have had a significant negative effect on the region's economic development. Between 1975 and 2006, natural disasters in the Region affected over 4 million people per year, causing 5,000 fatalities and damages of over $3.5 billion. Additionally, the risk of damage from natural disasters is rising due to changes in land use patterns, increased population density, environmental degradation and the effects of climate change. Annual losses from these events increase four times faster than the Region's GDP growth. This situation is even more pronounced for LAC's smallest or least developed economies, as is the case for countries in Central America and the Caribbean.

The Bank has developed an integrated approach to managing risks from natural disasters, including managing the financial impact of these risks. Key elements of this approach are financial instruments to diminish the fiscal impact of emergencies caused by natural disasters. Specifically, the Bank has developed, and is beginning to operate, a Contingent Credit Facility for Emergencies from Natural Disasters (GN-2502-2) for a total amount of $600 million. Additionally, the Bank is supporting the implementation of a pilot program in two countries of Central America and the Caribbean for the development of parametric insurance coverage of public expenditures during emergencies derived from catastrophic natural disasters. Based on these instruments, the Bank estimates that the potential demand for technical and financial support to implement natural disaster risk management in the region between 2010 and 2014 is in the order of $3.0 billion.

3.25 **As a result of this approach, the Bank directs more resources to poorer countries on a per capita basis and offers products that mitigate their particular areas of vulnerability.** This is reflected in larger portfolio of loans and TCs in these countries relative to the size of their economies and population. In particular, net cash flows to D2 countries have remained largely positive since IDB-8. In addition, the Bank has been by far the main contributor to the debt reduction initiatives that have helped move the poorest countries in the region towards a debt sustainability path. These efforts have helped countries such as

Bolivia and Honduras to accelerate growth and make good progress towards the MDGs.

3.26 **These efforts are still far from consolidated and the poorer LAC countries are still vulnerable to economic, social, and political contingencies.** Despite past efforts, the poorer countries have not closed the gap that separates them from the rest of the LAC region, partially because these countries lack the financial, institutional, and organizational strengths to withstand contingencies that range from economic downturns to natural disasters.

3.27 **The IDB's commitment to focus on the poorest countries in the LAC region should start by renewing its ability to lend under pricing and repayment conditions that are consistent with debt sustainability frameworks.** These conditions have so far been granted by FSO. Yet, due to the concessional terms of loans and debt reduction initiatives have depleted the fund. The replenishment of FSO resources should be a key component of any IDB institutional strategy that continues giving the poorer countries in the region a high priority.

3.28 **IDB's support to poorer and smaller countries in the region should also be reflected in sector priorities for Bank lending and in the development of special programs and products tailored to these countries' needs.** IDB loans to Group II countries should be targeted towards building the human, institutional, and physical resources for development. The Bank should expand special programs aimed at developing the capacity to generate and execute development projects. It should also design products to address specific needs of these countries. Recent efforts at generating an integrated approach for the management of the risks associated with natural disasters in Central America and the Caribbean are good examples to follow in the future.

3.29 **The quantum leap necessary to lift the most vulnerable LAC countries from stagnation and volatility requires a coordinated effort of the development community at large.** The IDB may play a catalytic role in mobilizing international support around bold and ambitious agendas to lift these countries out of poverty. The economy of the region's poorest country, Haiti, grew slower than any other country in the region from 2000 to 2008. Without a major change in growth trends, Haiti and other poor and slow growing economies will be left behind while the rest of the region becomes more prosperous.

D. Development Challenges in the Business Cycle

3.30 **For many years, the economies of LAC countries were characterized by a high degree of volatility**. IDB research in the late 1990s showed that such volatility was not only the result of a high exposure of the region to external shocks, but also to volatility of domestic policies that either induced macroeconomic disequilibria or deepened it.[17] To a large extent, the region's

[17] IDB. 1995. *Overcoming Volatility*. Economic and Social Progress in Latin America: 1995 Report. Washington, DC: Johns Hopkins University Press.

macroeconomic volatility was bred in good times, as countries failed to prevent overheating and use financial windfalls to improve their economic fundamentals.

3.31 **In contrast to past episodes of global financial turbulence, the region entered the current crisis with stronger fundamentals**: lower inflation rates, stronger public finances, improved banking regulations, larger stocks of international reserves, and more flexible exchange rate regimes. Stronger fundamentals have allowed some LAC governments to respond with countercyclical monetary and fiscal policies to mitigate the impact of the external shock, in sharp contrast with past episodes of financial turbulence. So far, the region as a whole seems to be weathering the global storm better than in the past and better than other emerging economies.

3.32 **Given that the current crisis is systemic, large scale, and has its epicenter abroad, it is difficult to predict its duration and depth.** What *is* certain is that this crisis already represents the largest systemic shock faced by the region in over half a century. This is therefore an unprecedented test for LAC policymakers, coming on the heels of the energy and food price spikes of 2008. The uncertainty regarding LAC recovery scenarios is further complicated by the potential impact that regulatory changes in the financial systems in OECD countries might have on the long-run cost of credit and risk assessment for LAC economies; the possible crowding out of LAC countries from international capital markets given large and persistent deficits in the United States, Europe, and elsewhere; and the political dynamics in countries around the world.

3.33 **As of 2009 and going forward, LAC governments confront the challenges of protecting core public expenditures and providing continuity to policies and programs that tackle key developmental goals in spite of the cyclical behavior of revenues**. The possibility that an economic downturn may force governments to cut funding for key social programs or to postpone strategic investment by the private sector when they are most needed poses a developmental risk that is at least as large as the direct effect of the downturn on economic activity, employment, and poverty. A primary objective of countercyclical policies should be to continue funding for these programs and investments. This should be done without risking the gains in macroeconomic stability and with a combination of programs and policies that contribute to growth.

3.34 **During economic downturns, the IDB has a key catalytic role to provide funding that protects reforms and supports continuity in policies and programs, particularly those that target the most vulnerable population**. While other International Financial Institutions (IFIs) can provide liquidity to prevent further disturbance in the countries' balances of payments and exchange markets, the IDB is especially equipped to help countries mobilize social protection programs and maintain the continuity of policies and investments that matter most for development. This requires a solid combination of financial headroom to step up lending and disbursements in economic downturns and a continuing dialogue with countries to enhance developmental value added in projects.

IV. COMPARATIVE ADVANTAGES FOR A NEW INSTITUTIONAL STRATEGY

4.1 **An institutional strategy is about how to make an organization more effective in fulfilling its mission. Building on the organization's comparative advantages is the backbone of any institutional strategy**. Strategic planning requires assessing an organization's strengths and weaknesses, that is, identifying and building on its comparative advantages. Since comparative advantages are not static—because they depend on changes in the organization and on its peers—, strategic planning also involves identifying potential areas where new comparative advantages can be developed.

4.2 **While the IDB's mission is defined in its Charter, objectives and initiatives need to be reviewed and updated over time in light of evolving comparative advantages**. [18] Comparative advantages may spur from the structural features of an organization, from its trajectory and experience, and from changing conditions in its environment. At the same time, some comparative advantages may emerge over time, as a result of evolving needs of countries and a better understanding of their development challenges, increased technical knowledge, or changes in partner institutions.

4.3 **As a financial institution, the Bank's comparative advantages have to be assessed against other sources of financing for development in the LAC region**. Alternative sources include funding from multilateral banks and private capital markets. Both of these sources have experienced significant changes since the eighth capital increase was approved and will continue to change over the next decade.

4.4 **Since the approval of the eighth capital increase, the Bank has made a major effort to design and update its strategic framework**. An important step in this direction was the Institutional Strategy of 1999, which identified a number of strengths of the IDB that reflect a good mix of inherent and dynamic comparative advantages.[19] The realignment and changes in the regional reality over the last 10 years has made it necessary to generate a new institutional strategy, starting with

[18] See *Agreement Establishing the Inter-American Development Bank*, effective in 1959, and amended for the last time in 1995 during the Eighth General Increase in the Resources of the Bank.

[19] The 1999 Institutional Strategy identified the following corporate strengths: (a) knowledge of the region, reflected in the Bank's ability to combine technical knowledge with an understanding of "how things work" and "what is possible," which makes development interventions more likely to succeed; (b) presence in the region, through resident representatives, which allows for a more open and frank discussion of difficult issues than is possible with other institutions; (c) persistence to provide considerable continuity over time in the pursuit of its objectives; (d) responsiveness, which positions the Bank well to work effectively with countries in novel and experimental areas; and (e) technical assistance, which allows the Bank to combine its roles as a financial institution and a development agency and broadens the mechanism to generate continuity in the dialogue with countries.

the New Operational Framework of 2008. To complete this process, it is necessary to make the Bank's comparative advantages explicit in light of the current realities of the LAC region and the financial institutions that provide development financing.

A. Regional Identity as a Core Advantage

4.5 **The nature of the Bank as a cooperative where borrowing member countries hold a majority of the voting power is a structural advantage of the IDB**. Moreover, the Bank has offices in every borrowing member country and most of its staff comes from the region. The degree of ownership felt by borrowing countries over the decades has consolidated the Bank's role as a trusted partner that is driven, first and foremost, by the development needs and aspirations of its constituents. Although at times there may be disagreements with clients over the adequacy of particular policy decisions, the Bank has always looked for common ground where positive and sustained development impact can be achieved.

4.6 **Despite its region-centric approach, the influence of its nonborrowing member countries and its critical mass as a major international development institution enable the Bank to channel good practices from around the world while still maintaining its regional focus**. This uniquely positions the Bank as both the region's "neighborhood" development institution as well as a driver for leading-edge innovation. Other multilateral institutions operating in the LAC region lack either the Bank's intrinsic regional nature or its capacity to bring global solutions to local problems.

4.7 **On top of these intrinsic features, since the approval of the eighth capital increase the Bank has developed new comparative advantages that are central to a new institutional strategy**. The eighth capital increase introduced or consolidated changes in the Bank that have evolved into powerful comparative advantages in light of the region's needs (AB-1704). These include (a) a strong country focus, (b) articulation of public and private sector operations, and (c) diversification of tools that allow the Bank to be more responsive to country needs and more consistent in its support for development over time.[20]

B. Country Focus and Responsiveness to Country Needs

4.8 **The response to development challenges in LAC must be country-specific. The IDB is especially equipped to effectively support countries build such responses**. The countries in the region are diverse. Some are middle income while others are among the poorest of the world. Some are large in population and economic power while others are very small in these two dimensions. Some have a solid institutional trajectory and can prepare and sustain complex projects on their own, while others are at initial phases of institutional development and need outside assistance to do so. The Bank's knowledge of every country in the region,

[20] See also documents GA-232 and GA-232-12.

its ability to partner with governments and other economic and social actors, and its technical capacity to tailor solutions to country needs makes the IDB a privileged player in helping LAC countries to succeed during the crucial stages of their development.

4.9 **Country focus is one of the Bank's key strengths and it will continue to use this focus to develop products that are tailored for its clients.** Country focus was strengthened by the IDB-8 mandates to further decentralize responsibilities to country offices and increase lending to smaller and poorer countries. The realignment of 2007 deepened this effort by placing a strong emphasis on improving country programming, moving professional staff to the field, and by adopting a matrix operational structure where one side of the matrix is devoted to country-based strategy building and programming.

4.10 **Further efforts to improve country focus are under way.** The institutional changes implemented under the 2007 realignment continue to positively impact Bank efficiency and further improvements are expected in the near future. While effectiveness standards are being developed for country strategies, the matrix approach is being improved and extended beyond SG lending operations. Such developments include a review of budgeting rules for operations, a greater role of country offices in the management of operational resources, and the extension of matrix principles to the management of KCPs.

4.11 **Through a focus on the specific circumstances of each country, the Bank has been able to address demands across income levels**. Due to the grouping of countries by size and relative development level, the Bank can prioritize the poorer and smaller LAC countries in the allocation of financial and technical resources, while providing products that complement the higher capabilities of middle-income countries. This is a key element of the Bank's business model and is reflected in its wide range of technical expertise and differentiated financial products.

4.12 **The counterpart to the priority given to poorer and smaller countries by the Bank is its ability to respond to the challenges faced by middle-income countries (MICs) in the region**. The development gaps between these countries and the developed world are still very large, and they are even larger within these countries. The largest seven countries in the region (Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela [LAC-7]) still house more than three quarters of the poor in the LAC region.[21] These countries also house between 77 and 80 percent of informal workers in the region.[22] Efforts to address poverty, inequality of opportunities, and competitiveness in the LAC region would be dramatically incomplete without including these countries. Yet, the higher capabilities of these MICs allow for more sophisticated projects that are

[21] Estimate based on SEDLAC data and US$2 per day poverty line.

[22] Estimates based on SEDLAC data according to the productive and social protection definition of informality.

challenging in their development objectives and have higher leverage of counterpart and private resources.

C. Articulation of Public and Private Sector Support

4.13 **The private sector can be a dynamic engine to help reduce development gaps.** Today, the role of the private sector in providing infrastructure and social services, as well as in supporting the strategies to adapt to climate change, is widely recognized and encouraged. More generally, the private sector can contribute more to job creation, growth, and innovation than the public sector. The private sector in the LAC region can play a crucial role in achieving key development goals either directly or through an array of partnerships with the public sector.

4.14 **Since IDB-8, the Bank has significantly expanded its capacity to work with the private sector**. Initiatives in this direction include authority to lend up to a pre-established ceiling, the creation of the MIF, the capital increase of the IIC, and the creation of specialized units within the Bank to design and supervise private sector projects.[23] This has resulted in a substantial demand for loans and technical cooperation. Between 1994 and 2008, OC NSG loans totaled $9.1 billion, IIC loans $2.3 billion, and MIF TC grants $1.2 billion.

4.15 **IDB's approach is to promote development *through* the private sector, not to develop the private sector**. The Bank sees the private sector as a vehicle through which broader social and economic gains can be obtained. This requires a rigorous assessment of the development goals of private sector projects and a selective approach in funding them. When working with private sector entities, the Bank as a whole supports development in the region both directly and indirectly. Direct support comes through the provision of NSG lending, guarantees, and technical assistance for private sector clients, but only in cases where there is no comparable alternative funding or advisory services available from private sector sources. Indirect support for the private sector comes from various SG activities, such as business climate and regulatory improvement work that encourages investment and more efficient business practices.

4.16 **Since demand for financing from private sector clients has consistently outstripped the Bank's NSG lending capacity, there has to be a compelling developmental rationale for Bank participation in any given project**. The Bank will finance projects that have high development value added, that are congruent with country strategy priorities, and that address key market failures or

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[23] This ceiling for NSG lending, currently of 10 percent, will become redundant with the proper risk management techniques and proper pricing to reflect risk.

information barriers. This would imply the use of more early stage products, such as advisory work and greater use of equity.[24]

4.17 **Comparative advantages of the Bank stem not only from its ability to work with the private sector but also from its capacity to better coordinate operations between the private and public sector**. The creation of the Vice Presidency of the Private Sector (VPP) has enhanced the Bank's responsiveness to private sector clients and has brought key IDB-group entities into the Bank's core organization (in particular the IIC and the MIF). This allows the Bank to better coordinate private and public sector operations, to have a more comprehensive country focus, and to exploit synergies with public projects related to improving regulations, investing in infrastructure, or improving competitiveness.

4.18 **Despite its comparative advantage in this area, the Bank still has room for improvement in its support and articulation of private sector operations.** This can be achieved through a closer link with country programming and cross-cooperation of technical teams. Moreover, the statutory limit to private sector lending should be reviewed not only in light of demand, but also in terms of its current operationalization as NSG, that mixes risk management with client specialization.

D. Value Added Operations and The Bank's Ability to Combine Financial and Nonfinancial Products

4.19 **While the comparative advantage of the Bank originally relied on its financial terms, the development of countries in general, and financial markets in particular, are moving the focus towards the value added by the Bank in its projects**. A focus on value added also helps to reconcile country needs with the corporate development mandates. The Bank adds value to its operations by providing cross-country expertise, sharing specific knowledge, enhancing institutional capacity and coordination, articulating interventions by different actors (public and private sectors) and through the coordinated use of different instruments (loans and knowledge and capacity building products). In order to strengthen comparative advantages, the Bank should identify, monitor, and strengthen value added to development in its operations.

4.20 **The combination of financial products and KCP further enhance value added by the Bank**. KCP, in the form of TC or nonfinancial products, enrich the intellectual and institutional capital of LAC countries and contribute to articulate better responses to development challenges. Such products have long been identified as legitimate Bank tools, but before IDB-8 they were only recognized for their value as part of the loan preparation process. In recent years, KCP have been recognized as valuable products that, on their own, are especially effective at

[24] Only MIF and IIC have direct equity capacity. Although the Bank Charter does not allow for the direct use of OC funds for the provision of equity, the Bank could access equity form an off-balance sheet vehicle similar to the IIC's access to the Chinese SME Equity Fund.

allowing the Bank to build continuity in its dialogue and support to countries at times of either abundant or extremely limited financing from alternative sources. In 2008, the IDB group invested an estimated $240 million on KCP, including policy advice to governments and clients, research, external training, design and application of diagnostic tools, support for the development of country systems, regional policy dialogues, and regional public goods, among other areas.

BOX 4.1
REMITTANCES AS A DEVELOPMENT TOOL: RAISING AWARENESS AND COMPETITION

In 2001, the IDB through the Multilateral Investment Fund (MIF) launched a strategy to explore the possibilities that remittances afford as a development tool. Since then, the MIF has produced ground-breaking research on remittances to Latin America and the Caribbean, regularly serving as a reference point for existing and potential remittance market players, and attracting attention from media, government and market actors alike, to the importance and volume of these flows for millions of families across the Region.

These efforts to raise awareness and encourage competition in the remittances market have contributed to important successes in terms of reducing the costs of sending money to the region. Average remittance transfer prices to LAC are among the lowest in the world, averaging approximately 5.6% of total transfers. This constitutes approximately a 75% drop in costs since 2000. As a result, around $6.25 billion per year remains in the pockets of migrant workers and their families.

Over the course of this decade, the MIF's work in this area has also supported projects with a wide range of executing agencies and beneficiaries with the objective of demonstrating the potential benefits of remittances for development driven by the private sector. The areas of focus of the approximately 40 projects that have received either technical cooperation or investment financing include systems for balance of payments, technological platforms for training, and strengthening entrepreneurial capacity. This work has distilled important lessons in terms of linking remittances to other financial services such as mortgages, insurance and microfinance. The MIF continues to support these efforts as regulatory and financial sector actors seek to engage more actively with this traditionally underserved, but essential, group of beneficiaries.

4.21 **The development of KCP at the IDB traditionally took a piecemeal approach driven by funding sources and an institutional divide between operations and research.** The piecemeal, funding-driven approach deprived the Bank's Board of Directors and Management from making the most effective use of KCP. With the realignment of 2007, this approach has begun to change, bringing under the same umbrella the generation of financial and nonfinancial products. This has allowed the Bank to enrich the value added of its operations and to broaden the range of its products to respond to country development needs.

4.22 **KCPs can be turned into a third core business of the Bank, alongside lending to the public and private sectors. To this end, it is necessary to build an integrated platform for the operational and financial management of KCP to shift the focus to the expected results and development effectiveness of such products.** A first proposal in that direction was included in the NOF, which will have to be followed by policy and funding proposals.

E. From National to Regional Development

4.23 **Regional development banks, and the IDB in particular, have strong comparative advantages vis-à-vis other international financial institutions in promoting regional integration and cooperation among regional member countries.** Global economic integration has increased exponentially the spread of cross-border externalities among countries. When development or crisis in one country has an impact on other countries, and these effects are not mediated by competitive markets, the presence of such externalities will lead to suboptimal policy outcomes for the group of countries affected. In this context, important gains can be realized by enhancing policy coordination and promoting the provision of regional public goods at the regional level. When there are important differences in development levels, it is necessary for regional financial institutions to address these cross-border externalities through the provision of regional public goods.

4.24 **The Bank has a solid and long-standing record in providing support to its member countries in the area of integration and regional cooperation.** Since the mid-1990s the Bank has supported global and regional integration strategies of the LAC region, including negotiating trade and investment agreements within and outside the region, strengthening trade institutions, promoting regional infrastructure corridors, and nurturing regional functional cooperation. Despite important progress, the region still faces a large "global and regional integration gap" when compared to other regions. Some of the traditional barriers to trade are still high in certain sectors, markets, and countries. The incipient nature of some regional institutions and the lack of financial instruments to provide regional public goods are important handicaps in the face of rising cross-border development challenges.

4.25 **The Bank's comparative advantage is rooted in its ability to support concerted policy approaches and actions at the regional level.** The Bank must act as an honest broker, producing cutting-edge policy research, developing innovative multicountry operational products, and mobilizing resources to support region-wide development interventions. The Bank has strived to continuously renew its institutional architecture and develop innovative financial and nonfinancial instruments to promote regional approaches to development. Clear examples of the Bank's institutional commitment to this regional agenda include the creation of the Integration and Trade Sector (VPS/INT), the endowment of the Regional Public Goods Program (RPG), the mobilization of resources to support regional initiatives such as IIRSA o PM, and the institutional leadership in implementing the global "Aid for Trade" initiative. However, to close the "LAC integration gap" and deal with emerging global and regional challenges faced by the region, the Bank must (i) increase its technical assistance to promote concerted action among countries; (ii) support the development of regional regulatory frameworks and infrastructure to facilitate trade in goods and services; (iii) strengthen and modernize the regional institutional architecture to promote shared regional priorities; and (iv) develop new financial instruments (grants, loans, and guarantees) to facilitate multicountry investments.

BOX 4.2
THE REGIONAL PUBLIC GOODS PROGRAM:
TACKLING GLOBAL CHALLENGES THROUGH COLLECTIVE ACTION

What do these people share in common? A woman who has worked and contributed to the social security systems of both Paraguay and Brazil; a malnourished child in a slum on the outskirts of a Central American city; a public servant in Colombia or Peru who lacks the adequate and prompt information that he needs to tackle the challenge of violence and citizen security; and a woman in Jamaica whose chronic diabetes prevents her from holding a steady job. They all share the benefits of their countries' initiatives to create regional public goods for meeting some of the competitiveness challenges posed by an increasingly globalized world.

The IDB Regional Public Goods Program (RPG), created in 2004, supports innovative public policy solutions to transnational challenges or opportunities through collective action. It focuses on policy-based consensus building interventions that enable an environment for enhancing competitiveness and fostering sustainability of cooperative outcomes. This development instrument promotes economic, institutional, and functional integration, the reduction of asymmetries among countries; the strengthening of national and regional institutions; and the competitiveness of the region. Its value added resides in taking advantage of economies of scale, economies of scope and innovation through collective action. It currently supports 46 projects, with all IDB borrowing member countries participating as beneficiaries of the Initiative.

Actions that have led to results through support by the RPG include: (i) the portability of pensions resulting from the Single-Based Social Security System project among Argentina, Brazil, Paraguay and Uruguay that has pensioned in less than three years more than 800 workers who have worked in more than one country. This project was selected as the model for the design of the Ibero-American pension system; (ii) the Central American Food Fortification System, developed jointly by Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, that has been included as a pilot program of the Global Strategy "10 years to reduce deficiencies of vitamins and minerals"; (iii) the Harmonized Regional Information System for Citizens' Security with the initial participation of Colombia, Ecuador, Honduras and Peru, and requests for participation from the Dominican Republic, and Uruguay among other LAC countries; and (iv) the more recent Caribbean Non-Communicable Disease Surveillance System that provided a prompt response from the Bank to a priority area of concern identified by the Heads of State of Barbados, Guyana, Jamaica, Suriname, The Bahamas, Trinidad and Tobago and the Eastern Caribbean States in their September, 2007.

F. Developing New Comparative Advantages

4.26 **Comparative advantages may be complemented by a more selective approach to lending and an improvement of the Bank's own governance, transparency, and efficiency.** Even though there are numerous development challenges in the LAC region, the IDB should concentrate its resources where they can be most effective. There are areas in which the Bank does not have the institutional capacity or the mandate to respond, such as balance of payments support, monetary policy management, or responses to liquidity crises.[25] There are other areas where Bank expertise and country needs coincide and support from the Bank may make a major difference in the quality and depth of policies,

[25] Despite being the first multilateral bank to offer a liquidity program to supplement the flow of credit to the private sector during the current economic crisis, the IMF has established a broader program that makes it unlikely that the Bank would have to develop this as a permanent line of business.

programs, and projects. Section III points out several areas where the Bank's involvement can increase substantially over the next 10 years. To realize these possibilities, the Bank does not need to impose arbitrary restrictions; rather it needs to concentrate knowledge management and monitor and assess progress.

4.27 **The Bank also has room to improve its institutional effectiveness by raising the standards of governance, transparency, operational efficiency, and development effectiveness.** In the 15 years since IDB-8, the Bank has demonstrated high capacity to reform itself, adapting its organizational structure and improving regulations and actual practice. The 2007 realignment and the NOF have put many new initiatives into motion, and others will follow. Such initiatives, reviewed in the next section, will allow the Bank to consolidate, deepen and extend its comparative advantages as a development partner for the LAC region.

4.28 **Concentrating resources where they can be more effective, providing more value added, and increasing institutional efficiency does not necessarily mean lending less; in most cases it may require lending more**. If the Bank improves its efficiency and its effectiveness and successfully develops the capacity to address new development challenges in the LAC region, it should be prepared to respond to increased demand for its support. The substantial increase in lending after the realignment indicates that demand is highly sensitive to a more responsive and efficient organization.

4.29 **Additionally, the Bank needs to generate a critical mass of projects in its areas of expertise in order to exploit economies of scale and disseminate experience and lessons learned.** The Bank's best experiences in areas such as trade finance, conditional cash transfers, neighborhood improvement, and youth training are characterized by a string of projects in a diversity of countries. Numerous operations are also needed to absorb fixed costs associated to knowledge management and capacity building. Moreover, the financial component of projects still provides an envelope in which the Bank can pack the value added.

G. Complementarity and Coordination with Other Institutions

4.30 **The IDB is not alone in its efforts to foster economic and social development in Latin America and the Caribbean.** Development partners in the region currently include not only worldwide IFIs, such as the World Bank and the IMF, and subregional financial institutions, such as CAF and CDB, but they also include bilateral donors, private foundations, and even LAC national governments that are willing to support peers. Recent developments in these institutions are generating the conditions for further progress in IDB's complementarity and coordination with development partners.

4.31 **Since its recent retooling, the IMF is fostering its role as a provider of liquidity to good performing countries in times of financial stress.** The IMF's new approach includes doubling access to fund resources, a new flexible credit line for strong performing economies, and a streamlined and flexible approach aimed at removing the stigma of borrowing and hard structural conditionality. These changes lower the pressure on MDBs to provide emergency lending and allow them to concentrate more on promoting and safeguarding the development focus of their operations. The Bank, through its countercyclical role, can then concentrate on its ability to frontload projects in order to preserve the continuity of reforms and protect investment in key development areas.

4.32 **The World Bank is expected to maintain a leading role in the development of knowledge and expertise in subjects where economies of scale are global**. The IDB may draw from this knowledge and concentrate its resources to adapt analyses to LAC conditions and institutions, as well as on subjects where economies of scale are mostly regional. In addition, the IDB, the World Bank, and subregional banks have enriched their experience by undertaking joint projects over the last 15 years, including the development and application of diagnostic tools aimed at identifying strengths and weaknesses at the country level.

4.33 **Complementarity and coordination with development partners is consistent with a renewed Bank focus on comparative advantages and value added.** If the IDB is able to identify, sustain, and develop its comparative advantages, coordination with multilateral and bilateral development agencies in the region may be scaled up. As mentioned before, the IDB in principle has a comparative advantage in the support of development projects as compared to balance of payments and liquidity support, especially after the retooling of the IMF. Similarly, the IDB is better equipped to provide advice, on the basis of experience and good practice, rather than surveillance. The World Bank and the IDB can complement each other in generating knowledge on development issues and adapting it to local realities. This may also mean undertaking projects in countries jointly, especially when the scale and complexity of projects are so large that they exceed the capabilities of any institution alone.

4.34 **The Bank can also be a good catalyst for bilateral cooperation and other sources of funding to the LAC region.** The Bank can play a role in discharging cooperation agencies of administrative and fiduciary costs, allowing bilateral agencies to tap into Bank knowledge resources, providing guidance regarding the best options based on experience in the countries, and in mobilizing resources from private foundations and other private sector sources.[26] Bank projects may also benefit from specialized knowledge and expertise in bilateral agencies; entities such as GTZ, for example, have amassed substantial experience in issues of decentralization and municipal management that have produced lessons learned and good practices.

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[26] The Office of Outreach and Partnerships (ORP) was created in 2007 to enhance the Bank's capacity to mobilize funding from public and private sources to the region.

BOX 4.3
THE HAITI DONOR'S CONFERENCE:
RENEWING PARTNERSHIPS FOR DEVELOPMENT

On April 14, 2009, under the auspices of the IDB, the Government of Haiti convened its international partners for the third conference on Haiti's economic and social development, under the title *Towards a New Cooperation Paradigm for Growth and Development*. This *conference signaled the beginning of a new partnership* between Haiti, major donors and other stakeholders, with a high level of participation that was a clear demonstration of solidarity and support.

At the conference, agreement was reached on an updated development strategy for Haiti that both addresses the challenges faced by the country and attempts to take advantage of the positive aspects of the current situation. The strategy included a renewed partnership agreement to govern how the Government and donors would coordinate their actions more coherently. Donors *committed* to: *(i) ensure that their assistance program is aligned with the Haitian Government's defined priorities and (ii) prioritize the national budget as a tool to channel financial assistance. The conference helped mobilize a total of $353 million of new funds* (additional to current donor programs) of which $196 million is slated for this fiscal year.

The conference also engaged non-governmental organizations on how to pursue further alignment, starting with improved platforms for information sharing, with country priorities in order to promote sustainability and build country capacity. Given the strategy targets for job creation, the conference set the basis for initiatives from private charitable organizations, such as the Clinton foundation (that is setting up a Haiti fund) to consider how may best to cooperate with IDB and other multilaterals to further private sector development activities.

The IDB as the largest multilateral donor to Haiti continues to support the Government, working with other donors, to coordinate and monitor the agreements reached at the conference, and to enhance the effectiveness of development aid in Haiti. The IDB is currently working with other donors to consolidate a unique policy matrix for budget support and is actively discussing additional financing opportunities with donors interested in co-financing to increase the amount and relevance of the sectors where the Bank has presence. The IDB already administers about $125 million in resources to the country on behalf of other donors.

4.35 **The Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action of 2008 have created new opportunities for coordination among development partners.** While opening a forum for discussing enhanced development effectiveness of aid, the Paris agreement and the Accra Agenda have set higher benchmarks against which the IDB must respond and, in some cases, in which it must lead. Some of these new challenges are mutual accountability in the design and results of development interventions, managing for development results, and use of country systems for implementing projects. The Bank is fully committed to these efforts and is working closely with both clients and IFIs in this regard. Targets and standards agreed in these fora should be factored into the Bank's performance management framework.

4.36 **The Bank has been particularly active in harmonizing its financial management and procurement practices with other development agencies.** The Bank has implemented several initiatives to harmonize requirements for auditing and financial reporting and the tools for determining the extent of use of country systems with other MDBs. The Bank has also harmonized Standard

Bidding Documents (SBD) in several countries of the region with the World Bank. Additionally, MDBs have agreed to a harmonized definition for fraud and corruption. The Bank is actively participating in the Working Party on Aid Effectiveness Cluster on Country Systems to undertake greater progress in implementing the mandates that emanated from the Accra Agenda for Action.

V. THE DEMAND FOR IDB RESOURCES

5.1 **This section presents the results of a rigorous and multidimensional analysis of future demand for Bank resources.** Estimated aggregate financing scenarios are derived from a country-by-country review of current demand based on existing country strategies and programming processes. The results are then compared with those produced by a statistical analysis of financing and investment trends in the region. This exercise of estimating potential financial flows is supplemented with recommended measures to address countercyclical financing needs, a review of the sector composition of the forecasted demand, specific issues regarding concessional lending to the poorest countries, and demand forecasts for lending to the private sector.

5.2 **Estimates derived from country strategies, as well as from the analysis of financing and growth trends, yield a projected demand for Bank resources of \$19.5 billion per year for the 2010–2020 period.** The demand for resources is likely to be highest for the infrastructure and social sectors, which may claim around 65 percent of total estimated lending, followed by institutional development, environmental protection, and integration. Regarding demand for resources from the FSO countries, the analysis indicates average total annual approvals from 2010 to 2020 of \$918 million. The demand figure is implicitly constraint by the present conditions on the supply of concessional lending. Finally, private sector financing of eligible projects in the five strategic pillars of the NOF could range from \$4.0 to \$5.3 billion dollars per year.

A. Projections of demand for IDB Financing (2010-2020)

5.3 **This section aims to estimate the demand for IDB financing in a variety of ways.** Our preferred measure of demand relies on a bottom-up approach: it is based on the demands expressed by borrowing countries in the context of their interaction with the Bank. In this regard, the Bank has received financing requests well above its envelope of resources from a broad set of member countries. This "revealed demand"[27] is communicated regularly through ongoing dialogues with countries, during annual programming exercises, or with a longer-term vision in the course of country strategy discussions. In this framework, the IDB and the borrowing countries discuss the most pressing development gaps to determine the

[27] The revealed demand for 2010-2020 is based on the projected demand for 2009-2011. This methodology follows the one used by the Asian Development Bank (ADB). It is important to note that these demand projections are a general guide, and are likely to change over time as countries review their development strategies and policies over the coming years.

priority sectors and financing envelope, taking into consideration the IDB's areas of expertise and government objectives. Similarly, the dialogue identifies NSG operations, in particular business opportunities with the private sector based on sector priorities and the Bank's policies.

5.4 **The exercise described above allows the Bank to make projections of average annual demand for IDB resources for the next decade (these projections are referred to herein as Scenario I).** More specifically, the calculation uses the Bank's A and B pipeline in each country for the years 2009 and 2010 as the point of departure, and projects this "revealed demand" into the future assuming that lending in real terms is proportional to GDP.[28] Table V-1 presents these projections aggregated for the whole region, as well as the corresponding figures for 2009, as well as the previous decade.

Table V-1

Preliminary Demand Scenarios for IDB Financing (in millions of US dollars)

	Historical average (1999-2008)	Estimated 2009	Estimated Annual Average (2010-2020) Scenario I
TOTAL	**6,736**	**14,710**	**19,539**

Scenario I is the Revealed Demand by the countries, extrapolated to calculate a ten year average

5.5 **The results suggest that demand for IDB financing will nearly triple over the next 10 years vis-à-vis the demand in the previous decade.** This large increase is already foreshadowed by the volume of demand for IDB lending in 2009, which more than doubles the average of the previous 10 years. Going forward, the annual demand for IDB lending in the 2010–2020 period is estimated at U$19.5 billion per year.[29]

5.6 **While it is true that this estimate of financing needs may start from a high base given the effects that the current global crisis is having on several countries, it should be noted that borrowing countries are aware of the overall resource constraint that the IDB is facing and have adjusted their demands accordingly.** Moreover, in some cases, the short-term revealed demand is constrained by absorption capacity, which may improve over time. In other cases, the revealed demand reflects the broadening of the Bank's expertise, its greater engagement with the private sector and subnational governments, and its larger emphasis on operations associated with climate change.

5.7 **This projection can be complemented with another scenario, which is obtained through a statistical methodology based on past trends in**

[28] The calculation uses conservative estimates of growth and international inflation. In some cases in which the country teams considered that the pipeline for 2009 and 2010 was highly atypical and not representative of future demands, the point of departure was adjusted to more reasonable levels.
[29] These demand projections, as well as those in the scenarios that follow, include SG and NSG lending, as well as financing associated with regional integration initiatives.

investment and borrowing by IDB member countries (referred to herein as Scenario II). The exercise projects public and private investment by statistically extrapolating to the year 2020 the IMF's World Economic Outlook (WEO) forecasts that extend through 2014. It makes the assumption that the share of IDB financing in total investment maintains its historical average of the past 25 years.

5.8 **More specifically, the average ratio of IDB lending to investment is computed for each country since 1983.** Using the investment forecasts based on the WEO, projected IDB lending is then calculated so as to keep the IDB lending/investment ratio at its historical level. Beyond 2014 (the last year for which WEO has data), investment projections assume that the growth rate of investment stays constant at its 2014 level. The projected figures by country are then aggregated for the whole region, and averaged for the 2010-2020 period. The exercise described here was done only for SG lending. Looking at past trends to forecast future demand seems quite inappropriate as a method to estimate NSG demand, which has become a significant component of demand only in the last few years. For this reason, the NSG component of demand in Scenario II was taken from the revealed demand projections used in Scenario I.

5.9 While this more mechanical approach is less reliable as a tool to project demand in individual countries, at an aggregate level it offers a good check on the validity of the demand projections identified in Scenario I.

5.10 Table V-2 presents the aggregate demand for the years 2010 to 2020, using Scenario II. As the table shows, **forecasting demand on the basis of long-term trends in financing and investment yields an average demand per year of $19.77 billion that is remarkably similar to that under Scenario I[30].**

Table V-2

Preliminary Demand Scenarios for IDB Financing (in millions of US dollars)

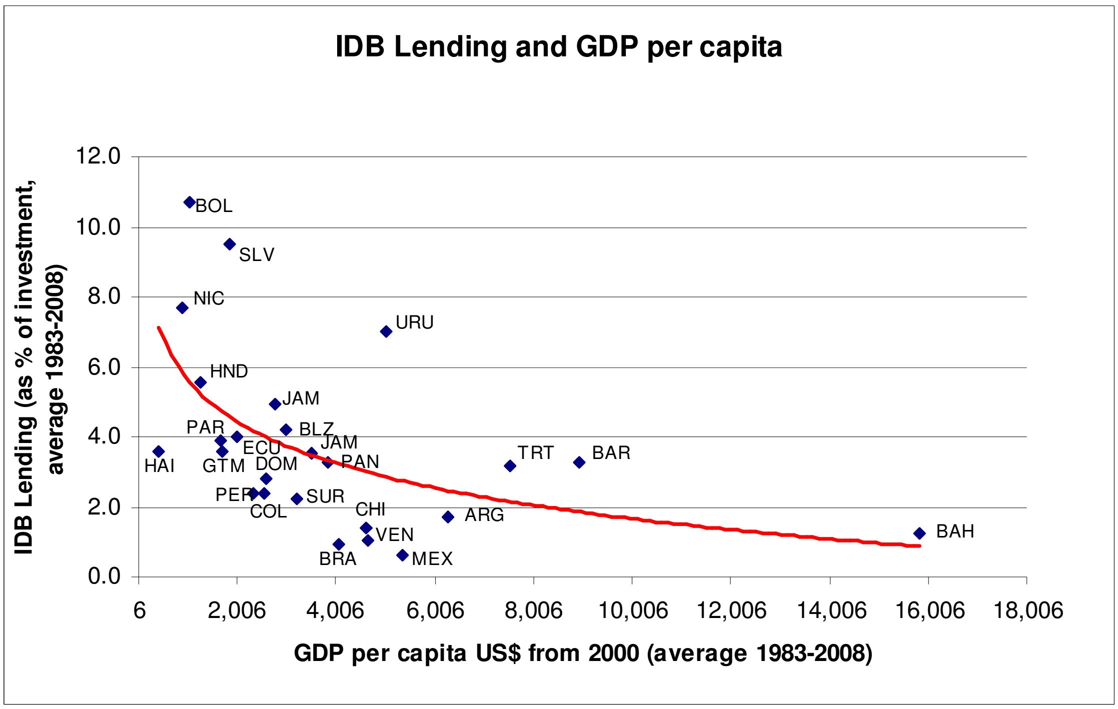
	Estimated Annual Average (2010-2020)		
	Scenario I	Scenario II	Scenario III
TOTAL	**19,539**	**19,770**	**16,348**

Scenario I is the Revealed Demand by the countries, extrapolated to calculate a ten year average
Scenario II is a statistical projection of trends in investment and borrowing, with a constant IDB share of Multilateral financing
Scenario III is a Scenario II adjusted by GDP per capita growth

[30] In order to check the robustness of the results, we did some additional estimates using public investment instead of total investment. We also used different methodologies to forecast both total and public investment beyond 2014. In addition to the methodology reported in paragraph 5.8, which we call the "simple" methodology in which the 2014 investment growth rate is assumed constant through 2020, we used a log-linear trend, as well as an ARIMA process to project investment through 2020. As a result, we obtain demand estimates that range between $18.72 billion (in the case of total investment using the ARIMA projections) and $19.82 billion (in the case of the public investment using the simple method).

5.11 **As GDP per capita increases, countries may need less multilateral financing.** It can be argued that Scenario II may overstate the demand for IDB financing over the next 10 years. As countries develop, they tend to improve their access to private sources of financing, and thus IDB lending—or more generally, multilateral lending—may decline as a proportion of investment. As shown in Figure V-1, the evidence from the LAC region suggests that this is in fact true; the intensity of the countries' demands for IDB financing as a share of their investments falls with their levels of economic development (proxied by real per capita GDP).[31]

Figure V-1



5.12 Since Scenario II assumes a constant ratio of IDB lending to investment, lending should be adjusted downwards as GDP per capita increases, which is exactly what Scenario III does.[32] To construct this projection, we start with an econometric estimation that relates the IDB's lending/investment ratio to the level of real per capita GDP. We then project GDP per capita until 2020 for each country, using WEO projections on GDP, inflation and population.[33] For each country, and each year, the ratio of IDB lending to investment was then adjusted downwards in line

[31] This dampening of demand does not result in a decrease in absolute levels of financing as economies develop, however, because the scale of demand increases with the scale of the economy itself.
[32] While Figure V-1 shows the relationship between the IDB lending/investment ratio and GDP per capita as a cross section of countries, the econometric exercise was based on a panel regression with fixed effects. Thus, rather than asking whether more developed countries require more lending than less developed countries,, the regression provides estimates of how much less IDB lending a typical country needs as it develops.
[33] The WEO projections are available until 2014, and are extrapolated thereafter assuming that inflation, the growth rate and the rate of population growth stay constant at their 2014 levels.

with the regression results, depending on the level of per capita GDP relative to the historical (25 year) average. Since the investment projections come from the WEO, reducing the ratio implies a corresponding reduction in projected IDB lending. As in Scenario II, this is done for SG lending. NSG lending is simply that from Scenario I[34]. **Once this factor is accounted for, total demand declines to U$16.3 billion.**

5.13 **It should be noted however, that considering the historical evidence in global financial crises, observers believe that the increased risk aversion of international investors may be long lasting.** It took three or four decades for developing countries to regain access to private international finance after the Great Depression. Although it would be far-fetched to expect a repetition of that experience, the increase in risk aversion and the changes in the regulatory framework of financial markets suggest that Latin American countries are not likely to fully regain, in the next few years, the extensive access to international financial markets they enjoyed over the last five to six years. Furthermore, part of the high demand expressed by the countries is related to new areas of involvement for the Bank, such as private sector and subnational government financing, and far from receding after the world economy turns around, they are likely to continue growing at an accelerated rate.

5.14 **Although the above scenarios present projections of the average level of demand only, it is important to also consider the variability of demand.** In particular, the demand for IDB resources is higher in periods of economic downturn, especially when they are associated with financial crises. It is noteworthy that the level of capital of the IDB places a restriction on maximum outstanding loan levels, rather than on the average level over several years. Thus, it may be important to consider what is the potential maximum demand, in addition to the average level?

5.15 **During recent crisis episodes, financial support by multilateral institutions has increased significantly, as demand increased and private financing became less available**. The typical peak in debt to multilaterals during crises was 25 percent higher than the average outstanding loans. Whether the level of capital allows enough headroom to provide an increase in lending of such magnitude would depend on the position of the IDB with respect to its lending limits at the time that an economic crisis presents itself. In the late 1990s, for example, in the context of a global sudden stop for emerging market economies, the increase in IDB lending over trend reached a cumulative US$15 billion, or about 33 percent of the outstanding loan portfolio at the time, which was feasible within the lending authority limits. In 2009, an increase of a similar magnitude would not be possible under the lending limits.

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[34] The reason to treat NSG differently, in this case, is that we have no reason to believe that financing needs of the private sector and of subnational governments should decline as a share of investment as countries become richer.

5.16 **The IDB has made it a priority to help countries mitigate the social and development impact of economic crises.** Crises can have a devastating social impact and their effects can persist for a long time, even after the economy has recovered. Children who leave school may be less likely to resume their education following a crisis, the long-term unemployed may have a harder time obtaining a job, and health problems may leave permanent sequels. In addition, the fiscal adjustment typically required in the aftermath of a crisis may result in shortfalls in infrastructure investment, which may cause widened gaps for several years hence. IDB support in times of crisis has several dimensions, including the strengthening of social safety nets for the poorest segments of the population, providing financial support to the private sector to keep investment projects active, and extending direct budgetary support to encourage needed reforms to minimize the consequences of financial crises.

B. Composition of Demand According to Sector Priorities

5.17 **Through the ongoing dialogue, programming exercises, and country strategies, countries have not just expressed their demands for resources, but they have also revealed their preferences regarding the use of these resources, depending on what they perceive as their most pressing development needs, as well as IDB priorities and comparative advantages.** Tables V-3 and V-4 present the demands of the countries in the region, disaggregated according to the five strategic sectors identified in Chapter III. Rather than presenting sector priorities by country, they are aggregated by grouping countries according to level of development (Table V-3), as well as by subregion (Table V-4). The shares corresponding to each sector presented in these tables represent simple averages, and thus provide an idea of the typical composition by sector in each of the country groupings.

Table V-3

Preliminary Financing Scenarios (in % and in US$ million)
By country groups

	Group I	Group II	Total	FSO
Social Policy for Equity and Productivity	22.9%	23.9%	**23.5%**	25.6%
Infrastructure for Competitiveness and Social Welfare	43.7%	40.2%	**41.4%**	42.0%
Institutions for Growth and Societal Welfare	13.1%	20.4%	**17.9%**	17.6%
Competitive Regional and Global International Integration	8.3%	5.3%	**6.3%**	3.9%
Protecting the Environment and Responding to Climate Chan	12.1%	10.2%	**10.9%**	10.9%
Of which NSG	27.3%	25.9%	**26.4%**	25.6%
Of which private	26.3%	23.7%	**24.6%**	24.6%

Group I: Argentina, Bahamas, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela
Group II: Belize, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname.

5.18 While these sector priorities have to be considered as tentative, there are some patterns that can be identified in the table. **Infrastructure and social policy (in that order) represent the largest components of demand for countries,**

independently of their level of development. These are areas characterized by significant development gaps, which need to be urgently addressed.

5.19 For the countries in Group II, the share of demand corresponding to infrastructure declines in favor of the strengthening of institutions, which are notoriously weak in the poorest countries in the region. In fact, in less developed countries, investing in stronger institutions is a key ingredient for development, and is complementary to investments in infrastructure and social policy. If institutions are not working well, efforts to improve the basic infrastructure and social services may not bear fruit.

5.20 **The area of competitiveness and integration shows the opposite pattern: Group I countries are willing to devote much more of the Bank's resources to this sector priority, as they move towards further integration at both the regional and global level.** Table V-3 also includes a column corresponding to the five poorest countries, which receive a significant portion of their financing from concessional resources through the FSO. The composition of demand in these countries will be discussed in the next section.

5.21 **The breakdown of sector demand by subregions is presented in Table V-4. While the general pattern discussed above applies to each of the Bank's subregions, there are some differences, linked at least in part to the level of development of the countries belonging to each of them.** The Southern Cone countries exhibit the largest concentration of resources in infrastructure and devote the least amount of resources to competitiveness and integration. At the other extreme, in the region comprising the Central American Itsmus, Mexico and Dominican Republic (CID) the share of infrastructure is considerably lower and the shares corresponding to every other category tend to be relatively higher. In the Andean Region (CAN) and the Caribbean (CCB), in turn, exhibit a sector composition of demands that more closely resemble that for the whole Bank.

Table V-4

Preliminary Financing Scenarios (in % and in US$ million)
By sector and region

	CSC	CAN	CCB	CID	Total
Social Policy for Equity and Productivity	23.1%	23.7%	21.7%	25.1%	**23.5%**
Infrastructure for Competitiveness and Social Welfare	47.0%	43.4%	44.4%	34.9%	**41.4%**
Institutions for Growth and Societal Welfare	16.3%	14.2%	17.8%	20.8%	**17.9%**
Competitive Regional and Global International Integration	4.2%	8.1%	4.7%	7.8%	**6.3%**
Protecting the Environment and Responding to Climate Change	9.4%	10.6%	11.4%	11.3%	**10.9%**
Of which NSG	14.5%	19.3%	34.3%	30.7%	**26.4%**
Of which private	13.1%	11.7%	34.3%	30.7%	**24.6%**

C. Concessional Financing for Poorer Countries

5.22 **The IDB member countries include a set of Low Income Countries (LIC) where the development challenges are particularly acute and where the IDB**

extends concessional financing. These countries include the poorest Bank members in terms of GDP per capita: Haiti, Bolivia, Guyana, Honduras and Nicaragua.[35] These nations face some of the highest development gaps in the region. Moreover, the current global crisis is severely affecting these countries. Social safety nets are not highly developed and remittances, which are particularly important for the lower percentiles of the population, are falling as a result of the global recession.

5.23 The demands for concessional financing from the IDB are large and are evident in many sectors in these five countries. Inevitably, **the IDB's strategy focuses on particular sectors which are considered critical to development of each of these countries and also where there is the execution capacity to deliver appropriate interventions that result in real benefits.** Indeed, given the high demand for concessional financing, the absorption capacity is considered an important constraint. Moreover each of these five nations has received, or will shortly receive[36], debt relief under the HIPC initiative. Under the current FSO framework, the degree of concessionality of IDB financing extended to them depends on the risk of debt distress in each country. Haiti, which is on track to reach Completion Point for debt relief at the end of June 2009, receives only grants—it is likely to be on the borderline of moderate and high risk of debt distress after debt relief. The other countries receive a blend of concessionary loans and traditional IDB lending, with the blend depending on the classification of debt distress.

5.24 **Given the above considerations demand scenarios were constructed for the five countries that were consistent with both their absorption capacity and debt sustainability.** In particular it was assumed that subject to the current degree of concessionality, new lending should both be feasible from the standpoint that loans could be successfully executed and that the classification of debt distress (whether that be low, moderate or high) would not be altered. An analysis that considered the revealed demand from FSO countries extrapolated to 2020 resulted in average total annual approvals from 2010 to 2020 of $918 million. It has to be considered that this figure is implicitly constraint by the present conditions on the supply of concessional lending. This "revealed demand" estimate is well within the estimated absorption capacity of $1.2 billion for the high scenario.

5.25 **In the five countries, there is a significant demand for basic infrastructure including roads, energy, and water and sanitation. The IDB will also be working intensively with the respective country governments, particularly in the areas of social policy and institutions.** This includes, for example, the potential development of conditional cash transfer programs to improve targeting of social expenditures and interventions that consider in particular the link between nutrition, health, and early learning. The IDB considers that interventions

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[35] While Guatemala and Paraguay also have access to concessional financing through the FSO, the vast majority of their financing comes from ordinary capital.
[36] Haiti is expected to reach HIPC completion point at the end of June, 2009.

in this area—in particular in poorer countries—may have significant benefits relative to the costs involved. In the area of institutions, the administration of fiscal resources tends to be weaker in the poorer LAC countries, and the IDB will continue to work to improve institutions in these countries to make them more accountable and to improve the quality of public spending to stimulate growth and welfare.

5.26 **The IDB is also committed to projects on climate change, the environment, and protection against the effects of natural disasters.** In poorer countries, unfortunately, there is a vicious circle at work as poverty leads to short-term planning horizons and the exploitation of the natural environment for survival, at the cost of medium-term sustainability and increased vulnerability to natural disasters. The IDB is sponsoring several innovative schemes to break this cycle to ensure better protection against disasters and to stimulate longer-term growth and prosperity. This may involve particular strategies in agricultural, management of environmental resources, and improved disaster planning, among others.

5.27 **The IDB has a very important role to play in stimulating private investment, employing all four of the private sector windows.** A significant challenge in the poorer countries is to develop the role of the private sector. In the end, the growth of the private sector will allow the poorest nations to gain greater prosperity. In Central America and in Haiti, recent trade agreements provide stimulus for private investment. Moreover, there are potential private sector projects in infrastructure and public private programs to complement the purely public policy actions in different sectors. The IDB's role in both assisting the public sector to design regulations and plan particular interventions, and in stimulating private sector investment in those sectors, will be particularly important for these five countries in the years to come.

D. The Increasing Demand for Private Sector Financing

5.28 **There is considerable empirical data that shows that the demand for financing from private sector clients greatly exceeds the Bank's lending capacity.** In this regard, the Bank has the opportunity to choose projects which are the most developmental. The decision to choose particular NSG projects for eligibility is based on multiple criteria. Each project should: (i) have high development value-added score; (ii) be congruent with country strategies; (iii) address a key market failure or information/regulation barrier; (iv) fill a financing or advisory gap that is not able to be filled by private sector entities; and (v) fit into one or more of the five key strategic pillars which conform to the Bank's institutional priorities. Given these criteria, Table V-5 identifies the projected private sector demands by strategic priority sector.

Table V-5
Projected Private Sector Demand by Sector

Strategic pillars	Sectors	Projected annual demand for projects that meet eligibility criteria (US$ millions)
Social policy for equity and productivity	Health, education, housing, food and nutrition, base of the pyramid, and job creation	$600–800
Infrastructure for competitiveness and social welfare	Infrastructure (power, transportation, telecom, water, and tourism)	$1,500–2,000
Institutions for growth and social welfare	Financing and advisory services for MFIs, SMEs, financial institutions that target low income segments, capital markets development, etc.	$800–1,000
Competitive regional and global integration	Trade, natural resources, and cross border investments	$300–500
Protecting the environment and responding to climate change	Renewable energy, energy efficiency, recycling industries, and biofuels	$800–1,000

5.29 The broad projections of demand are based on: (i) identifiable funding gaps for each of these strategic pillars; and (ii) aggregating projected sector demands for each of the 26 borrowing countries. These funding gaps include:

a. ***Infrastructure.*** On average, LAC countries spend less than 2 percent of GDP on infrastructure, whereas expenditures of 3 to 6 percent of GDP are needed to keep pace with many other emerging economies, particularly in Asia. At the EU-Brazil Investment Summit in 2008, President Lula da Silva said that Brazil needs to finance approximately $250 billion in its energy and infrastructure over the next few years, with much of the funding coming from Public-Private Investment (PPI) projects. This mirrors the anticipated growth in other LAC countries, where expected infrastructure investment needs for the region as a whole are projected to double over the next five years.[37]

b. ***Climate change.*** The International Energy Agency (IEA) estimates that the LAC region will need $3 to $5 billion in funding over the next five years. This funding will be concentrated in hydro, wind power, and biofuels.

E. Lending Trends and Demand for IDB Financing

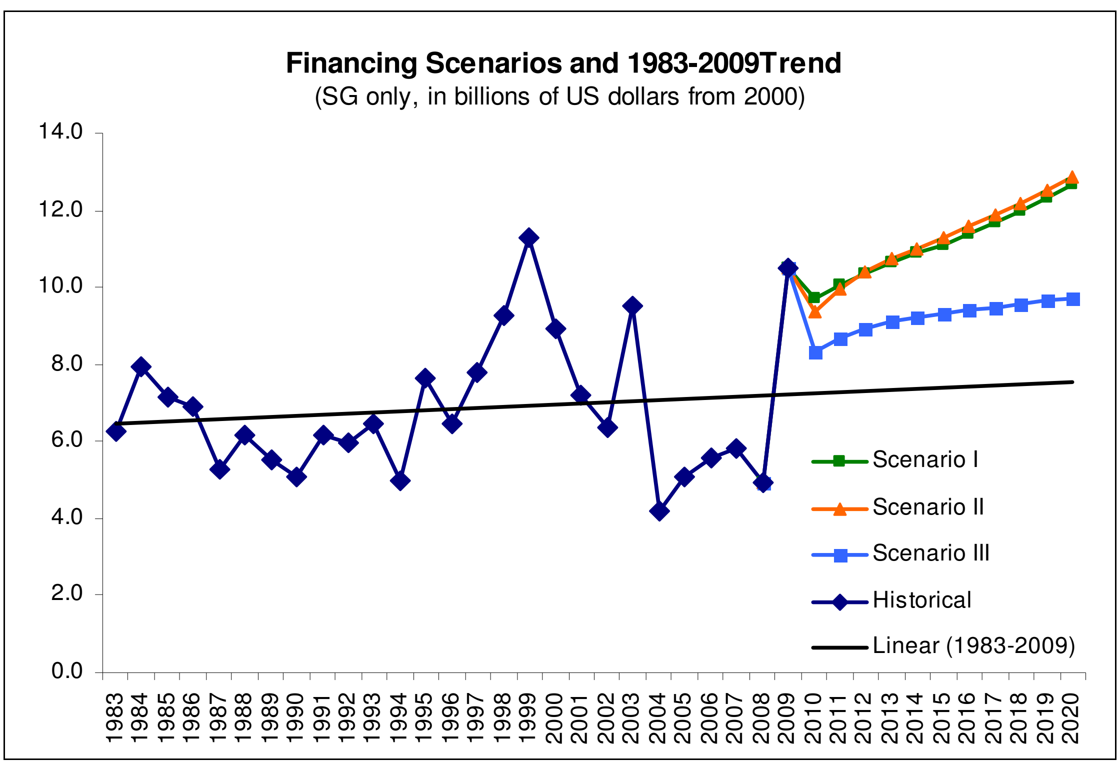
5.30 **The three scenarios we have presented in Table V-2, produced using different methodologies, yield figures for IDB lending in 2010-2020 that are between 2.4 and 2.9 times those corresponding to 1999-2008.** While such increases in demand may at first seem too large, it is important to take into account a number of considerations. First, the figures in Table V-2 are presented

[37] Source: CG/LA Infrastructure.

in nominal terms. The increase in the lending capacity of the Bank suggested by these three scenarios would be much smaller when considered in real terms. Second, even when measured in real terms, the history of IDB lending shows an upward trend, in spite of a very significant dip in disbursements associated to the period 2004-2008, characterized by easy and cheap access to international financial markets. Third, during the 1999-2008 period lending without sovereign guarantees was at a minimal level until 2006, and the comparison needs to take this into account.

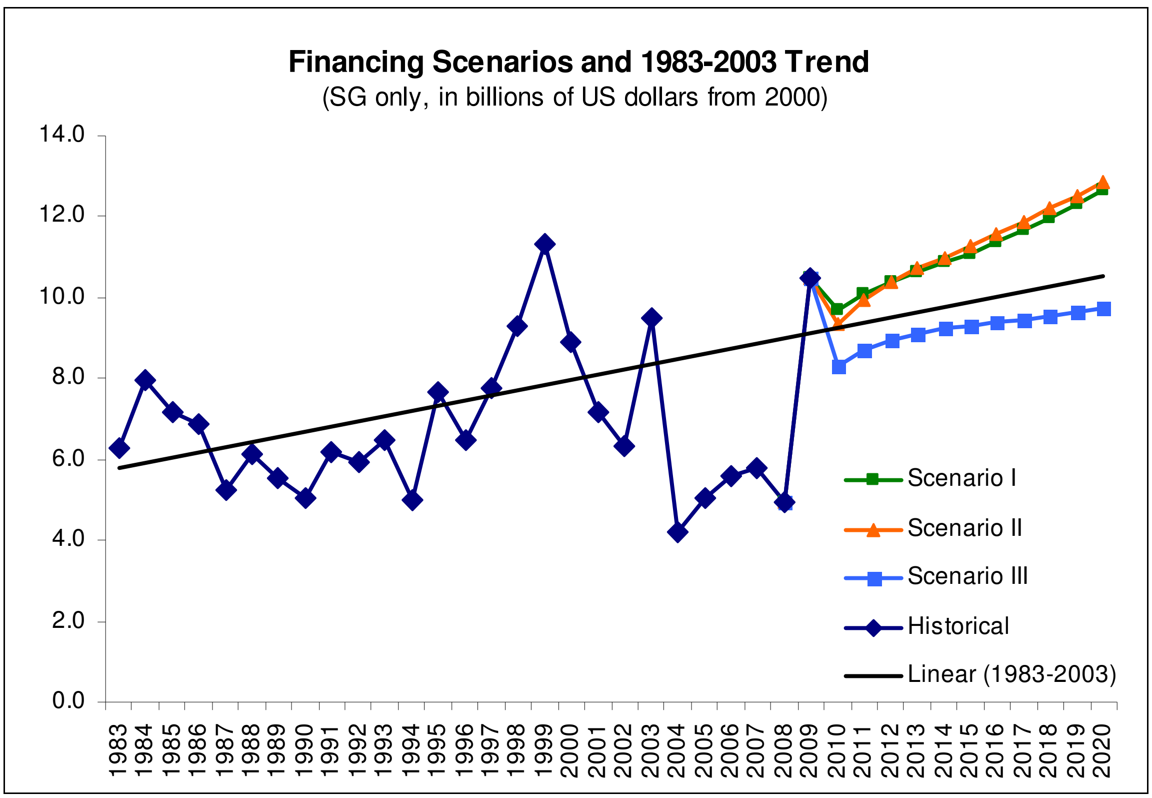
5.31 **How large are the three scenarios when compared to a counterfactual that takes into account these three considerations?** Figure V-2 presents IDB disbursements in billions of US dollars of 2000, as well as the projected level of lending implied by the three scenarios. The cyclical nature of Bank lending discussed above, with peaks during crises and lows during the easy money period, becomes immediately apparent. The Figure also presents a linear trend based on disbursements between 1983 and 2009. In order to make a relevant comparison, and consistent with the third consideration discussed above, the historical lending in the figure, as well as the projected demand, is restricted to SG. The question, then, is **how much larger is projected lending, as compared to the counterfactual given by the trend? The answer is that, in comparison to this counterfactual, the projected scenarios represent an increase in lending ranging between 23% (in the case of scenario 3) and 56 % (in the case of Scenario 2).**

Figure V-2



5.32 The cyclical nature of Bank lending discussed above, with peaks during crises and lows during the easy money period, becomes immediately apparent. While we tend to consider 2009 as an exceptional year (and it obviously is), the 2005-08 period may be exceptional as well. This is a period in which developing countries had unprecedented access to financial markets, at unprecedented interest rates. This was driven by a financial market bubble, and an appetite for risk that we are unlikely to see again, at least in the near future. In Figure V-3 we repeat the exercise of Figure V-2, but this time we construct the trend using only the period 1983-2003, excluding both the period of exceptional market access, as well as the current crisis of 2009.

Figure V-3



5.33 Two things should be noted from the Figure. The first one is that, once we project the trend from the experience of IDB lending during the 1983-2003 period, the exceptional nature of the 2004-2008 period becomes even more obvious. More importantly, once we use this trend as a counterfactual, it falls well within the range of our projected demand scenarios.

F. From Demand Estimates to Actual Lending

5.34 **Demand figures are plausible, yet they are not amounts of actual lending from the IDB to LAC countries in the medium term.** As indicated above, all the figures in this section are forward estimates of LAC countries demand for IDB lending in the period 2010-2020. The main purpose of the applied methodologies is to provide plausible orders of magnitude that are consistent both with fulfilling the Bank's mission and with sustainable growth and indebtedness levels in borrowing countries. As a result, the three methodologies generate lending scenarios that are consistent with historical trends in lending from the IDB between 1983 and 2009.

5.35 **The ability of the IDB to realize potential demand for lending depends on three main factors: the Bank's financial standing, its lending priorities and operational capabilities.** In turn, financial standing is given by the Bank's capital and financial policies; lending priorities respond to strategies, mandates and targets set at the highest corporate levels; and operational capabilities are the result of the Bank's organization, lending instruments and institutional efficiency. These capabilities are relevant not only from an internal point of view, but also for the way borrowers interact with the IDB, since countries tend to match their financing needs with what they perceive as feasible for the Bank, given its financial strength, lending priorities and operational capabilities. A good indication of this is how actual lending by the IDB has grown after every capital increase and after substantial institutional changes, like IDB-8 and the realignment of 2007.

5.36 **Delivering on potential demand in the amounts estimated above would require not only higher lending authority and more capital, but also enhanced flexibility and institutional capacity.** Even though the demand estimates are consistent with long-term trends, they are also significantly above recent lending levels in absolute terms. Therefore, in order to respond to the estimated demand the Bank should build up its organizational capabilities, not only in terms of speed in the preparation of loans, but also in securing good quality of operations, effectiveness in mobilizing its resources and good governance to handle a larger portfolio with transparency and strategic direction. As a result, for the IDB to be a bigger bank, it would also need to be a better bank.

VI. ENHANCING THE IDB'S RELEVANCE AS A DEVELOPMENT PARTNER: AN AGENDA FOR A BETTER BANK

6.1 **In order to increase the Bank's relevance as a development partner, Management has implemented, and will continue to implement, a series of measures to expand IDB's efficiency and effectiveness**. This chapter describes those measures implemented and under development to date that have led to improving the Bank's effectiveness and efficiency. Similarly, the Bank will develop an "Agenda for a Better Bank" that builds on these achievements.

6.2 This section describes the following measures: (i) improving the Bank's organizational capacity; (ii) implementing the international community's principles of effectiveness; (iii) expanding the Bank's core business to include KCO and nonlending value added products; (iv) improving risk management; (v) strengthening of the integrity agenda; and (vi) increasing the effectiveness of the Bank's human resource management framework **These areas are not exhaustive of the changes undergone by the institution, particularly over the last four years, but they provide an initial input into developing the "Agenda for a Better Bank".** The Agenda will be developed based on Governors recommendations, including the implementation of recommendations for the Bank's Anticorruption Framework and of the current policy on environment, changes to risk management, and enhancing gender and diversity in human resource management, among others.

F. Improving the Bank's Organizational Capacity

6.3 **The 2007 realignment implemented a new business model that capitalized on the Bank's comparative advantages**. Its objectives were to (i) increase country focus; (ii) deepen and increase sector expertise; (iii) place greater emphasis on developing the private sector windows; and (iv) establish mechanisms to improve efficiency and effectiveness.

6.4 **The implementation of the this realignment concentrated on migrating staff to the new matrix structure that combined a critical mass of technical staff in key sectors and reinforced country focus through decentralization to country offices.** The project cycle was revamped, replaced by a new results and risk based process that reduced the approval time for new operations from 12 to 7 months. A new unit was created to manage the administration of the Bank's TC program. As a result, TC approvals increased by more than 33 percent from 2007 to 2008. Furthermore, the emphasis given in the new structure to high demand sectors such as transportation, energy, education, water and sanitation, and urban development, translated into an increase in operations in these areas of 19 percent from 2007 to 2008. The implementation of the new business model in all Country Offices included reviews of the required technical expertise and allocation of staff to fiduciary and technical tasks, increasing the percentage of technical staff in Country Offices by 21 percent in 2008.

6.5 **Further strengthening of technical capabilities in the country offices, and deepening of the decentralization model is ongoing.** Management is also reviewing ways to further reduce transactions costs. The Client Satisfaction Survey system is in the implementation stage. Business reviews and reports to monitor progress in corporate priorities have been established. Several initiatives to increase the effectiveness of the Bank's human resource management framework are underway (see subsection F below). The Bank is also implementing an Information Technology Roadmap, which aims to integrate all of the Bank's systems, making information more accessible and complete. Additionally, efforts are being made to increase the transactional budget, which will help determine cost coefficients for operational products.

6.6 **An evaluation of the realignment results is scheduled at the end of 2009.** It aims to measure the achievement of outcomes proposed for the realignment, as well as identify changes that may be needed to enhance operating performance and improve the Bank's development effectiveness.

G. Implementing the Paris Declaration Principles and Accra Agenda for Action

6.7 In order to implement the principles of the 2005 Paris Declaration and the Accra Agenda for Action of 2008, there are ongoing efforts at the Bank to increase the effectiveness of interventions by building up and using country systems and implementing a results-based management framework.

6.8 ***Improving the development effectiveness of the Bank's interventions.*** **The Development Effectiveness Framework (DEF) was approved by the Board of Directors in October of 2008 (GN-2489).** It improves the effectiveness of the Bank's products by (i) setting clear standards and metrics for the evaluation of all development interventions; (ii) establishing a results framework to monitor progress in achieving the expected results; (iii) aligning governance structures to comply with good practice standards; and (iv) providing a monitoring instrument that focuses on outputs and outcomes rather than inputs. The DEF is based on the Multilateral Development Banks Evaluation Cooperation Group (MDB-ECG) good practice standards for evaluation of development interventions. All Bank programs are required to meet the evaluability criteria detailed in the DEF and provide a matrix of results for monitoring outputs and outcomes.

6.9 **The Bank's emphasis on understanding the relationship between its interventions and the achievement of development outcomes is essential in order to prioritize activities that provide the greatest impact and ensure accountability for results**. This requires an evaluation framework as part of project design as well as extensive training on designing impact evaluations for technical staff.

6.10 **To create a body of research that can translate into new effective approaches to policies and programs that provide sizable and sustained development outcomes, the Bank is launching the Development Effectiveness Overview (DEO).** It will include (i) a review of lessons learned in IDB strategic priority areas, both in terms of development and evaluation methodologies; (ii) an in-depth assessment of development effectiveness in a specific area, with emphasis on policy responses, the role of the Bank, and evidence on the effectiveness of the intervention models applied; (iii) guidelines for evaluation of projects in the specific area studied; and (iv) guidelines on development effectiveness evaluation for policymakers.

6.11 *Country Systems*. **A proposal will be presented soon to the IDB Board of Executive Directors that provides a strategic framework to strengthen country systems and mainstream their use in the design, implementation, and evaluation of Bank-financed operations.** This framework is based on the progress that the region has made in building up systems and the recognition that increased use of country systems brings about improved effectiveness in public sector management. The Bank has been involved in this strengthening process, undertaking pilots for use of systems in several countries.

6.12 **The country systems strategy is aligned to the priorities for action defined in the Accra Agenda for Action.**[38] The Bank will maintain and enhance interventions focused on their clients' development needs and the application of good international practices, and at the same time review systems to identify gaps with internationally accepted standards as part of the programming process agreed with governments. On this basis, a determination of whether to partially or fully use a given country systems will be made. A key element of the strategy is to work with the member countries and other donors to establish action plans for strengthening country systems.

6.13 ***Management for Development Results: Corporate Performance Monitoring.*** **This initiative is focused on ensuring that Bank decisions are based on clearly defined goals and indicators that measure the completion of outputs and achievement of development results.** There are four priorities in terms of monitoring the Bank's corporate-level results framework: (i) improving the development effectiveness of the Bank's interventions; (ii) increasing responsiveness to clients' views; (iii) improving organizational efficiency; and (iv) strengthening the Bank's culture. Indicators and targets are defined in view of the Bank's strategic objectives and geared to measure overall corporate performance**.** The Bank's objectives are translated into indicators tailored to the Bank's business and cascade throughout all organizational units to ensure alignment in the achievement of the Bank's strategic objectives.

6.14 **Instruments to monitor progress are currently being implemented.** The Progress Monitoring Report (PMR) is a results-based monitoring instrument that measures aims to capture performance in development effectiveness and provide the inputs for a new project completion report. Other instruments under development include a monitoring framework for implementation of country strategies and a client feedback system. Quarterly Business Reviews (QBR) measure the Bank's budgetary efficiency, financial resource mobilization, lending capacity, portfolio quality and performance management, and responsiveness (measured by cycle time of key business processes). Finally, metrics that gauge employee engagement, satisfaction, and development are collected Gender diversity in management positions is also carefully tracked.

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[38] The strategy includes systems for financial management and procurement (fiduciary), and monitoring and evaluation, statistics and environmental assessment (nonfiduciary).

H. Increasing Value Added through Knowledge Transfer, KCP, and New Financial Products

6.15 **In order to enhance the Bank's relevance as a development partner, the framework under which it provides nonfinancial value added to borrowing countries must be improved.** The Bank has been a provider of technical assistance for the region throughout its fifty years of existence and has continually adapted global knowledge to the region's reality. The Bank is now closely linking its analytical work with country development issues as a way to consolidate its long-term engagement with the countries and assist them with or without the use of financial products. The Bank intends to build the KCP platform as a core business, comparable to its lending products. The proposal, currently being discussed by Management separates KCP from operational and corporate inputs, and adapts funding and operational and accountability arrangements for them. KCPs will be incorporated into the institution's medium-term strategic planning, programming, and annual operational cycle with each borrowing member country. In 2008, time spent on KCPs increased by 37 percent over 2007 levels.

6.16 **To better respond to the different purposes of KCPs, the strategy proposes that individual products follow differentiated operational streams adapted to their distinct objectives, motivations, and dynamics**. Products will be organized on the basis of broad categories that aim to secure their stability and strategic direction and will be managed within a two-year rolling program. In 2009, KCPs have been budgeted separately, ensuring that resources are allocated for them independently of the budget assigned to lending products.

6.17 **The Banks is considering other nonlending, value added financial products based on the need to both manage its own risk adequately and respond to the needs of increasingly sophisticated borrowers**. As part of the New Financial Products Framework, Management is evaluating such products, including extended use of guarantees or disaster management and hedging instruments.

I. Improving Risk Management

6.18 **The Bank has overhauled its risk management structure and capacity, recognizing that managing risk is an integral element for the Bank to achieve its objectives ethically and in a transparent manner.** The following two sections (D and E) discuss the changes implemented and ongoing initiatives in the areas of risk management and the Bank's integrity agenda. The changes have been large in these two areas over the last four years, so an overview of the main accomplishments and ongoing activities is provided here.

1. Enhancing Oversight of Portfolio Risk Management

6.19 **As part of the 2007 realignment, the Bank's different risk units were combined in the Office for Risk Management and placed within the Bank's strategic core.** Currently, Management is overhauling its risk management framework by conducting a systematic review of risk management policies, strategies, and practices in the following five areas:

a. **A review of the *Capital Adequacy* policy**. It aims to include the financial risks in the liquidity portfolio that impacted the Bank in the last two years. At the same time, the policy is being adapted for the larger NSG portfolio and crucial assumptions/methodologies are being reviewed. The most recent update on revising policy and Capital Adequacy Model is given in document GN-2515.[39]

b. **A review of the *Asset/Liability Management* policy.** It aims to improve overall management of new financial products and implement the changes related to capital adequacy and investment strategy. The new policy will be presented to the Board of Directors by the end of 2009. Complementing the policy, the bank is also engaged in a redefinition of the functions of the Assets and Liabilities Committee (ALCO), which is expected to take place by the end of the second quarter of 2009.

c. **A comprehensive review of the Bank's *Investment Strategy* for the Investment Portfolio**. This review includes a MDB comparison study to benchmark IDB's investment policies and practices with those of its peers, and an analysis of a new investment strategy. This review will introduce a number of improvements, such as a strategic asset allocation process to better align the structure and strategy of the main investment portfolios with liquidity objectives. Each of the main portfolios will be optimally restructured with clear objectives, redefined roles, and appropriate risk/return tradeoffs, market and credit risk constraints, and liquidity requirements for eligible instruments. This review will be presented to the Budget and Financial Policy Committee of the IDB Board of Directors in June 2009.

d. **An enhanced *Portfolio Analytics* capability.** Management is upgrading its systems and tools in this area. The project will be completed in phases throughout 2009 and part of 2010. Its objective is to provide the portfolio analytics required to optimally manage risks and returns of the Bank's investment portfolio and implement risk diversification strategies.

e. **A study to define an *Operational Risk Framework*, in line with the Bank's unique characteristics and using as a reference several industry practices.** Broadly defined, *Operational Risk* refers to the "breakdown in system, procedures, and supervision that could result in financial losses."[40] This risk will continue to be managed at the source of the risk (i.e., the business units), but increased coordination, monitoring and, in the long run, measurement will be done at a corporate level. The first phase of the study

[39] *Options for expanding the Bank's Ordinary Capital lending capacity to respond to the financial/economic crisis in the region.*
[40] Document GA-232, "Realignment of the Bank to Take on its Strategic Challenges." Approved by the Board of Directors on December 14, 2006.

has been completed and proposals on the desired approach will be presented for discussion in late 2009, with gradual implementation in the coming years.

6.20 **An integrated analytical tool that will support the implementation of the changes in the five areas has been acquired and is currently being implemented with a completion date in the fourth quarter of 2009**. The tool will provide a common platform for the measurement and management of risks for various functional areas of the Bank.

2. Enhancements to other Risk Management Approaches

6.21 ***Environmental and Social Risk.*** **The Bank has changed the way it implements** Environmental and Social (E&S) risk management by basing it on a due diligence approach. To ensure that environmentally and socially sensitive projects receive appropriate attention and resources throughout design and implementation, the Bank incorporates relevant safeguards expertise in projects at an early stage. To provide the needed expertise and support to E&S, the Bank created the Environmental and Safeguards Unit (ESG), which reports directly to the Vice President for Sectors and is in charge of addressing environmental and social risk management issues for all Bank products.

6.22 **The Bank is conducting a review of ESG's operations**. Options are being considered to strengthen the implementation of the checks and balances established to ensure the highest standards of quality in the E&S risk management of all Bank-financed operations. As part of its extensive public consultation process on the ESG compliance, a Blue Ribbon Panel on Environment was formed in 2004. This advisory group was created to advise on the Bank's ESG policy and increase the Bank's role in supporting countries in the region to achieve sustainable development. The panel's recommendations on the realignment were broadly discussed and adopted for the most part, and the Bank continues to consult the panel on ESG matters.

6.23 ***Managing risks in the project cycle.*** **As part of the new business model, the Bank has defined standardized risk management processes as an integral part of project design and execution**. The new approach uses the identification, evaluation, mitigation, and monitoring of risks in close collaboration with the borrower as the basis for continued decision making throughout the project cycle, with a view to (i) identify the major risks that could prevent a project from achieving its stated objectives; (ii) mitigate these risks through concrete action plans; (iii) assign responsibilities for the execution of these action plans; and (iv) monitor the execution of the action plans throughout the project.

6.24 **Between August and October of 2008, the new risk management standards were applied on a series of pilot projects.** The objective was to validate the benefits of the proposal with project teams and stakeholders in the field and support KNL in the design of training materials. Lessons learned of these pilots were integrated in the final proposal and in related initiatives. Management's final proposal is expected shortly and the rollout of the new project risk management guidelines is expected in July 2009.

J. Strengthening the Integrity Agenda

6.25 **In 2001, the Bank approved the Systemic Framework against Corruption (GN-2117-3).** The framework identified necessary measures to enable the Bank to strengthen and further integrate its current actions against corruption. It has three pillars, two of which relate to the Bank's internal management of corruption. This section described initiatives implemented in these two pillars.

1. Ensure that Bank Staff Acts in Accordance with the Highest Levels of Integrity

6.26 **The Bank recognizes the need for employees to meet the highest standards of behavior to earn the public trust and to maintain a positive and productive work environment.** In 2006, the Bank unveiled a new Code of Ethics and Professional Conduct, further refined in 2007. The new ethics code merged issues of ethics and conduct in the workplace into one set of rules. Furthermore, it created the Ethics and Professional Conduct Committee to recommend sanctions to violations of the Ethics Code. At the same time, the Ethics Office was created to provide guidance on ethical matters, process allegations of misconduct, and deal with potential conflicts of interest. Throughout 2006 and 2007, all IDB employees took part in mandatory ethics training.

6.27 **The volume and variety of ethics activities at the Bank has increased markedly since the establishment of the Ethics Office**. Going forward, the Bank anticipates expanding its ethics program and modifying the Ethics Office's internal structure as well as institutional placement, to better reflect the institutional importance of its functions and to bring the Bank in line with comparator organizations.

2. Ensure that Activities Financed by the Bank are Free of Fraud and Corruption and Executed in a Proper Control Environment

6.28 ***Increasing institutional capacity to prevent and fight fraud and corruption.*** **Additional to the work being done to improve risk management of the institution, the Bank has strengthened its anticorruption framework through the creation of bodies that have specific roles in the process of oversight and sanctions in Bank-financed programs.** It has made public a list of sanctioned individuals and firms since 2007, a step that conveys the seriousness with which the Bank deals with these issues. In addition, apparent violations of the laws of member countries may be referred by the Bank's president to the appropriate governmental authorities, upon a recommendation of the Oversight Committee on Fraud and Corruption (OCFC).

6.29 **In terms of prevention, the Office of Institutional Integrity (OII) has implemented programs for analysis and early detection of integrity issues in**

Bank programs. The Integrity Risks Reviews, prepared by this office, analyze information gathered from allegations and investigations, monitor progress and audit reports to identify potential fraud and corruption risks in a given sector, and recommend mitigation measures. Two such reviews were prepared in 2008. Additionally, OII developed a Red Flags Matrix, an interactive tool designed to help fiduciary specialists with early detection and prevention of fraudulent and corrupt practices in project procurement. A pilot phase was launched in February 2009 in several countries.

6.30 **An independent external review of the Bank's capacity and mechanisms to detect fraud and corruption was conducted in 2008**. Management is currently discussing with the Audit Committee of the Board of Directors a program of comprehensive enhancements to the Bank's anticorruption system stemming from the recommendations of the panel (GN-2440-1 and GN-2440-3). This will be complemented with proposals to strengthen the Bank's support to LAC countries in their transparency and anticorruption strategies.

6.31 ***Independent Investigation Mechanism***[41]**. In 2008, Management appointed a working group to recommend ways to improve the Independent Investigation Mechanism that was set up in 1994.** A new *Independent Consultation and Investigation Mechanism* was proposed. Its main elements include the following: (i) the addition of a consultation phase, which provides an innovative and flexible forum for consideration of the concerns of local communities about Bank projects; (ii) a more targeted policy focus, reviewing potential violations of the relevant Bank policies; (iii) changes to the organizational structure, to ensure that findings are reliable and to facilitate the Board's oversight of Management's adherence to policies; and (iv) a streamlined decision-making process, including the introduction of time-bound decisions to promote certainty, credibility, and transparency. Management received authorization from the Board of Executive Directors to submit the proposal to a public consultation, which is in process. Upon consideration of the comments received, the Administration will present the final version to the Board of Executive Directors for approval.

K. Increasing the Effectiveness of the Bank's Human Resource Management Framework

6.32 **In order to continue to build and reinforce the Bank's organizational capability, the IDB is defining initiatives and programs to attract, develop, and retain the best possible human capital.** Developing a comprehensive talent management framework that aligns the identification, development, and

[41] The Bank's Board of Governors created the Independent Investigation Mechanism in 1994 as a tool to increase the transparency, accountability and effectiveness of the Bank's performance. The Mechanism establishes a process for the independent investigation of allegations of local populations claiming to be affected by Bank projects and assesses whether the Bank has correctly applied its own operational policies. The Bank was a pioneer among other multilateral institutions in implementing its accountability mechanism.

evaluation of talent with business priorities (client/country focus) will ensure "the right person for the right job." Also, a new career development model is being defined that would enable and promote mobility; performance-based career management; and advancement, organizational renewal, and flexibility, as well as the development of a culture of knowledge sharing. Additionally, the Bank gives great importance to diversity in its staff, both in terms of gender and ethnic background. For this reason, a position of Diversity Advisor to the Human Resource Manager has been created and filled. Finally, the Bank has reinforced the role of the Ombudsperson in promoting good practices in personnel management, greater organizational and operation efficiency, and a more harmonious and productive work environment.

6.33 **To support the organization in the attainment of its goals, additional emphasis is being given to revamping and sustaining the role of supervisors through a management development program.** New feedback mechanisms that include confidential inputs from all employees regarding skills and performance benchmarked against the Bank's expected supervisory behaviors (managing resources, leading and developing people), serve as a platform for line supervisors to create individual development plans aimed at reinforcing expected supervisory behaviors. Bank support is being expanded in executive coaching, conflict management, constructive and collaborative thinking, leadership, and teamwork, among other areas.

Annex 1 A
Evolution of Development Outcomes

Annex 1.1 Per Capita Gross Domestic Product (Constant 2008 US Dollars)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
1994	6556.61	3795.10	5557.27	1690.46	5390.51	32717.78	2029.83
1995	6437.92	4300.58	5520.98	1808.08	5405.55	34633.27	2241.29
1996	6760.66	4246.90	5846.71	1857.80	5641.92	33754.56	2397.94
1997	7094.25	4548.51	5983.10	1960.98	5912.32	32217.29	2152.52
1998	6866.35	4132.33	6157.58	1954.84	5695.53	31722.62	1313.61
1999	5839.24	3577.71	6081.64	1773.46	4893.36	32352.20	1527.52
2000	6279.35	3441.29	6201.18	1751.63	5162.12	31467.91	1541.16
2001	5817.02	3185.84	5919.20	1797.67	4809.88	29995.76	1418.24
2002	4912.78	3133.75	5366.67	1783.33	4181.38	30867.89	1568.91
2003	4934.63	3147.05	5356.70	1765.13	4193.20	33581.25	1703.68
2004	5466.12	3714.77	5690.13	1862.85	4658.86	36099.32	1813.75
2005	6403.61	4378.25	6257.08	2125.65	5439.35	36672.98	1935.66
2006	7242.91	4905.35	6828.39	2236.29	6110.15	36955.36	2230.00
2007	8150.51	5642.38	7531.67	2446.67	6877.54	39329.60	2558.61
2008	8958.35	5985.47	8430.44	2654.50	7520.03	40568.63	2824.21
Mean	**6514.69**	**4142.35**	**6181.92**	**1964.62**	**5459.45**	**34195.76**	**1950.46**

Source: Authors calculations based on World Economic Outlook data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country

Annex 1.2.a Gross Domestic Product Annual Growth Rates
(In percentage) (GDP weighted)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
1994	4.30	7.17	3.55	2.99	4.02	3.09	8.17
1995	-0.44	8.64	2.49	4.10	2.85	2.58	8.61
1996	3.68	4.82	4.18	3.33	3.99	3.16	7.73
1997	6.39	5.81	5.03	4.65	5.37	3.86	4.57
1998	2.58	1.67	5.44	3.49	4.05	3.49	-6.30
1999	-1.41	-1.11	2.87	3.29	1.62	3.57	4.69
2000	3.09	3.74	2.13	4.67	2.92	4.57	6.88
2001	-0.54	2.39	0.29	2.91	0.74	2.12	1.10
2002	-2.95	2.95	1.97	2.56	1.50	1.67	5.04
2003	1.18	4.14	4.40	3.69	3.69	1.96	5.92
2004	8.54	5.47	3.88	3.91	4.89	3.54	6.32
2005	6.09	5.87	4.55	4.54	4.98	3.15	5.26
2006	6.86	5.80	6.65	5.59	6.41	3.84	5.77
2007	6.29	6.29	5.01	4.81	5.39	3.40	6.13
2008	4.40	4.52	2.80	4.14	3.56	1.13	4.48
Mean	**3.20**	**4.54**	**3.68**	**3.91**	**3.73**	**3.01**	**4.96**

Source: Authors calculations based on World Economic Outlook data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, India, and Sri Lanka.

Note: Averages by country group or region are weighted considering the gross domestic product in each country

Annex 1.2.b Gross Domestic Product Annual Growth Rates
(In percentage) (Simple average)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
1994	3.44	7.89	3.46	2.34	3.49	3.14	7.15
1995	-0.21	8.15	2.09	4.89	3.62	3.39	7.48
1996	3.16	3.99	3.65	3.84	3.69	3.36	6.66
1997	6.16	5.67	4.90	4.53	5.03	3.94	4.42
1998	2.27	1.06	4.90	3.08	3.28	3.55	-5.36
1999	-1.31	-1.22	2.72	2.37	1.50	3.32	3.82
2000	3.45	3.45	1.96	3.16	2.87	4.35	6.15
2001	0.04	1.97	1.00	2.45	1.58	1.99	1.31
2002	-4.07	3.21	1.49	2.64	1.32	2.19	4.72
2003	0.98	4.21	4.78	2.80	3.29	2.22	5.72
2004	9.26	5.23	4.85	3.35	4.94	3.81	6.00
2005	6.47	6.04	4.84	3.84	4.80	3.35	5.36
2006	6.98	6.42	6.32	5.08	5.91	3.92	5.91
2007	6.51	7.03	5.70	4.79	5.59	3.59	6.31
2008	4.55	5.19	3.64	3.91	4.07	1.22	4.77
Mean	**3.18**	**4.55**	**3.75**	**3.54**	**3.67**	**3.16**	**4.69**

Source: Authors calculations based on World Economic Outlook data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, India, and Sri Lanka.

Annex 2.1 School Enrollment Rates by Educational Level (In percentage)

Year	LAC groups A	LAC groups B	LAC groups C	LAC groups D	LAC	OECD	ASIA
Pre-Primary (Gross rate)							
1999	61.40	50.29	n.a.	42.66	57.23	72.26	38.88
2000	63.60	52.78	57.86	44.86	59.21	73.54	39.69
2001	66.70	50.49	61.81	46.13	61.20	75.12	40.09
2002	61.64	47.76	65.01	42.72	56.98	75.84	41.49
2003	70.10	47.48	64.67	43.64	62.74	75.07	43.94
2004	69.13	49.14	69.22	44.83	62.63	75.09	44.74
2005	75.47	51.43	75.05	45.87	67.57	76.72	47.49
2006	78.51	52.04	77.17	49.39	70.24	78.02	49.02
Mean	**68.32**	**50.18**	**67.26**	**45.01**	**62.23**	**75.63**	**43.17**
Primary (Net rate)							
1999	93.55	92.58	91.24	88.27	92.67	97.21	92.79
2000	93.94	93.06	92.89	90.02	93.27	97.38	93.11
2001	94.56	92.30	92.99	90.58	93.64	97.20	93.79
2002	94.44	92.82	92.30	91.54	93.81	96.55	94.04
2003	93.54	91.36	92.27	92.29	93.05	96.23	94.51
2004	95.82	90.00	94.49	91.96	94.46	95.64	94.57
2005	95.56	92.33	94.18	92.15	94.61	95.51	94.59
2006	95.57	91.54	94.95	92.42	94.56	95.60	94.67
Mean	**94.62**	**92.00**	**93.16**	**91.15**	**93.76**	**96.42**	**94.01**
Secondary (Net rate)							
1999	60.80	57.75	n.a.	37.30	58.01	91.16	50.11
2000	63.08	60.20	68.63	43.55	60.32	90.57	50.30
2001	65.64	59.56	68.76	46.68	62.40	91.00	50.53
2002	69.83	60.85	68.84	48.38	66.07	90.67	55.65
2003	71.46	60.64	69.07	49.43	67.34	91.91	56.77
2004	73.39	60.81	70.87	50.81	68.73	90.01	58.56
2005	74.51	64.50	70.49	52.54	70.25	90.36	60.94
2006	75.26	67.69	68.42	53.10	71.24	90.09	62.61
Mean	**69.25**	**61.50**	**69.30**	**47.72**	**65.55**	**90.72**	**55.68**
Tertiary (Gross rate)							
1999	20.36	26.35	24.49	20.85	21.30	55.47	n.a.
2000	22.08	28.59	25.96	21.48	23.31	55.37	21.72
2001	24.10	29.34	27.05	18.98	24.63	56.89	22.59
2002	26.42	29.75	27.31	22.48	26.58	61.68	23.34
2003	28.31	30.06	28.31	22.84	28.00	63.66	24.19
2004	29.70	31.98	31.00	23.10	29.39	64.63	24.44
2005	31.17	34.10	34.16	23.57	30.96	65.60	24.77
2006	31.81	35.12	35.14	n.a.	31.61	66.52	24.82
Mean	**26.74**	**30.66**	**29.18**	**21.90**	**26.97**	**61.23**	**23.70**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 3.1 Maternal and Infant Mortality Rates

Year	LAC groups A	LAC groups B	LAC groups C	LAC groups D	LAC	OECD	ASIA
Maternal mortality rate (modeled estimate, per 100,000 live births)							
2005	87.93	143.21	73.47	275.88	124.25	10.00	294.47
Mean	**87.93**	**143.21**	**73.47**	**275.88**	**124.25**	**10.00**	**294.47**
Infant mortality rate (Per 1,000 live births)							
1995	34.02	30.51	21.07	50.66	35.44	9.42	36.73
2000	27.63	22.66	19.06	41.15	28.54	7.68	28.27
2005	23.11	17.10	17.73	34.15	23.62	6.36	22.49
2006	22.30	16.22	17.42	32.85	22.75	6.10	21.37
2007	21.57	15.37	17.16	31.56	21.94	5.80	20.27
Mean	**25.73**	**20.37**	**18.49**	**38.07**	**26.46**	**7.07**	**25.83**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 3.2 Malnutrition Prevalence (% of children under 5)

Year	LAC groups A	LAC groups B	LAC groups C	LAC groups D	LAC	OECD	ASIA
Height for age (% of children under 5)							
1995	13.50	24.40	9.50	37.57	19.52	7.11	n.a.
2000	21.70	23.28	7.01	31.08	23.72	n.a.	40.39
2004	n.a.	16.20	9.73	29.09	16.39	6.18	30.03
2005	13.51	16.20	9.72	30.17	16.70	6.19	25.73
2006	9.86	12.33	n.a.	29.78	11.02	n.a.	15.70
Mean	**14.64**	**18.48**	**8.99**	**31.54**	**17.47**	**6.49**	**27.96**
Weight for age (% of children under 5)							
1995	4.50	6.06	4.00	16.55	6.63	2.36	n.a.
2000	6.00	5.02	4.75	12.41	6.91	n.a.	23.35
2004	3.46	5.10	4.71	n.a.	n.a.	1.73	19.98
2005	3.10	5.10	4.71	9.63	4.61	1.73	20.53
2006	2.59	3.86	n.a.	n.a.	3.25	n.a.	20.55
Mean	**3.93**	**5.03**	**4.54**	**12.86**	**5.35**	**1.94**	**21.10**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 3.3 Immunization Rates (DPT and Measles) (% of children ages 12-23 months)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
	Immunization DPT						
1994	79.12	87.86	88.04	72.41	79.84	89.73	75.55
1995	83.47	88.82	87.97	73.25	83.01	88.46	76.19
1996	81.54	86.58	89.09	73.38	81.41	92.74	78.39
1997	83.35	82.16	91.96	72.36	81.84	89.95	80.55
1998	88.98	80.82	89.97	75.08	85.69	91.03	81
1999	92.39	83.55	88.62	75.84	88.46	92.21	81.18
2000	94.51	82.64	90.05	78.91	90.2	91.75	81.63
2001	93.99	86.4	92.36	78.26	90.43	94.35	82.12
2002	95.14	90.44	93.29	79.69	92.06	93.64	78.79
2003	95.23	92.89	89.44	79.5	92.37	93.83	80.86
2004	95.29	90.39	91.45	78.87	91.96	95.15	82.33
2005	95.69	88.38	90.78	81.22	92.22	95.65	83.22
2006	96.06	90.03	91.76	82.10	92.89	95.72	83.56
2007	95.74	89.09	89.13	81.71	92.39	95.96	83.35
Mean	**90.75**	**87.15**	**90.28**	**77.33**	**88.20**	**92.87**	**80.62**
	Immunization Measles						
1994	84.17	84.9	85.92	72.9	82.74	84.76	72.95
1995	86.39	n.a.	88.46	76.87	86.69	85.84	71.77
1996	84.81	n.a.	89.28	75.26	85.06	88	81.41
1997	93.74	84.12	92.35	74.19	89.34	88.57	81.32
1998	95.52	84.14	89.11	81.69	91.5	88.51	80.59
1999	96.22	84.35	88.68	85.63	92.54	89.58	80.47
2000	96.14	86.18	88.28	83.89	92.52	90.19	79.33
2001	96.65	93.36	88.85	87.14	94.5	91.08	78.68
2002	95.57	92.04	88.63	84.89	93.23	90.9	78.97
2003	96.72	93.71	86.77	87.12	94.53	91.04	82.45
2004	96.60	91.43	92.09	87.56	94.30	91.52	82.97
2005	96.41	86.35	92.05	88.96	93.56	92.58	85.35
2006	94.61	92.03	90.86	89.49	93.32	93.32	86.42
2007	94.81	95.51	88.51	88.40	93.78	93.12	86.37
Mean	**93.45**	**89.01**	**89.27**	**83.14**	**91.26**	**89.93**	**80.65**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 3.4 Births Attended by Skilled Health Staff (% of total)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
1994	n.a.	n.a.	87.44	36.68	70.21	90.79	44.23
1995	87.60	78.96	97.01	50.59	79.56	99.59	42.26
1996	87.59	78.98	97.64	52.15	82.81	99.23	48.37
1997	88.70	72.64	96.16	69.58	85.86	97.12	50.38
1998	89.90	n.a.	96.08	72.31	87.13	96.46	51.34
1999	96.12	80.33	95.79	66.03	81.71	93.34	63.17
2000	96.36	80.39	97.74	66.32	88.29	98.69	69.78
2001	96.15	80.40	97.50	n.a.	86.93	98.86	72.00
2002	96.30	n.a.	96.79	68.41	93.25	97.25	66.33
2003	96.25	83.29	97.00	72.59	92.20	97.78	67.05
2004	92.84	89.78	96.82	76.89	91.26	97.77	70.55
2005	91.29	89.41	96.61	69.04	87.18	99.51	78.96
2006	95.04	89.03	94.26	65.30	89.51	99.93	n.a.
2007	95.04	n.a.	93.04	65.91	87.25	99.94	n.a.
Mean	**93.01**	**82.32**	**95.71**	**63.98**	**85.94**	**97.59**	**60.37**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 4.1 Improved Water Source and Sanitation Facilities (% of Population with Access)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
Improved water source (% of population with access)							
1995	88.47	86.87	95.02	75.99	86.63	98.77	81.26
2000	91.10	88.21	95.36	80.92	89.19	99.10	83.99
2005	92.84	90.54	95.85	85.45	91.39	99.42	86.69
Mean	**90.80**	**88.54**	**95.41**	**80.79**	**89.07**	**99.10**	**83.98**
Improved sanitation facilities (% of population with access)							
1995	73.21	70.76	87.45	59.62	71.31	98.67	61.20
2000	76.42	74.38	88.80	62.91	74.41	98.74	66.36
2005	79.90	79.11	89.58	66.11	77.92	98.82	68.26
Mean	**76.51**	**74.75**	**88.61**	**62.88**	**74.55**	**98.74**	**65.27**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 4.2 Electricity Access (% of total population)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
2000	94.83	81.89	91.39	62.94	88.05	99.66	67.69
2006	96.35	84.03	94.11	74.10	91.02	100.00	71.01
Mean	**95.59**	**82.96**	**92.75**	**68.52**	**89.54**	**99.83**	**69.35**

Source: Authors calculations based on International Energy Agency data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country.

Annex 4.3 Paved Roads and Roads Network

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
Roads Network (Km) / Territorial Extension (Km2)							
1994	0.19	0.09	0.93	0.16	0.19	1.35	0.32
1995	0.18	0.09	0.94	0.16	0.18	1.36	0.31
1996	0.2	0.09	0.95	0.17	0.19	1.39	0.31
1997	0.18	0.09	0.94	0.17	0.12	1.41	0.31
1998	0.18	0.09	0.95	0.17	0.18	1.4	0.28
1999	0.17	0.09	0.93	0.17	0.18	1.36	0.28
2000	0.17	0.12	0.93	0.17	0.18	1.35	0.28
2001	0.17	0.12	0.93	0.17	0.18	1.43	0.34
2002	0.18	0.12	0.96	0.17	0.18	1.36	0.39
2003	0.18	0.12	0.96	0.12	0.19	1.38	0.39
2004	0.19	0.12	0.97	0.12	0.19	1.38	0.40
Mean	**0.18**	**0.10**	**0.94**	**0.16**	**0.18**	**1.38**	**0.33**
Roads paved (% of total)							
1994	19.09	11.95	50.62	21.35	19.2	71.57	53.82
1995	19.65	11.19	51.18	21.33	19.47	73.61	53.43
1996	20.01	12.73	51.78	21.4	19.99	73.57	50.24
1997	19.21	12.93	50.74	22.52	19.6	74.32	55.71
1998	20.82	14.64	51.27	23.31	21.08	72.35	51.81
1999	18.27	14.83	52.57	25.92	19.86	72.76	51.21
2000	18.22	14.83	n.a.	26.06	19.37	73.62	57.39
2001	18.3	15.92	n.a.	25.76	19.88	n.a.	57.71
2002	32.71	16.57	n.a.	25.78	28.99	81.23	n.a.
2003	34.19	13.11	n.a.	n.a.	28.73	79.83	n.a.
2004	34.59	14.4	n.a.	n.a.	29.65	79.43	n.a.
Mean	**23.19**	**13.92**	**51.36**	**23.71**	**22.35**	**75.23**	**53.92**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 4.4 Telecommunications Access (per 100 people)

Year	LAC groups A	B	C	D	LAC	OECD	ASIA
Telephone lines (per 100 people)							
1994	9.22	7.99	14.17	3.73	8.39	47.26	2.66
1995	9.77	9.1	15.13	4	8.99	48.81	3.28
1996	10.45	10.82	16.36	4.5	9.84	50.35	3.9
1997	11.26	12.59	18.89	5.07	10.81	52.01	4.46
1998	12.23	13.97	20.38	5.58	11.79	52.86	4.81
1999	13.9	14.38	21.63	6.18	13.09	54.32	5.08
2000	16.11	15.1	22.4	6.65	14.76	55.04	5.38
2001	18.37	15.13	22.46	6.96	16.31	54.7	5.66
2002	18.81	15.5	22.43	7.18	16.68	54.16	5.85
2003	19.36	15.35	23.1	7.58	17.1	53.04	5.86
2004	19.88	15.17	24.56	8.07	17.52	52.06	6.39
2005	20.40	15.46	24.24	8.50	17.95	50.87	7.14
2006	20.11	15.54	23.78	9.01	17.83	49.47	7.58
2007	20.26	15.90	23.76	9.16	18.02	48.11	8.47
Mean	**15.72**	**13.71**	**20.95**	**6.58**	**14.22**	**51.65**	**5.47**
Mobile cellular subscriptions (per 100 people)							
1994	0.56	0.35	0.36	0.11	0.46	4.95	0.45
1995	0.9	0.73	0.86	0.28	0.78	7.82	0.86
1996	1.52	1.37	1.47	0.42	1.34	12.13	1.37
1997	2.94	2.71	1.98	0.87	2.57	16.83	1.78
1998	4.75	4.47	3.24	1.76	4.23	23.59	1.91
1999	9.25	6.57	6.22	3.72	7.93	34.09	2.81
2000	14.76	8.57	11.01	6.23	12.41	48.17	4.86
2001	18.87	12.38	15.56	8.98	16.28	56.8	8.78
2002	21.61	15.81	21.87	12.23	19.31	61.82	11.92
2003	26.36	19.44	27.65	15.71	23.72	67.81	18.74
2004	35.91	27.82	37.28	21.38	32.5	74.87	26.36
2005	47.29	43.96	47.64	30.65	44.3	83.32	32.83
2006	57.16	58.30	67.04	44.35	55.73	91.26	41.14
2007	69.19	71.56	77.95	59.81	68.44	98.40	57.56
Mean	**22.22**	**19.57**	**22.87**	**14.75**	**20.71**	**48.70**	**15.10**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 5.1 Poverty Headcount Ratio (% of Population)

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
Poverty headcount ratio at $2 a day (PPP) (% of population)							
1994	19.07	18.76	17.14	32.34	20.07	n.a.	43.01
1995	18.96	18.98	11.65	26.73	19.4	n.a.	34.47
1996	20.09	20.3	12.02	24.54	20.24	n.a.	30.56
1997	20.48	23.28	10.03	27.68	21.11	n.a.	30.3
1998	20.11	23.43	9.5	29.74	21.37	n.a.	29.34
1999	19.56	23.24	10.55	26.67	20.71	n.a.	33.74
2000	16.42	22.62	10.55	32.57	21.53	n.a.	33.81
2001	19.16	23.18	10.03	33.84	21.35	n.a.	32.69
2002	19.49	21.69	10.3	32.64	21.53	n.a.	32.24
2003	18.84	21.7	12.74	26.62	20.15	n.a.	28.49
2004	15.69	20.14	9.72	24.28	17.23	n.a.	26.62
2005	14.05	20.39	9.26	23.85	16.27	n.a.	27.31
2006	11.54	20.12	10.01	22.48	14.39	n.a.	n.a
2007	9.91	20.13	11.02	19.88	12.76	n.a.	n.a.
Mean	**17.38**	**21.28**	**11.04**	**27.42**	**19.15**	**n.a.**	**31.88**
Poverty headcount ratio at national poverty line (% of population)							
1994	28.4	60	23.38	41.85	42.7	n.a.	21.87
1995	28.4	48.66	23.38	39.49	39.38	n.a.	19.56
1996	28.4	48.69	32.6	46.75	41.46	n.a.	19.86
1997	23.39	n.a.	30.5	51.38	26.11	n.a.	18.8
1998	23.39	50.81	30.55	51.55	31.49	n.a.	24.25
1999	23.64	50.85	22.07	48.54	30.26	n.a.	24.02
2000	24.2	60.2	18.7	49.88	40.3	n.a.	n.a.
2001	22.25	54.3	18.7	47.77	32.83	n.a.	22.7
2002	21.07	54.3	n.a.	53.31	25.31	n.a.	22.7
2003	20.59	53.1	23.9	49.49	25.75	n.a.	17.19
2004	20.11	53.1	23.90	45.75	24.06	n.a.	16.7
2005	17.60	53.10	23.90	45.76	27.23	n.a.	16.70
Mean	**23.45**	**53.37**	**24.69**	**47.63**	**32.24**	**n.a.**	**20.40**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, India, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Note: The national poverty lines are based on the World's Bank country poverty assessments.

Annex 5.2 Gini Index

Year	LAC groups				LAC	OECD	ASIA
	A	B	C	D			
1994	55.54	52.88	46.53	53.83	54.69	31.14	44.19
1995	54.64	53.09	47.04	52.39	53.98	35.22	42.95
1996	54.12	52.74	46.89	54.02	53.67	32.09	44.37
1997	54.35	52.81	45.50	53.86	53.80	30.76	44.43
1998	54.47	57.31	46.85	54.54	54.60	33.59	45.58
1999	54.56	57.26	48.34	54.05	54.63	35.93	44.95
2000	56.20	56.90	48.06	54.69	55.80	35.95	44.96
2001	55.45	56.19	49.88	55.62	55.45	36.81	43.89
2002	54.36	56.77	49.87	56.53	54.95	38.53	43.10
2003	53.51	56.77	50.88	56.32	54.35	38.70	42.51
2004	52.38	55.93	48.54	54.48	53.11	39.46	40.88
2005	52.34	55.21	48.17	53.59	52.87	39.49	40.79
2006	51.97	54.45	49.23	53.50	52.52	40.38	40.70
2007	51.80	54.45	50.60	54.14	52.49	n.a.	n.a.
Mean	**53.98**	**55.20**	**48.31**	**54.40**	**54.07**	**36.00**	**43.33**

Source: Authors calculations based on World Development Indicators data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: The Asia group includes the following middle income countries: Indonesia, Philippines, Thailand, Malaysia, and Sri Lanka. The group of OECD countries excludes Mexico.

Note: Averages by country group or region are weighted considering the population in each country. When data is not available we apply a moving average of a 3 year period.

Annex 1- B
IDB Operational Indicators 1994-2008

Statistical Annex

Index

[1] Lending figures exclude Project Preparation & Execution Facilities, MIF Investment Operations, Private Sector Credit Lines of the Trade Finance Facilitation Program and Guarantees

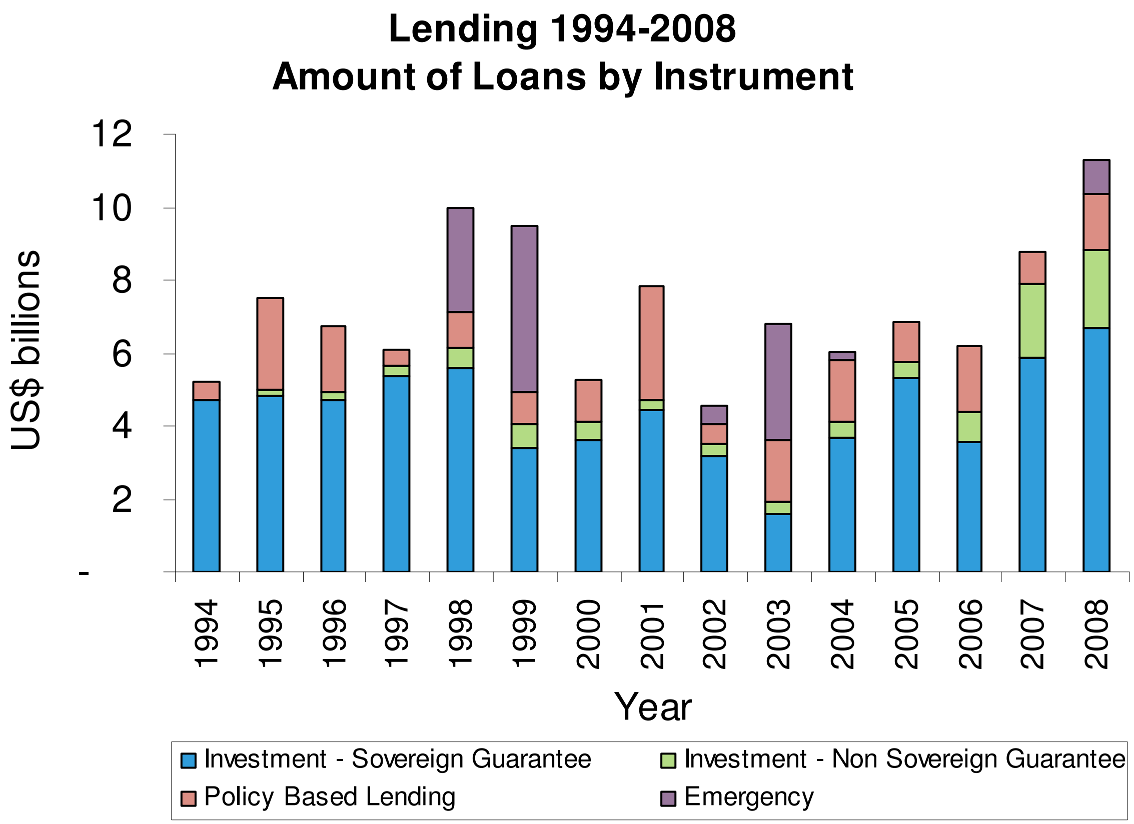
I. Lending 1994-2008

Table I.1 - Amount and Number of Loans by Instrument *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
SG Investment																
Amount	4,708	4,816	4,724	5,351	5,597	3,414	3,601	4,431	3,203	1,586	3,674	5,335	3,589	5,842	6,698	**66,568**
Number	42	49	59	68	75	60	63	63	66	49	58	72	75	63	85	**947**
NSG Investment																
Amount		146	198	320	557	635	512	274	316	334	457	403	787	2,053	2,119	**9,110**
Number		5	6	8	11	10	11	5	7	9	10	6	10	16	27	**141**
Policy Based Lending																
Amount	514	2,533	1,806	423	975	860	1,157	3,125	530	1,700	1,683	1,120	1,840	875	1,547	**20,685**
Number	6	13	10	4	7	3	5	13	3	10	8	6	17	8	12	**125**
Emergency																
Amount					2,850	4,571			500	3,180	200				900	**12,201**
Number					3	6			1	4	1				2	**17**
Total																
Amount	5,222	7,494	6,728	6,094	9,978	9,479	5,269	7,830	4,550	6,800	6,014	6,858	6,215	8,769	11,263	**108,564**
Number	48	67	75	80	96	79	79	81	77	72	77	84	102	87	126	**1,230**

Source: IDB Data Warehouse

Graph I.1



Source: IDB Data Warehouse

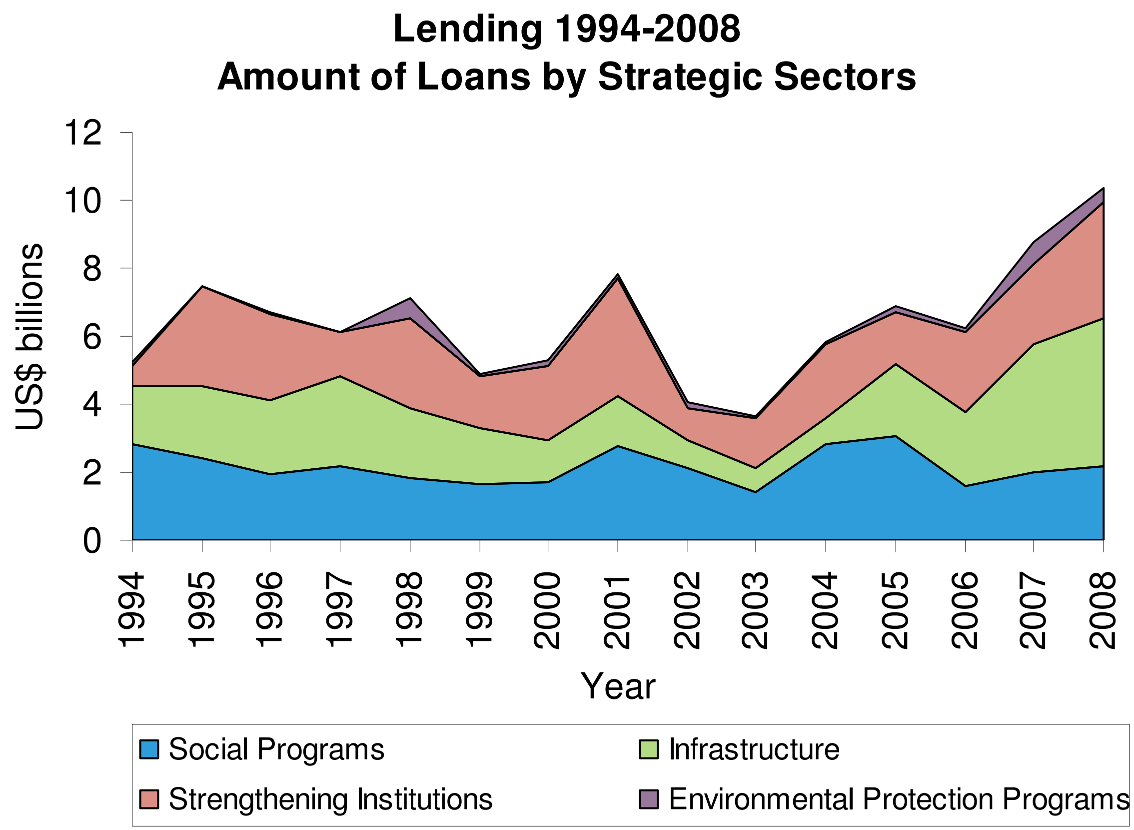
I. Lending 1994-2008

Table I.2 - Amount and Number of Loans by Strategic Sector Grouping *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Social Programs																
Amount	2,835	2,394	1,953	2,201	1,839	1,663	1,734	2,758	2,120	1,437	2,804	3,069	1,602	2,006	2,181	**32,596**
Number	18	22	21	26	33	27	24	29	25	20	27	22	25	17	27	**363**
Infrastructure																
Amount	1,666	2,141	2,177	2,641	2,036	1,625	1,180	1,496	832	677	812	2,104	2,191	3,742	4,359	**29,679**
Number	11	25	23	31	28	25	25	23	18	18	21	22	31	30	48	**379**
Strengthening Institutions																
Amount	639	2,930	2,494	1,249	2,666	1,511	2,213	3,477	951	1,488	2,165	1,560	2,338	2,395	3,430	**31,506**
Number	15	19	26	22	25	16	24	25	22	29	26	29	40	30	44	**392**
Environmental Protection Programs																
Amount	82	30	105	3	587	110	142	100	146	18	32	124	84	626	394	**2,583**
Number	4	1	5	1	7	5	6	4	11	1	2	11	6	10	5	**79**
Total																
Amount	5,222	7,494	6,728	6,094	7,128	4,909	5,269	7,830	4,050	3,620	5,814	6,858	6,215	8,769	10,363	**96,363**
Number	48	67	75	80	93	73	79	81	76	68	76	84	102	87	124	**1213**

Source: IDB Data Warehouse

Graph I.2



Source: IDB Data Warehouse

I. Lending 1994-2008

Table I.3 - Amount and Number of Loans by Sector (In US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Agriculture																
Amount	123	506	579	162	121	99	165	683	156	94	91	75	59	88	565	**3,564**
Number	2	9	5	5	4	3	7	7	4	5	5	5	3	4	10	**78**
Capital Markets																
Amount									5	10	145	103	444	365	2,196	**3,268**
Number									1	1	3	2	6	5	15	**33**
Education																
Amount	969	107	240	612	294	400	274	712	115	282	91	250	60	339	894	**5,637**
Number	6	3	3	7	5	4	6	5	3	4	3	4	1	2	6	**62**
Energy																
Amount	250	190	305	1,110	784	367	437	299	127	221	146	1,123	1,044	1,325	557	**8,286**
Number	2	5	7	9	10	4	10	5	3	5	4	6	9	10	11	**100**
Environment and Natural Disasters																
Amount	82	30	105	3	587	110	142	100	146	18	32	124	84	626	394	**2,583**
Number	4	1	5	1	7	5	6	4	11	1	2	11	6	10	5	**79**

I. Lending 1994-2008

Table I.3 - Amount and Number of Loans by Sector *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Health																
Amount		227	484	118	128	472	10	110	5	406	135	124	140	300	15	**2,673**
Number		3	2	3	4	5	1	2	1	2	5	2	2	3	1	**36**
Industry																
Amount		300			950	1,200	300	1,060	200	30				17	187	**4,244**
Number		1			2	1	1	3	2	1				2	4	**17**
Information Technology and Telecommunications																
Amount					75	25			37	35	68			205		**445**
Number					1	1			1	2	1			2		**8**
Microenterprises																
Amount		25		20	215	100			30					9		**399**
Number		1		1	3	1			1					1		**8**
Multi-sector Credit and Pre-investment																
Amount	187	600	62	407	160	240	12		42	122	1,000			1,050	189	**4,071**
Number	4	2	2	3	2	1	1		1	2	1			2	5	**26**

I. Lending 1994-2008

Table I.3 - Amount and Number of Loans by Sector ***(In US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Private Sector Development																
Amount									7	506	100	227	331	526	1,046	**2,743**
Number									1	5	2	3	8	4	3	**26**
Reform/Modernization of State																
Amount	452	2,005	2,432	822	3,841	2,342	1,901	2,417	667	770	883	1,055	1,463	418	712	**22,180**
Number	11	15	24	18	20	18	22	22	16	19	18	22	25	15	19	**284**
Science and Technology																
Amount		284			14	251	133	7	17			32	330		54	**1,121**
Number		3			1	3	3	1	1			2	2		2	**18**
Social Investment																
Amount	265	1,439	650	795	655	2,468	618	1,761	1,913	3,539	2,545	2,503	994	586	445	**21,174**
Number	6	8	11	10	14	8	11	16	11	11	14	8	16	5	4	**153**
Tourism																
Amount	441	10			3	11	14		250	45		68	5		13	**859**
Number	2	2			1	1	1		2	2		2	1		1	**15**

I. Lending 1994-2008

Table I.3 - Amount and Number of Loans by Sector *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Trade																
Amount										50	38	175	100	10		**373**
Number										1	2	2	1	1		**7**
Transportation																
Amount	547	872	655	959	660	663	433	392	415	205	515	567	717	1,886	2,439	**11,924**
Number	3	7	6	11	6	10	6	8	6	5	9	8	12	9	20	**126**
Urban Development																
Amount	1,160	328	579	677	671	235	685	169	283	310	165	93	74	576	761	**6,766**
Number	4	3	5	6	7	6	2	5	7	3	5	4	3	5	13	**78**
Water and Sanitation																
Amount	747	574	638	410	820	497	145	122	134	157	61	340	370	444	797	**6,255**
Number	4	4	5	6	9	8	2	3	5	3	3	3	7	7	7	**76**
Total																
Amount	5,222	7,494	6,728	6,094	9,978	9,479	5,269	7,830	4,550	6,800	6,014	6,858	6,215	8,769	11,263	**108,564**
Number	48	67	75	80	96	79	79	81	77	72	77	84	102	87	126	**1,230**

Source: IDB Data Warehouse

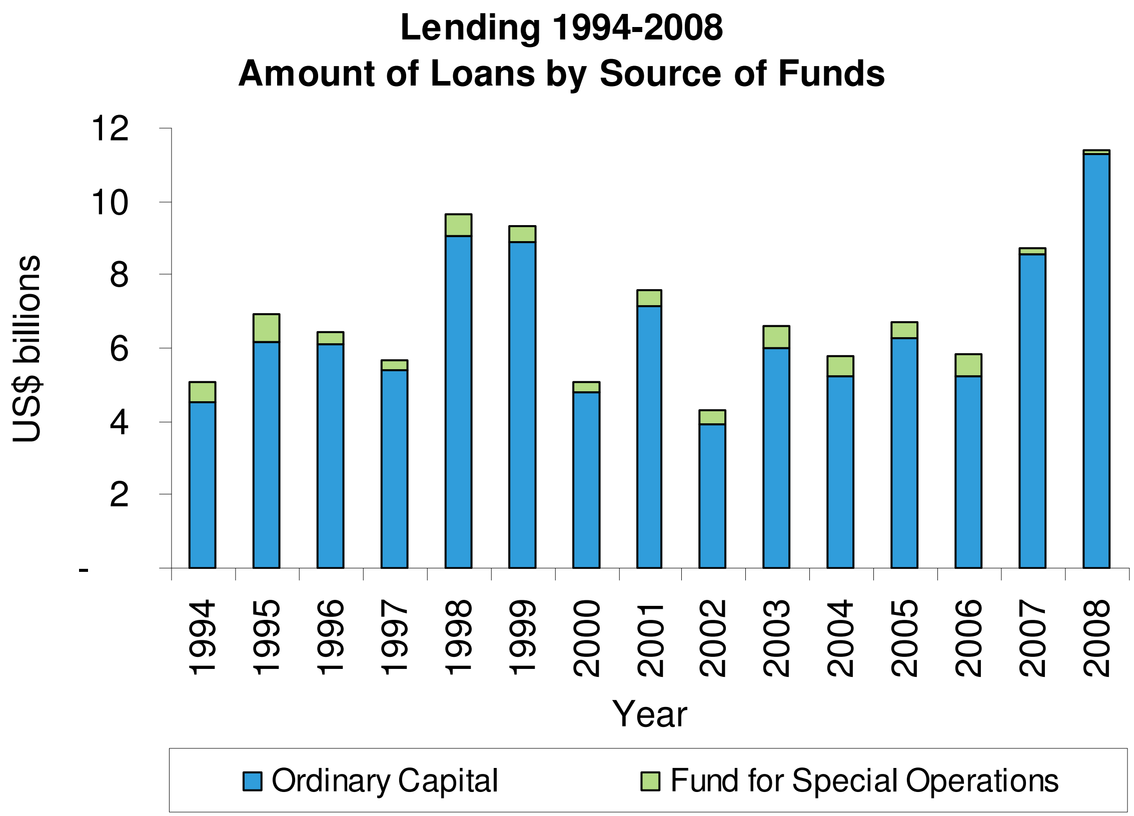
I. Lending 1994-2008

Table I.4 - Amount and Number of Loans by Source of Funds *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Ordinary Capital																
Amount	4,551	6,136	6,088	5,391	9,036	8,891	4,796	7,125	3,919	6,012	5,259	6,295	5,249	8,567	11,076	**98,392**
Number	33	44	52	67	69	56	54	51	51	50	48	62	76	83	123	**919**
Fund for Special Operations																
Amount	540	793	373	283	642	413	295	441	409	574	549	408	604	152	137	**6,612**
Number	15	18	19	11	21	19	19	20	22	18	23	18	22	19	18	**282**
Grants (Haiti)																
Amount														50	50	**100**
Number														3	3	**6**
Total																
Amount	5,222	7,494	6,728	6,094	9,978	9,479	5,269	7,830	4,550	6,800	6,014	6,858	6,215	8,769	11,263	**108,564**
Number	48	67	75	80	96	79	79	81	77	72	77	84	102	87	126	**1,230**

Source: IDB Data Warehouse

Graph I.4



Source: IDB Data Warehouse

I. Lending 1994-2008

Table I.5 - Amount and Number of Loans by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Argentina																
Amount	711	1,578	971	1,258	3,843	453	823	1,645		1,986	528	1,033	1,623	2,482	1,186	**20,118**
Number	4	6	7	8	13	6	4	5		4	4	4	6	11	9	**91**
Barbados																
Amount	4	35			98			9	17			4		5	40	**212**
Number	1	1			2			1	1			1		1	3	**11**
Bahamas																
Amount	21		56		14	24	21	46			4	35	9		100	**329**
Number	1		1		1	1	1	1			1	2	2		1	**12**
Belize																
Amount				4	26	25	44	7					25		24	**155**
Number				2	1	2	3	1					1		2	**12**
Bolivia																
Amount	172	172	85	27	160	150	39	113	228	224	93	48	145	84	78	**1,819**
Number	4	5	3	2	4	6	2	4	8	6	3	3	3	5	4	**62**

I. Lending 1994-2008

Table I.5 - Amount and Number of Loans by Country ***(In US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Brazil																
Amount	1,132	1,582	1,700	1,477	1,606	4,790	658	2,051	690	339	2,610	575	479	1,644	3,303	**24,636**
Number	4	8	9	10	9	13	8	10	9	6	13	10	9	14	26	**158**
Chile																
Amount	75					265	484	60	15	143	23	41	212	118	580	**2,014**
Number	1					2	4	2	1	5	3	5	5	2	3	**33**
Colombia																
Amount	40	537	197	256	447	1,038	293	800	106	1,814	737	561	580	731	1,074	**9,210**
Number	1	5	5	7	5	7	2	3	4	4	6	5	6	3	7	**70**
Costa Rica																
Amount		18		41	17		65	22	14	6	11	133	70	450	860	**1,708**
Number		2		2	1		1	1	1	1	1	2	2	2	3	**19**
Dominican Republic																
Amount	30	104		93	172	259	79	275	290	31	337	25	181	81	40	**1,997**
Number	1	2		2	4	4	2	2	4	5	3	3	3	3	1	**39**

I. Lending 1994-2008

Table I.5 - Amount and Number of Loans by Country ***(In US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Ecuador																
Amount	572	54	65	234	107		186	65	75	233	17	88	315	434	50	**2,495**
Number	7	2	2	5	3		5	4	3	3	2	3	6	3	1	**49**
El Salvador																
Amount	500	167	42	104	209	50	6	263	70	100	20	211	100		554	**2,396**
Number	3	3	2	2	4	4	1	6	2	1	1	4	1		4	**38**
Guatemala																
Amount	1	194	147	183	196	236		27	322	113	100	19	239	205	279	**2,259**
Number	1	2	4	3	5	4		2	5	3	1	1	5	4	5	**45**
Guyana																
Amount		76	62	41	20	84	1	53	62	3	116		116	33	33	**701**
Number		2	2	1	1	3	1	2	3	1	5		5	2	2	**30**
Haiti																
Amount		181	82	50	96					202		202	100	50	50	**1,014**
Number		4	4	1	3					4		9	6	3	3	**37**

I. Lending 1994-2008

Table I.5 - Amount and Number of Loans by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Honduras																
Amount	54	231	22	20	197	90	152	68	82	83	228	63	118	97	107	**1,612**
Number	2	4	2	2	6	4	8	5	7	4	8	3	4	3	5	**67**
Jamaica																
Amount	8	42	60	28		69	208	111	33	30	57				205	**848**
Number	1	1	1	2		4	3	4	2	1	2				7	**28**
Mexico																
Amount	1,062	1,825	1,315	270	310	917	1,399	1,100	1,000	510	485	2,050	387	650	1,105	**14,384**
Number	3	4	4	4	1	3	7	3	1	2	4	4	4	3	5	**52**
Nicaragua																
Amount	193	124	68	99	160	98	117	154	143	62	144	85	125	80	80	**1,731**
Number	4	3	5	2	6	6	8	7	6	3	8	2	4	4	3	**71**
Peru																
Amount	494	140	754	219	653	519	345	343	488	524	350	345	535	930	215	**6,853**
Number	4	4	6	5	6	4	3	4	5	8	5	6	6	7	4	**77**

I. Lending 1994-2008

Table I.5 - Amount and Number of Loans by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Panama																
Amount	30	30	186	284	334	65	24	35	68	53		35	305	176	600	**2,224**
Number	1	1	4	5	6	2	2	1	5	3		3	8	7	8	**56**
Paraguay																
Amount	21	80	174	59	66	67	173	22	28	62		39	249	61	93	**1,194**
Number	1	1	4	2	3	1	6	2	1	3		3	6	3	5	**41**
Suriname																
Amount					30		10	15	4	13	10	4		7	76	**169**
Number					1		1	2	1	1	2	1		1	2	**12**
Trinidad & Tobago																
Amount		107	254			105			32	10			28		25	**561**
Number		4	2			1			1	2			1		1	**12**

I. Lending 1994-2008

Table I.5 - Amount and Number of Loans by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Uruguay																
Amount	32	54	383	337	233	77	44	304	734	260	100	268	190	100	383	**3,498**
Number	3	1	4	5	4	1	3	4	5	2	2	3	7	4	10	**58**
Venezuela																
Amount	70	164	69	50	911	100	60	98	28		5	910	25	150		**2,640**
Number	1	2	3	3	6	1	3	2	1		1	5	1	1		**30**
Regional																
Amount			37	961	75		40	146	20		40	85	60	200	125	**1,788**
Number			1	5	1		1	3	1		2	2	1	1	2	**20**
Total																
Amount	5,222	7,494	6,728	6,094	9,978	9,479	5,269	7,830	4,550	6,800	6,014	6,858	6,215	8,769	11,263	**108,564**
Number	48	67	75	80	96	79	79	81	77	72	77	84	102	87	126	**1,230**

Source: IDB Data Warehouse

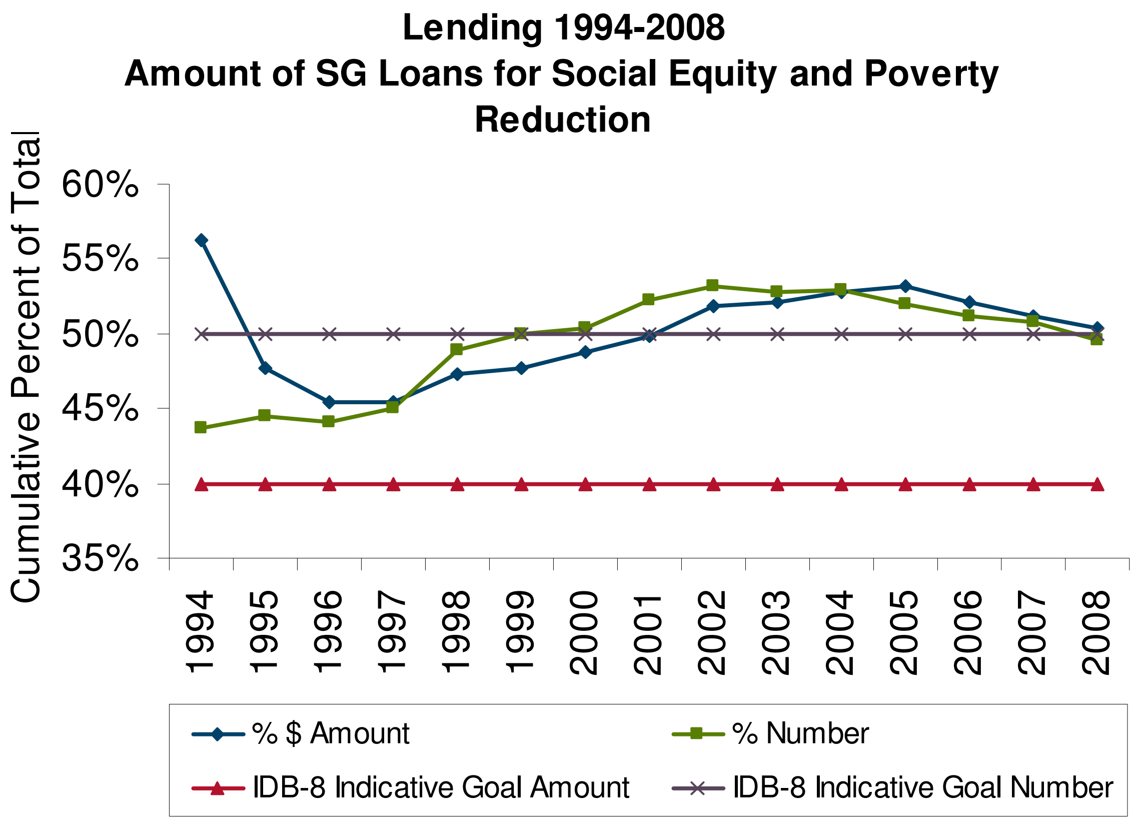
I. Lending 1994-2008

Table I.6 - Amount and Number of SG Loans for Social Equity and Poverty Reduction *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Social Equity and Poverty Reduction																
Amount	2,941	3,056	2,687	2,629	3,554	2,179	2,696	4,204	2,861	1,892	3,212	3,656	2,143	2,739	3,513	**43,962**
Number	21	28	30	34	50	35	36	48	42	29	35	34	41	32	36	**531**
Social Equity and Poverty Reduction (Cumulative)																
Amount	2,941	5,997	8,684	11,313	14,867	17,046	19,742	23,946	26,806	28,698	31,911	35,567	37,710	40,448	43,962	**N/A**
Number	21	49	79	113	163	198	234	282	324	353	388	422	463	495	531	**N/A**
Cumulative Social Equity and Poverty Reduction / Cumulative Total (Percent)																
Amount	56.3	47.7	45.5	45.5	47.3	47.7	48.8	49.9	51.8	52.1	52.8	53.2	52.2	51.2	50.4	**N/A**
Number	43.8	44.5	44.1	45.0	48.9	50.0	50.4	52.2	53.2	52.8	52.9	52.0	51.2	50.8	49.5	**N/A**

Source: IDB Data Warehouse

Graph I.6



Source: IDB Data Warehouse

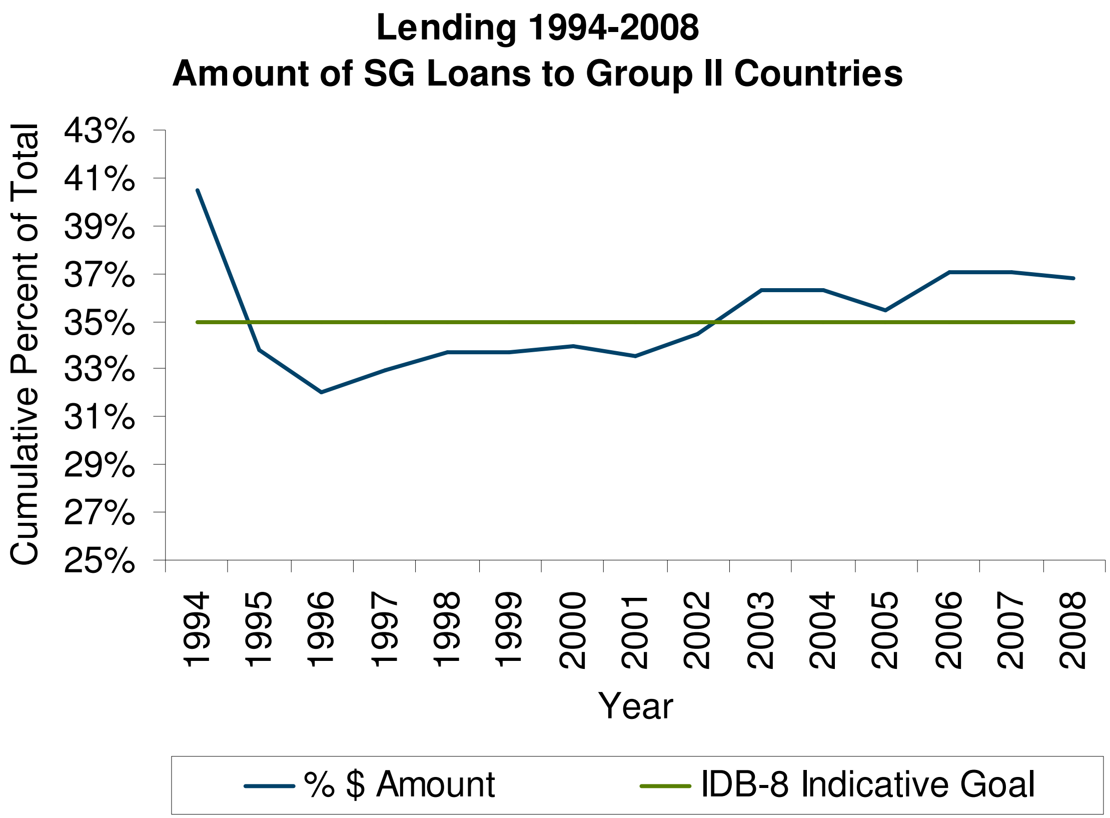
I. Lending 1994-2008

Table I.7 - Amount and Number of SG Loans to Group II Countries (In US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Group II																
Amount	2,115	2,132	1,866	2,081	2,412	1,429	1,703	2,369	1,728	2,139	1,969	1,792	3,083	2,485	2,819	**32,122**
Number	30	39	42	45	53	46	46	51	52	45	44	48	65	43	53	**702**
Group II (Cumulative)																
Amount	2,115	4,246	6,112	8,193	10,605	12,034	13,737	16,106	17,834	19,974	21,943	23,735	26,818	29,302	32,122	**N/A**
Number	30	69	111	156	209	255	301	352	404	449	493	541	606	649	702	**N/A**
Cumulative Group II Countries / Cumulative Total (Percent)																
Amount	40%	34%	32%	33%	34%	34%	34%	34%	34%	36%	36%	35%	37%	37%	37%	**N/A**
Number	63%	63%	62%	62%	63%	64%	65%	65%	66%	67%	67%	67%	67%	67%	65%	**N/A**

Source: IDB Data Warehouse

Graph I.7



Source: IDB Data Warehouse

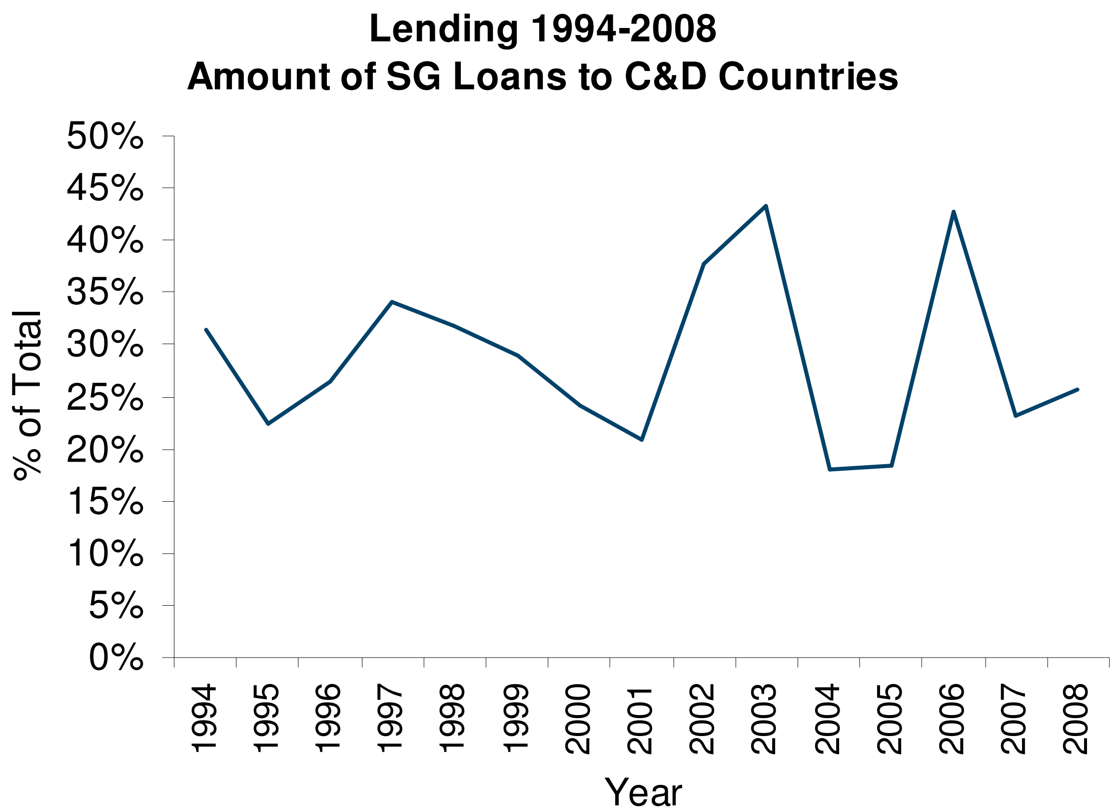
I. Lending 1994-2008

Table I.8 - Amount and Number of SG Loans for C&D Countries *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
C & D Countries																
Amount	1,638	1,650	1,723	1,972	2,091	1,239	1,148	1,585	1,411	1,424	962	1,193	2,315	1,554	2,123	**24,028**
Number	30	36	41	39	52	41	46	50	49	41	35	43	64	41	58	**666**
C & D Countries (Percent of Total)																
Amount	31%	22%	26%	34%	32%	29%	24%	21%	38%	43%	18%	18%	43%	23%	26%	**N/A**
Number	63%	58%	59%	54%	63%	65%	68%	66%	71%	69%	53%	55%	70%	58%	60%	**N/A**

Source: IDB Data Warehouse

Graph I.8


Lending 1994-2008
Amount of SG Loans to C&D Countries
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
% of Total
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Year

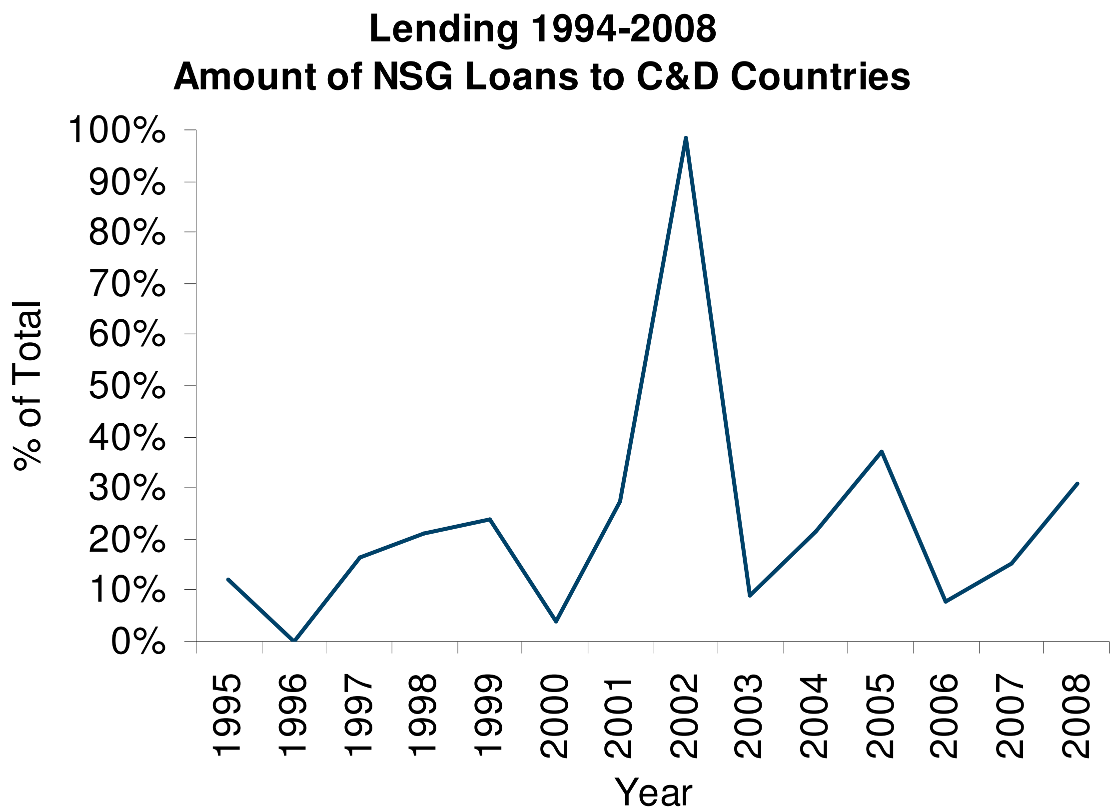
I. Lending 1994-2008

Table I.9 - Amount and Number of NSG Loans for C&D Countries *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
C & D Countries																
Amount		18	0	52	118	150	20	75	311	30	99	150	60	310	654	**2,046**
Number		2	0	2	4	1	1	1	6	1	4	2	1	4	10	**39**
C & D Countries (Percent of Total)																
Amount		12%	0%	16%	21%	24%	4%	27%	98%	9%	22%	37%	8%	15%	31%	**N/A**
Number		40%	0%	25%	36%	10%	9%	20%	86%	11%	40%	33%	10%	25%	37%	**N/A**

Source: IDB Data Warehouse

Graph I.9



Source: IDB Data Warehouse

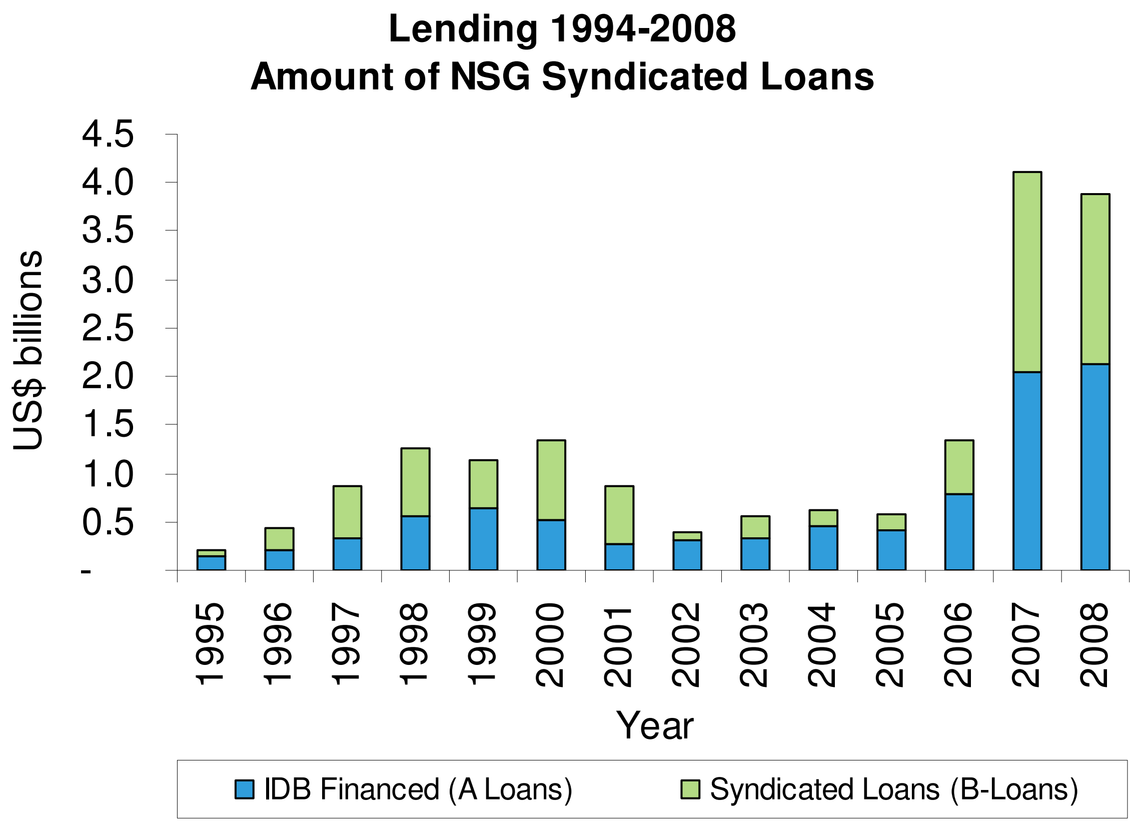
I. Lending 1994-2008

Table I.10 - Amount and Number of NSG Syndicated Loans *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
IDB Financed Loans (A-Loans)																
Amount		146	198	320	557	635	512	274	316	334	457	403	787	2,053	2,119	**9,110**
Number		5	6	8	11	10	11	5	7	9	10	6	10	16	27	**141**
Syndicated Loans (B-Loans)																
Amount		56	238	538	711	498	836	591	71	230	165	181	564	2,060	1,772	**8,511**
Number		2	5	6	8	7	9	5	3	5	3	2	6	9	18	**88**
Total (A + B Loans)																
Amount		201	436	859	1,268	1,133	1,347	865	387	563	622	584	1,351	4,113	3,891	**17,621**
Number		7	11	14	19	17	20	10	10	14	13	8	16	25	45	**229**

Source: IDB Data Warehouse

Graph I.10



Source: IDB Data Warehouse

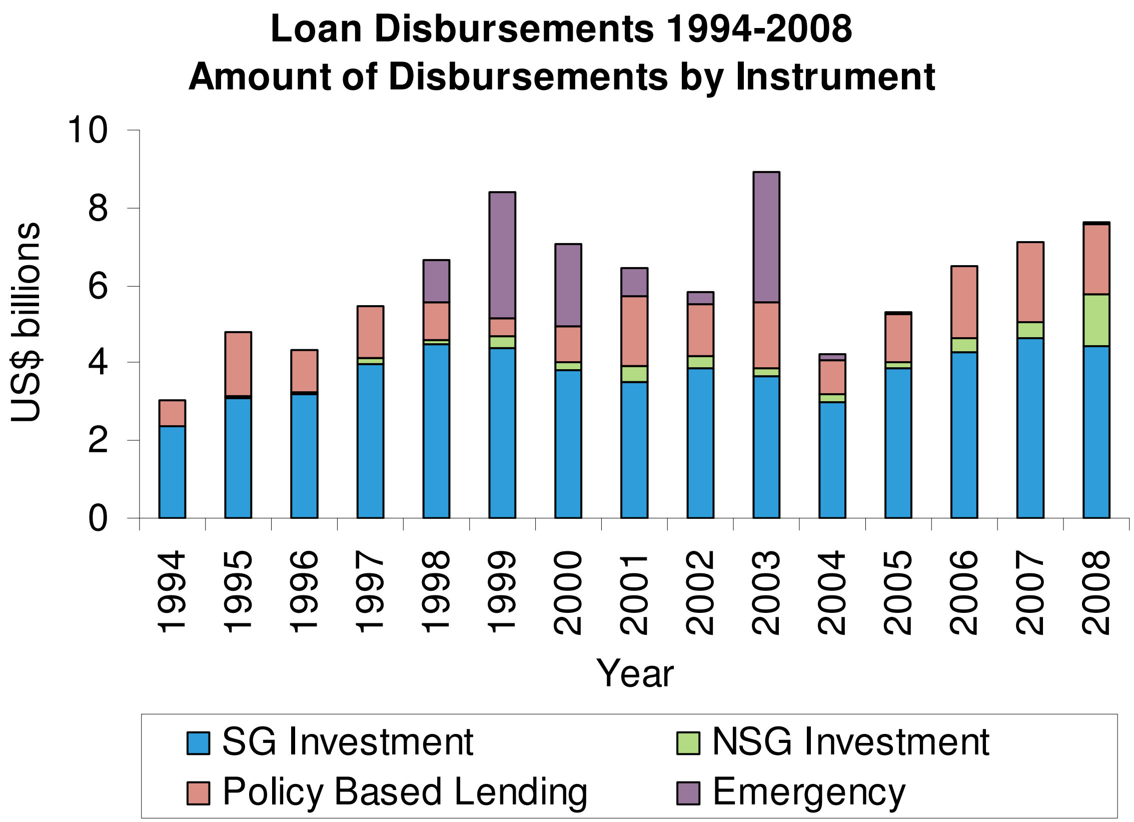
II. Loan Disbursements 1994-2008

Table II.1 - Amount of Disbursements by Instrument *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
SG Investment																
	2,362	3,110	3,177	3,961	4,488	4,401	3,803	3,512	3,877	3,674	2,968	3,882	4,280	4,635	4,436	**56,567**
NSG Investment																
		10	79	142	102	269	218	385	280	186	211	128	367	415	1,329	**4,120**
Policy Based Lending																
	679	1,682	1,061	1,365	952	461	905	1,818	1,339	1,712	904	1,267	1,843	2,086	1,819	**19,893**
Emergency																
					1,094	3,256	2,142	747	340	3,330	150	50			37	**11,146**
Total																
	3,040	4,803	4,317	5,468	6,636	8,387	7,068	6,463	5,837	8,902	4,232	5,328	6,489	7,136	7,621	**91,726**

Source: IDB Data Warehouse

Graph II.1



Source: IDB Data Warehouse

II. Loan Disbursements 1994-2008

Table II.2 - Amount of Disbursements by Sector *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Agriculture																
	392	241	374	157	386	171	162	253	282	237	188	109	109	139	184	**3,384**
Capital Markets																
													57	155	230	**442**
Education																
	75	164	162	168	345	260	373	282	215	187	261	294	391	457	448	**4,083**
Energy																
	431	407	340	413	759	737	522	608	433	229	279	161	293	440	1,134	**7,187**
Environment and Natural Disasters																
	32	95	75	202	240	236	206	170	149	96	85	102	124	315	307	**2,435**
Health																
	63	67	67	42	78	90	146	187	216	445	133	345	133	159	102	**2,273**
Industry																
	131	132	44	319	2	947	873	455	774	705	70	17	15	14	123	**4,621**
Information Technology and Telecommunications																
	3	8	5	10	13	97	35	12		30	30	0		80	125	**447**

II. Loan Disbursements 1994-2008

Table II.2 - Amount of Disbursements by Sector *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Microenterprises																
	26	50	39	19	30	25	28	28	7	-6	3	7	11	169	2	**438**
Multi-sector Credit and Pre-investment																
	157	191	159	257	112	291	207	47	83	49	7	514	502	929	299	**3,804**
Private Sector Development																
	0	1	0							65	216	61	350	436	148	**1,277**
Reform/Modernization of State																
	605	1,330	890	1,443	1,939	2,280	1,494	2,558	1,135	1,269	981	960	1,063	1,487	576	**20,010**
Science and Technology																
	99	70	100	101	91	53	40	48	57	33	72	107	88	100	102	**1,160**
Social Investment																
	104	776	434	466	510	1,611	1,527	674	1,633	4,361	842	1,627	2,051	1,128	1,734	**19,478**
Tourism																
	23	48	52	100	94	119	89	45	21	9	36	12	25	57	67	**796**
Trade																
	18	21	40	22	36	14	8	10		50	6	9	175	10	30	**447**

II. Loan Disbursements 1994-2008

Table II.2 - Amount of Disbursements by Sector *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Transportation																
	457	536	623	767	922	579	611	476	364	452	364	373	537	491	822	**8,375**
Urban Development																
	164	271	430	382	530	410	386	252	209	444	407	418	314	271	316	**5,204**
Water and Sanitation																
	259	396	481	600	548	468	362	356	259	246	253	211	251	298	872	**5,862**
Other																
			1	1		0		3								**5**
Total																
	3,040	4,803	4,317	5,468	6,636	8,387	7,068	6,463	5,837	8,902	4,232	5,328	6,489	7,136	7,621	**91,726**

Source: IDB Data Warehouse

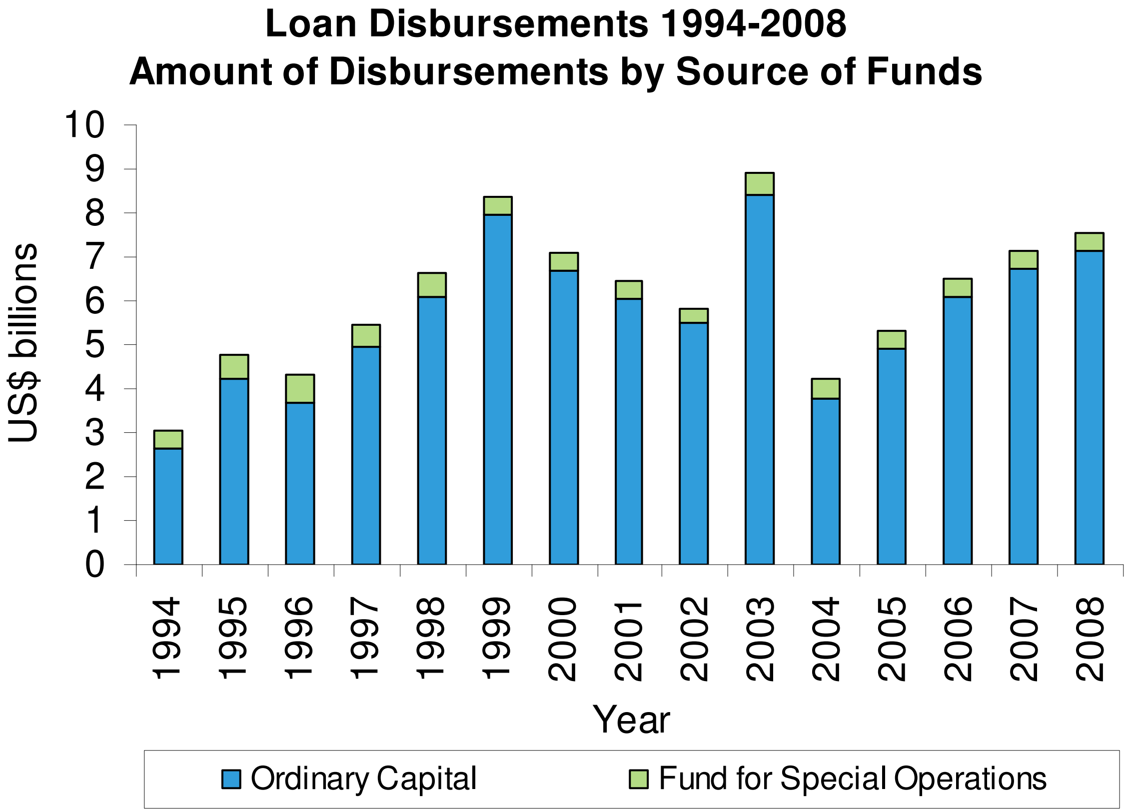
II. Loan Disbursements 1994-2008

Table II.3 - Amount of Disbursements by Fund *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Ordinary Capital																
	2,626	4,246	3,696	4,958	6,085	7,947	6,683	6,037	5,522	8,416	3,768	4,899	6,087	6,725	7,149	**84,844**
Fund for Special Operations																
	401	540	601	493	535	430	386	422	313	486	463	424	398	393	415	**6,698**
Grants (Haiti)																
														13	15	**27**
Other Funds																
	14	17	20	17	15	10	0	3	2	0	1	4	4	5	43	**157**
Total																
	3,040	4,803	4,317	5,468	6,636	8,387	7,068	6,463	5,837	8,902	4,232	5,328	6,489	7,136	7,621	**91,726**

Source: IDB Data Warehouse

Graph II.3



Source: IDB Data Warehouse

II. Loan Disbursements 1994-2008

Table II.4 - Amount of Disbursements by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Argentina																
	266	1,071	577	975	1,500	1,442	962	1,545	413	2,646	336	582	1,109	1,483	1,216	**16,121**
Barbados																
	5	7	35	15	18	7	10	24	16	16	8	4	2	3	18	**188**
Bahamas																
	4	8	12	25	35	13	21	21	14	7	4	5	7	10	16	**202**
Belize																
				0	1	4	11	18	14	16	8	3	12	20	3	**111**
Bolivia																
	136	133	112	116	118	90	103	85	100	268	110	142	63	46	43	**1,664**
Brazil																
	396	490	825	1,368	1,647	2,879	2,783	1,148	1,792	1,108	553	1,493	1,733	1,626	952	**20,793**
Chile																
	140	65	50	22	23	93	89	69	100	124	112	114	31	41	366	**1,440**
Colombia																
	290	165	274	323	420	958	246	790	159	2,013	332	363	950	768	1,163	**9,214**

II. Loan Disbursements 1994-2008

Table II.4 - Amount of Disbursements by Country ***(In US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Costa Rica																
	97	144	63	125	58	62	83	32	45	88	100	42	23	12	187	**1,162**
Dominican Republic																
	49	114	74	45	57	78	58	142	184	155	254	136	118	110	137	**1,712**
Ecuador																
	173	243	161	143	187	142	245	184	95	159	49	37	161	200	180	**2,359**
El Salvador																
	123	124	234	128	133	131	114	169	144	98	52	92	90	96	335	**2,064**
Guatemala																
	115	44	38	101	147	177	67	99	195	52	119	32	130	237	137	**1,688**
Guyana																
	17	22	56	32	20	33	54	50	25	38	46	50	46	49	46	**586**
Haiti																
		74	42	50	63	57	34	8	3	48	28	70	66	114	125	**782**
Honduras																
	81	81	149	50	58	79	68	104	48	89	138	63	70	64	103	**1,244**

II. Loan Disbursements 1994-2008

Table II.4 - Amount of Disbursements by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Jamaica																
	42	54	50	61	58	73	125	21	133	26	81	13	26	34	144	**942**
Mexico																
	344	979	1,048	554	683	518	839	763	993	1,025	970	949	677	1,081	674	**12,097**
Nicaragua																
	96	122	70	74	108	84	81	110	104	98	140	121	123	92	78	**1,501**
Peru																
	204	252	156	588	317	486	351	378	308	113	509	460	467	490	567	**5,645**
Panama																
	14	91	90	145	133	54	61	82	73	99	37	80	140	75	175	**1,348**
Paraguay																
	63	92	83	104	87	99	112	62	52	88	61	52	72	74	86	**1,190**
Suriname																
	1	0	1		0	19	1	0	1	16	3	5	8	17	8	**78**

II. Loan Disbursements 1994-2008

Table II.4 - Amount of Disbursements by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Trinidad & Tobago																
	87	101	74	48	44	64	26	29	25	31	41	53	24	47	45	**736**
Uruguay																
	113	68	92	179	151	359	163	214	559	373	58	242	115	113	337	**3,135**
Venezuela																
	84	224	-59	74	548	189	277	223	177	37	63	74	73	167	306	**2,457**
Regional																
	102	33	10	122	21	201	85	89	67	70	22	52	152	67	173	**1,266**
Total																
	3,040	4,803	4,317	5,468	6,636	8,387	7,068	6,463	5,837	8,902	4,232	5,328	6,489	7,136	7,621	**91,726**

Source: IDB Data Warehouse

II. Loan Disbursements 1994-2008

Table II.5 – Net Loan Flows of Convertible Currencies to Countries (In US$ millions)

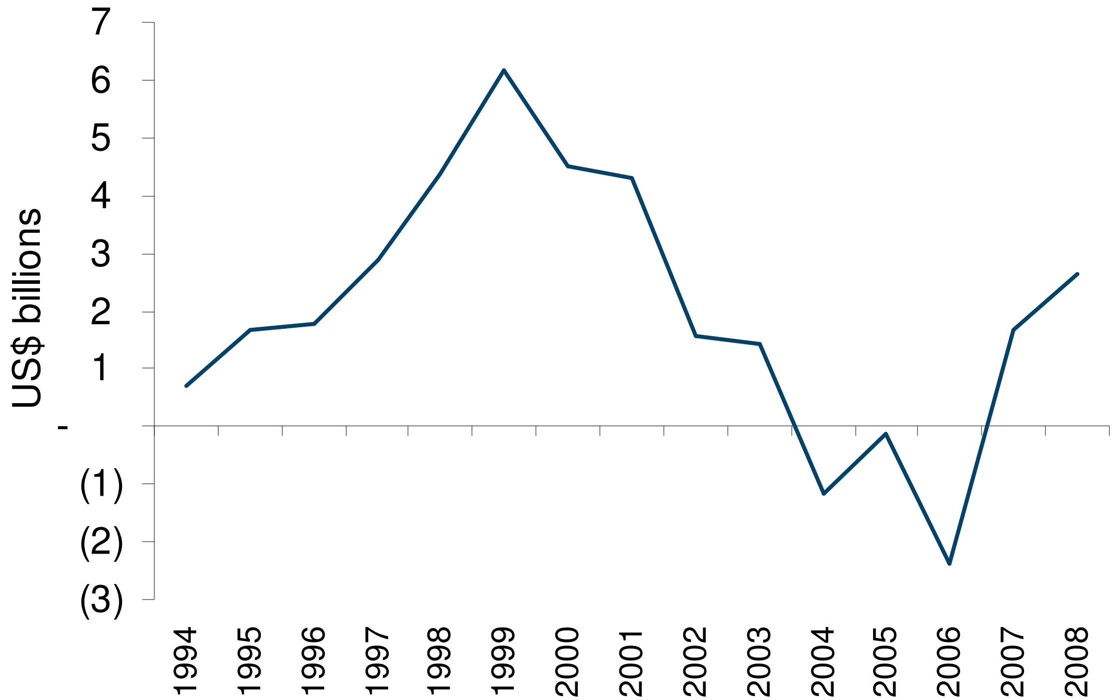
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Loan Flow															
	695	1,662	1,785	2,887	4,387	6,171	4,517	4,311	1,567	1,430	(1,150)	(128)	(2,389)	1,686	2,631

Source: IDB Data Warehouse

Graph II.5

Net Loan Flow of Convertible Currencies

(from point of view of countries)



Source: IDB Data Warehouse

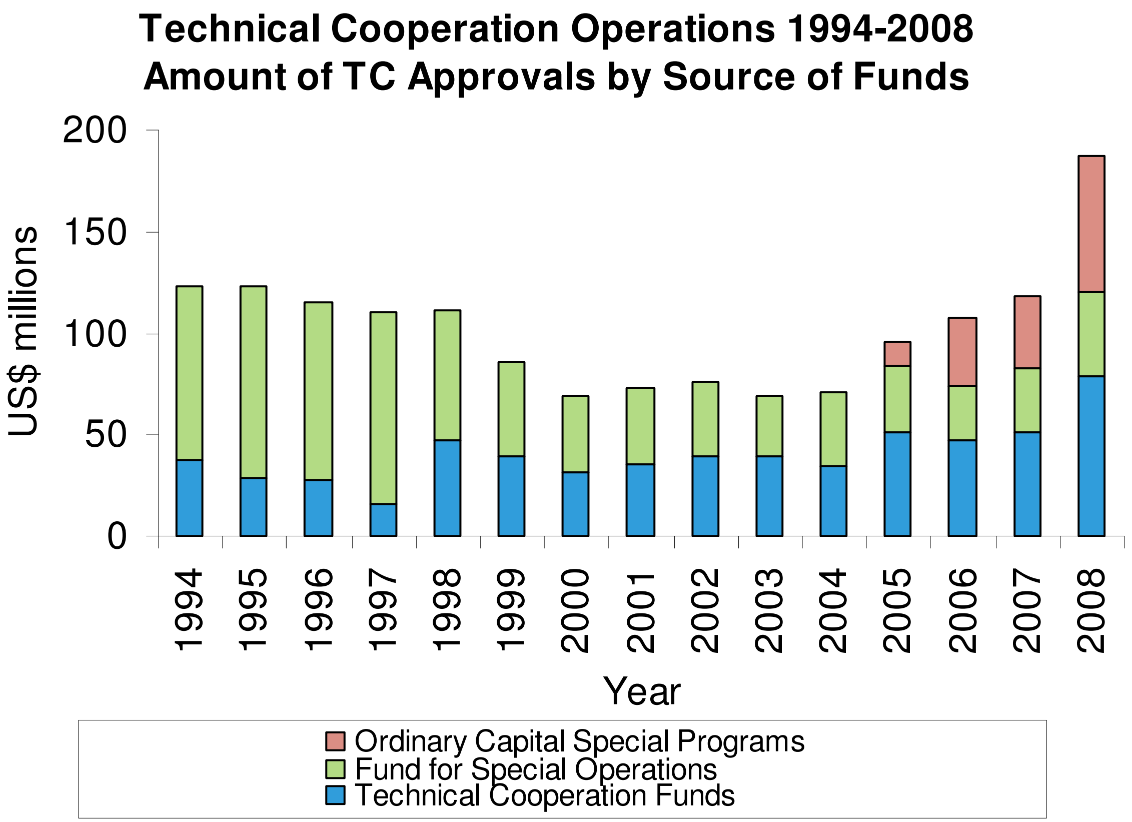
III. Technical Cooperation Operations 1994-2008

Table III.1 - Amount and Number of TC Approvals by Source of Funds ***(In US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Technical Cooperation Funds																
Amount	37	28	27	15	47	39	31	35	40	39	35	51	48	51	79	**604**
Number	87	128	121	136	226	244	179	189	173	202	194	253	243	234	264	**2,873**
Fund for Special Operations																
Amount	86	95	88	95	64	47	38	37	36	30	36	33	27	32	42	**785**
Number	270	149	189	183	204	162	176	186	165	132	152	154	146	130	134	**2,532**
Ordinary Capital Special Programs																
Amount												12	33	36	67	**146**
Number												18	44	59	93	**214**
Total																
Amount	123	123	115	111	112	85	69	72	76	69	71	96	107	119	187	**1,535**
Number	357	277	310	319	430	406	355	375	338	334	346	425	433	423	491	**5,619**

Source: IDB Data Warehouse

Graph III.1



Source: IDB Data Warehouse

III. Technical Cooperation Operations 1994-2008

Table III.2 - Amount and Number of TC Approvals by Country ***(In US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Argentina																
Amount	0.4	21.3	0.2	8.7	12.3	2.1	0.3	0.8	0.6	0.3	0.8	0.2	3.4	2.1	5.9	**59.3**
Number	11	6	7	9	14	8	4	3	4	4	7	2	10	8	13	**110**
Barbados																
Amount	0.4		0.8	0.4	0.1	0.1				0.1		0.1		0.6		**2.5**
Number	2		2	2	1	1				1		1		3		**13**
Bahamas																
Amount	0.8	0.6	0.1	1.4	1.3	0.2	0.0	0.1		0.0	0.2	0.4	0.2	0.0	0.7	**5.9**
Number	4	3	3	3	2	4	1	2		1	1	5	1	1	1	**32**
Belize																
Amount	3.5	0.0	1.0	0.9	0.6	0.2	0.7	0.5	0.3	0.4		0.1	0.7	0.6	0.2	**9.7**
Number	10	2	7	4	7	4	9	7	4	3		1	3	6	1	**68**
Bolivia																
Amount	4.9	7.5	3.8	4.3	1.9	2.9	2.8	1.9	2.2	4.2	3.7	4.0	1.3	4.1	4.4	**53.7**
Number	14	17	7	12	9	10	16	9	8	13	14	18	10	9	18	**184**

III. Technical Cooperation Operations 1994-2008

Table III.2 - Amount and Number of TC Approvals by Country *(In US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Brazil																
Amount	21.5	4.4	12.7	19.2	12.9	13.8	3.2	1.7	1.3	0.8	2.8	2.6	3.1	7.4	11.1	**118.4**
Number	23	10	20	24	23	16	11	5	8	6	14	16	9	20	23	**228**
Chile																
Amount	0.6	3.9	0.7	0.7	2.0	0.9	0.8	0.4	3.1	0.2	0.2	0.9	3.2	4.4	1.2	**23.1**
Number	21	7	5	5	8	6	4	4	8	2	2	9	17	18	9	**125**
Colombia																
Amount	12.1	2.5	2.2	0.7	3.0	2.6	3.3	3.1	1.2	3.4	0.8	1.9	10.2	4.7	12.8	**64.7**
Number	29	11	15	13	22	16	7	12	8	12	8	8	22	20	30	**233**
Costa Rica																
Amount	8.0	0.2	0.3	2.8	0.8	1.6	1.2	0.4	0.5	4.3	2.0	1.2	3.5	3.4	3.4	**33.6**
Number	15	3	8	12	6	10	6	2	6	15	7	6	10	8	6	**120**
Dominican Republic																
Amount	4.1	1.8	1.2	3.0	3.9	2.8	2.0	2.9	3.0	1.3	1.5	2.0	0.5	2.3	1.9	**34.3**
Number	12	10	10	16	18	15	11	14	11	5	8	5	5	5	6	**151**

III. Technical Cooperation Operations 1994-2008

Table III.2 - Amount and Number of TC Approvals by Country (In US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Ecuador																
Amount	3.6	2.1	3.3	4.8	1.4	5.3	2.1	4.9	3.9	1.1	3.5	4.1	6.1	4.2	8.3	**58.8**
Number	12	8	8	9	12	15	11	24	19	12	22	18	34	20	26	**250**
El Salvador																
Amount	2.0	1.8	1.3	3.1	3.3	3.3	1.9	2.7	3.0	2.8	1.7	3.2	5.5	3.2	7.4	**46.2**
Number	7	7	6	11	21	27	26	16	13	17	12	21	28	23	19	**254**
Guatemala																
Amount	2.6	1.9	2.2	3.1	5.6	4.1	2.3	4.8	3.7	2.1	2.2	6.3	3.5	6.7	14.5	**65.5**
Number	9	6	12	15	20	28	16	19	15	10	12	23	24	19	23	**251**
Guyana																
Amount	1.4	4.0	2.8	2.2	3.2	1.1	1.5	3.1	1.3	1.9	0.9	1.9	4.3	1.6	2.7	**33.6**
Number	6	11	4	6	6	4	4	7	5	6	3	8	13	5	9	**97**
Haiti																
Amount	0.6	7.8	2.6	4.8	2.0	2.5	1.5	1.3	1.3	0.9	2.4	2.5	2.4	2.5	5.7	**40.8**
Number	4	25	13	16	19	10	13	4	9	6	15	18	14	12	11	**189**

III. Technical Cooperation Operations 1994-2008

Table III.2 - Amount and Number of TC Approvals by Country (In US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Honduras																
Amount	3.9	3.4	2.5	3.0	4.1	4.1	2.9	5.8	4.9	4.2	6.3	3.0	3.6	2.7	5.4	**59.8**
Number	7	6	7	9	18	26	19	36	29	20	22	13	16	11	16	**255**
Jamaica																
Amount	0.9	2.7	1.1	1.8	0.2	0.9	0.5	4.1	2.0	1.2	1.6	0.2	0.7	1.1	2.8	**22.0**
Number	5	9	4	7	3	4	2	9	7	5	6	4	4	5	9	**83**
Mexico																
Amount	0.1	2.1	4.7	1.5	6.4	2.6	3.7	0.6	5.8	3.8	2.5	2.5	1.5	7.9	10.7	**56.4**
Number	3	5	3	4	16	9	7	1	13	17	7	9	9	14	24	**141**
Nicaragua																
Amount	13.8	3.0	1.9	2.3	1.8	3.7	2.4	2.6	3.4	3.8	1.9	3.2	5.2	2.0	4.6	**55.6**
Number	16	4	4	5	15	25	21	17	14	17	9	13	15	9	11	**195**
Peru																
Amount	10.1	2.9	4.2	1.9	3.3	2.1	3.3	2.8	2.6	2.7	1.4	5.0	4.4	4.4	9.4	**60.5**
Number	25	12	14	10	20	13	11	18	11	9	7	18	11	15	20	**214**

III. Technical Cooperation Operations 1994-2008

Table III.2 - Amount and Number of TC Approvals by Country (In US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Panama																
Amount	0.7	2.0	1.5	1.0	2.8	1.2	2.3	2.0	0.5	1.4	1.8	1.1	1.6	4.4	5.8	**30.1**
Number	6	4	2	3	8	7	9	15	4	6	5	7	8	8	14	**106**
Paraguay																
Amount	3.5	1.5	9.9	5.4	4.7	2.1	2.9	2.1	2.9	2.0	3.6	3.0	3.6	2.9	5.2	**55.2**
Number	22	4	5	7	7	8	7	7	10	7	15	12	14	10	13	**148**
Suriname																
Amount	0.1	1.3	1.7	2.8	5.5	0.1	0.7	0.4	1.2	1.6	1.4	2.3	0.9	5.0	1.0	**25.9**
Number	5	5	3	4	11	1	6	3	6	5	6	10	8	9	3	**85**
Trinidad & Tobago																
Amount	0.6	1.0		0.7	1.4	0.1	0.1	0.0		0.1	0.0	0.8	0.5	0.1		**5.5**
Number	5	2		1	3	2	1	1		1	1	2	1	3		**23**
Uruguay																
Amount	1.3	1.2	1.4	0.8	0.1	0.9	1.0	3.3	0.0	0.3	0.2	0.8	3.6	1.6	5.9	**22.6**
Number	8	2	7	5	1	4	2	11	1	2	2	5	15	7	11	**83**

III. Technical Cooperation Operations 1994-2008

Table III.2 - Amount and Number of TC Approvals by Country (In US$ millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Venezuela																
Amount	0.6	0.2	1.0	0.9	2.2	0.5		0.3	0.1	0.0	0.0	0.3	0.0	0.6	0.2	**6.9**
Number	9	3	7	10	12	6		2	2	1	1	2	1	2	2	**60**
Regional																
Amount	21.0	41.8	50.0	28.3	24.8	23.7	25.7	20.2	27.3	23.9	27.6	42.1	33.6	38.3	56.0	**484.1**
Number	59	85	121	95	124	123	129	127	122	128	138	169	131	151	171	**1,873**
Total																
Amount	123.0	123.1	115.2	110.6	111.5	85.5	68.9	72.5	76.2	68.7	71.1	95.7	107.0	118.7	187.2	**1,534.8**
Number	349	267	304	317	426	402	353	375	337	331	344	423	433	421	489	**5,571**

Source: IDB Data Warehouse

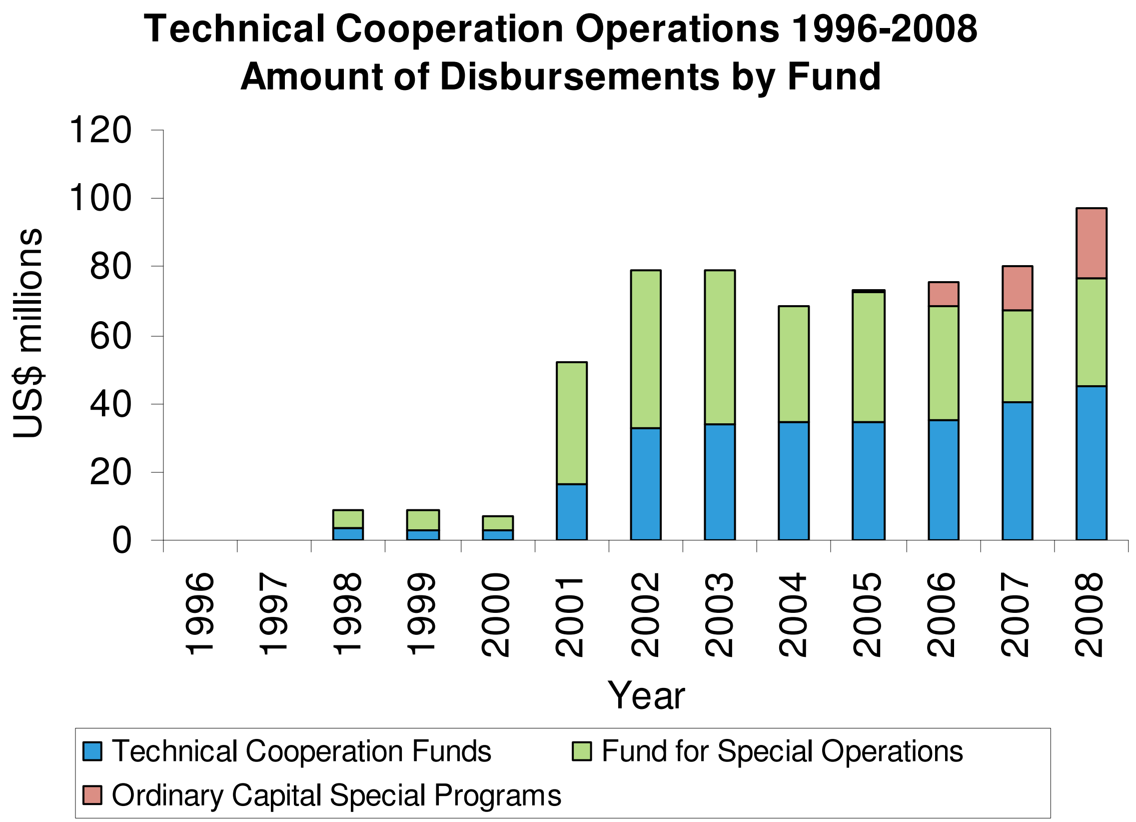
III. Technical Cooperation Operations 1996-2008

Table III.3 - Amount of Disbursements by Fund *(In US$ millions)*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Technical Cooperation Funds														
		0	3	3	3	16	33	34	34	34	35	41	45	**282**
Fund for Special Operations														
	0		6	6	4	36	46	45	34	38	33	27	31	**307**
Ordinary Capital Special Programs														
										1	7	13	21	**41**
Total														
	0	0	9	9	7	52	79	79	69	73	75	80	97	**630**

Source: IDB Data Warehouse. Data for 1994 and 1995 Not available.

Graph III.3



Source: IDB Data Warehouse. Data for 1994 and 1995 Not available.

III. Technical Cooperation Operations 1994-2008

Table III.4 - Amount of Disbursements by Country (In US$ millions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Argentina														
				0.7	0.4	3.0	2.4	2.3	1.9	2.9	1.5	1.9	2.3	**19.2**
Barbados														
				0.0		0.1	0.1	0.1	0.0	0.5	0.1	0.2	0.1	**1.1**
Bahamas														
						0.2	0.0	0.3	0.3	0.0	0.1	0.1	0.4	**1.4**
Belize														
			0.1			0.4	0.2	0.3	0.2	0.2	0.2	0.5	0.5	**2.5**
Bolivia														
		0.1	1.0	0.4	0.3	2.1	2.7	2.4	2.8	3.8	3.9	3.1	3.0	**25.7**
Brazil														
			0.6	3.4	0.9	3.2	4.8	3.9	1.8	2.4	2.4	2.9	6.3	**32.8**
Chile														
			0.6	0.3	0.0	0.3	1.2	1.1	0.7	0.7	1.9	1.6	2.2	**10.7**
Colombia														
			0.4	0.1	0.8	0.9	2.4	2.9	2.4	3.0	2.7	3.7	5.4	**24.8**

III. Technical Cooperation Operations 1994-2008

Table III.4 - Amount of Disbursements by Country *(In US$ millions)*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Costa Rica														
			0.5	0.2	0.3	0.6	1.2	1.5	2.5	2.1	2.7	2.0	1.9	**15.6**
Dominican Republic														
			0.2	0.0		1.3	3.0	2.3	1.4	1.0	1.3	1.6	1.5	**13.4**
Ecuador														
			0.4	0.7	0.2	2.3	4.7	3.7	2.5	3.0	3.6	3.5	6.2	**30.6**
El Salvador														
			0.2	0.4	0.3	1.8	1.9	2.7	2.1	3.0	2.6	3.5	6.4	**24.9**
Guatemala														
			0.1	0.4	0.7	3.3	3.2	3.6	2.7	2.4	3.9	3.8	3.5	**27.6**
Guyana														
						1.3	1.8	1.9	1.5	2.0	2.6	1.3	1.4	**13.7**
Haiti														
			0.6	0.1	0.0	1.2	1.6	1.5	1.4	2.2	1.9	2.1	3.4	**15.9**
Honduras														
			0.0	0.4	0.3	2.1	4.6	4.8	4.5	4.2	2.5	3.2	2.6	**29.1**

III. Technical Cooperation Operations 1994-2008

Table III.4 - Amount of Disbursements by Country *(In US$ millions)*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Jamaica														
						0.2	0.8	1.6	1.7	1.5	1.5	1.4	0.9	**9.7**
Mexico														
	0.1		0.6	0.5	1.9	2.5	3.4	4.5	3.7	2.8	2.2	3.3	3.9	**29.5**
Nicaragua														
			0.4	0.0		1.0	2.4	2.4	2.5	1.6	3.5	2.4	2.0	**18.2**
Peru														
			0.2	0.6	0.3	1.3	3.8	1.8	0.8	1.8	2.2	3.9	3.3	**20.0**
Panama														
			0.0			1.0	2.5	1.1	1.4	2.1	2.0	2.1	1.9	**14.1**
Paraguay														
			0.1	0.2	0.5	3.6	3.1	2.6	2.5	2.6	2.1	3.1	3.0	**23.5**
Suriname														
			0.0	0.0		1.1	1.9	2.0	1.0	1.4	1.1	1.1	1.5	**11.2**

III. Technical Cooperation Operations 1994-2008

Table III.4 - Amount of Disbursements by Country *(In US$ millions)*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Trinidad & Tobago														
						0.2	0.1	0.0	0.2	0.1	0.1	0.2	0.7	**1.7**
Uruguay														
			0.1	0.1		0.6	1.5	1.3	1.1	0.5	0.5	2.0	1.8	**9.5**
Venezuela														
			2.7	0.2		0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.1	**3.9**
Regional														
						16.2	23.6	26.9	25.0	25.0	26.2	25.9	30.9	**199.7**
Total														
	0.1	0.1	8.9	8.6	7.0	52.1	79.2	79.3	68.7	73.4	75.4	80.2	97.0	**629.7**

Source: IDB Data Warehouse. Data for 1994 and 1995 not available.

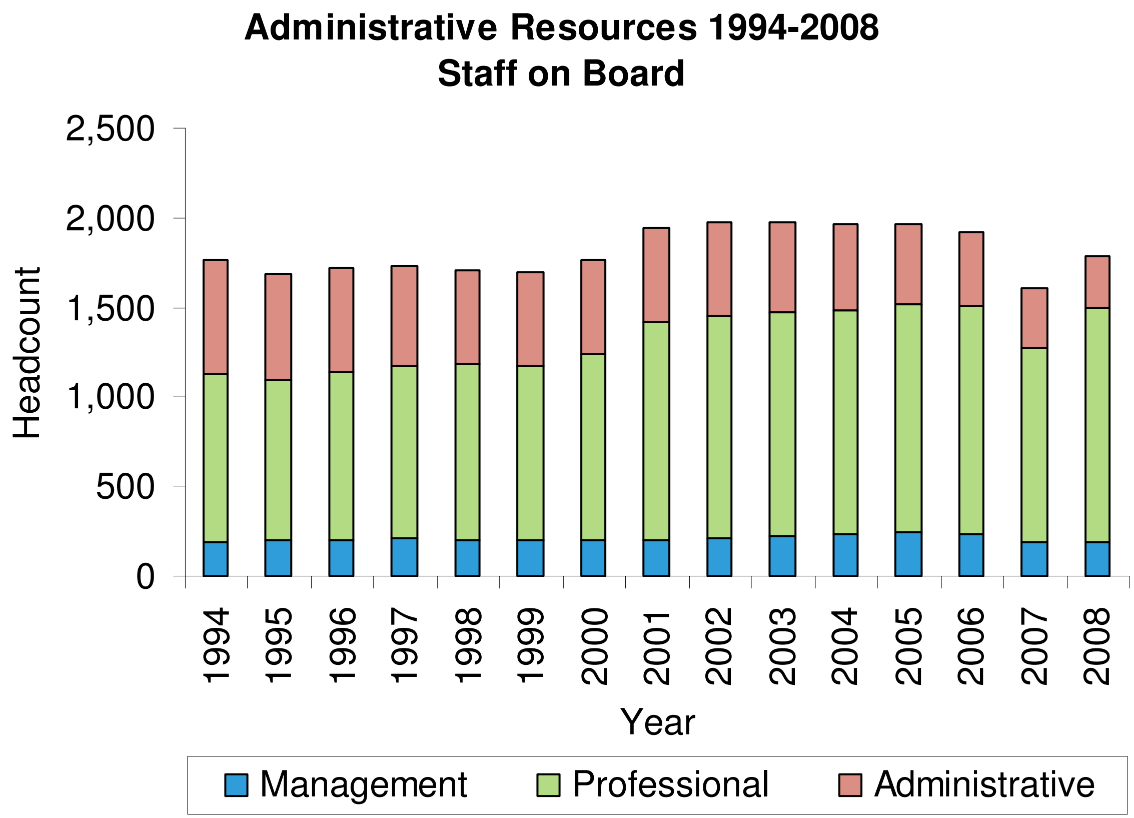
IV. Administrative Resources 1994-2008

Table IV.1 - Staff on Board

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Management															
	195	198	204	213	203	205	203	205	217	225	233	247	231	195	194
Professional															
	934	895	931	956	977	972	1,036	1,215	1,234	1,243	1,251	1,267	1,281	1,078	1,306
Administrative															
	629	589	584	562	527	519	522	520	522	509	478	450	409	333	282
Total															
	1,758	1,682	1,719	1,731	1,707	1,696	1,761	1,940	1,973	1,977	1,962	1,964	1,921	1,606	1,782

Source: HR Database

Graph IV.1



Source: HR Database

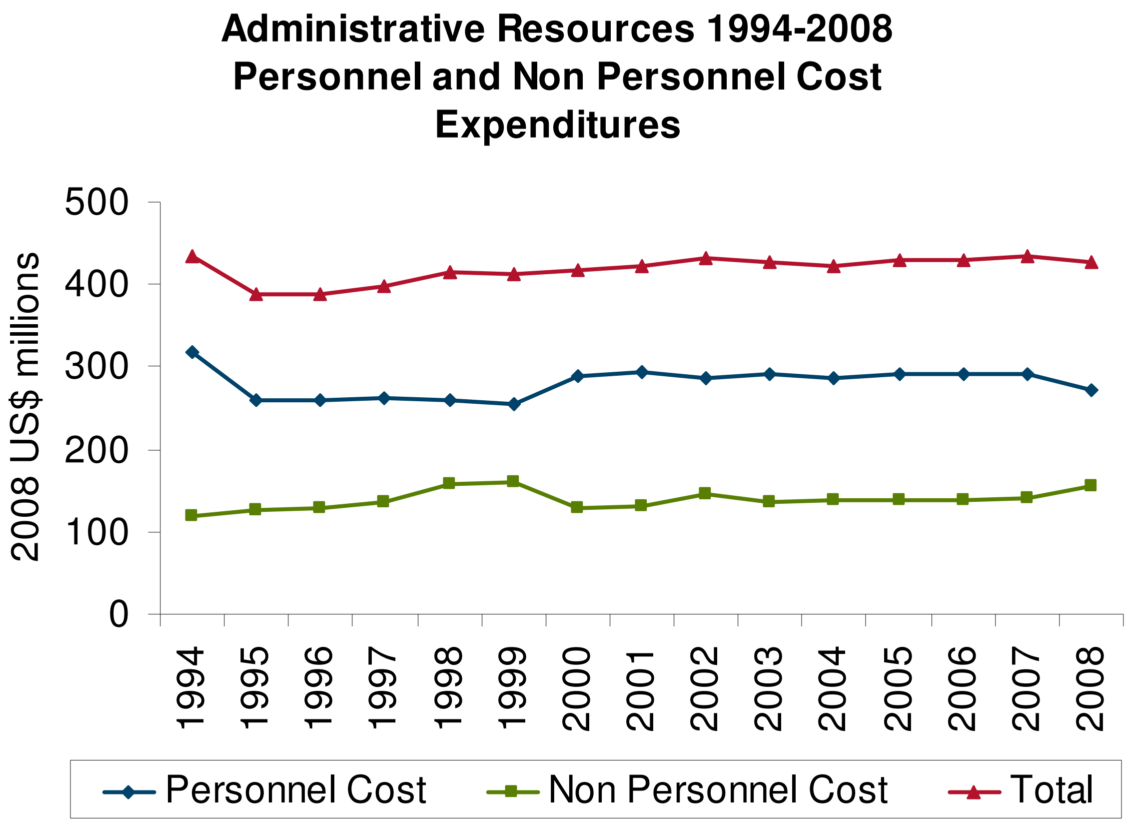
IV. Administrative Resources 1994-2008

Table IV.2 - Administrative Budget – Personnel Cost and Non Personnel Cost Expenditures ***(In 2008 US$ millions)***

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Personnel Cost															
	316.8	260.3	259.2	262.3	259.0	253.8	289.0	292.6	287.5	291.1	286.3	291.5	292.0	291.9	272.4
Non Personnel Cost															
	118.6	127.4	129.5	136.5	156.6	159.1	129.5	130.9	144.8	135.7	137.2	138.9	138.2	141.6	155.8
Total															
	435.4	387.7	388.7	398.8	415.6	412.9	418.6	423.5	432.3	426.7	423.5	430.4	430.3	433.6	428.2

Source: IDB Budget Database. Staff Calculations.

Graph IV.2



Source: IDB Budget Database. Staff Calculations.

IV. Administrative Resources 1994-2008

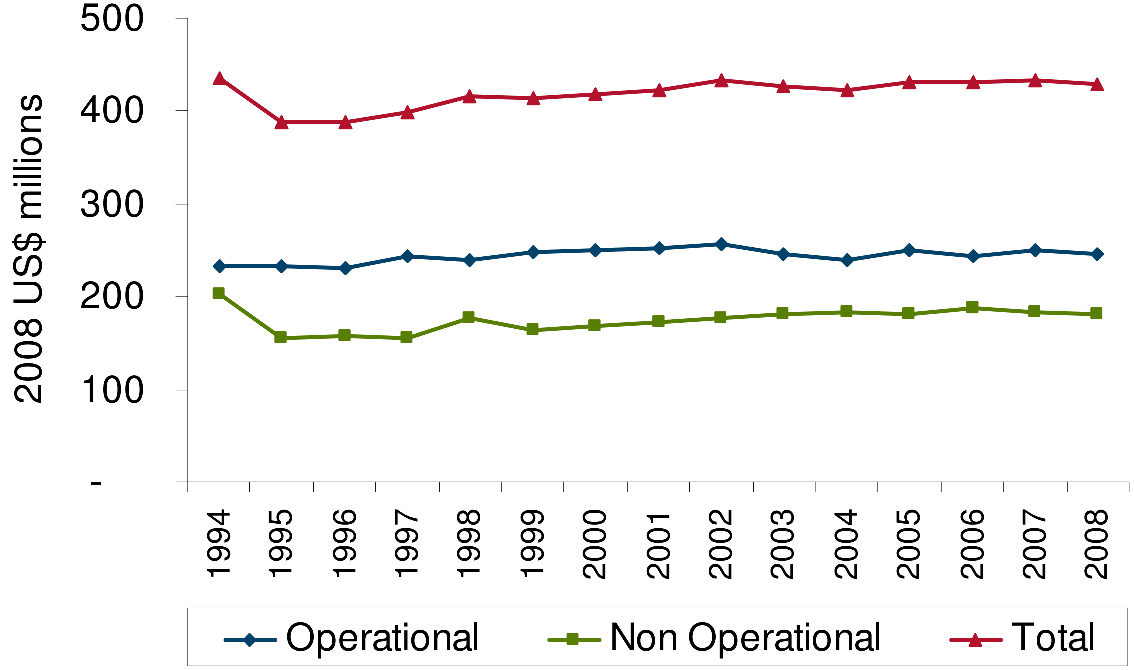
Table IV.3 - Administrative Budget – Operational and Non Operational Expenditures *(In 2008 US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operational															
	233.2	232.6	231.5	243.6	239.9	248.8	251.1	251.3	256.1	246.3	240.1	249.3	243.7	250.4	246.3
Non Operational															
	202.2	155.0	157.2	155.3	175.7	164.1	167.5	172.2	176.2	180.4	183.4	181.1	186.6	183.2	181.9
Total															
	435.4	387.7	388.7	398.8	415.6	412.9	418.6	423.5	432.3	426.7	423.5	430.4	430.3	433.6	428.2

Source: IDB Budget Database. Staff Calculations.

Graph IV.3

Administrative Resources 1994-2008
Operational and Non Operational Expenditures



Source: IDB Budget Database. Staff Calculations.

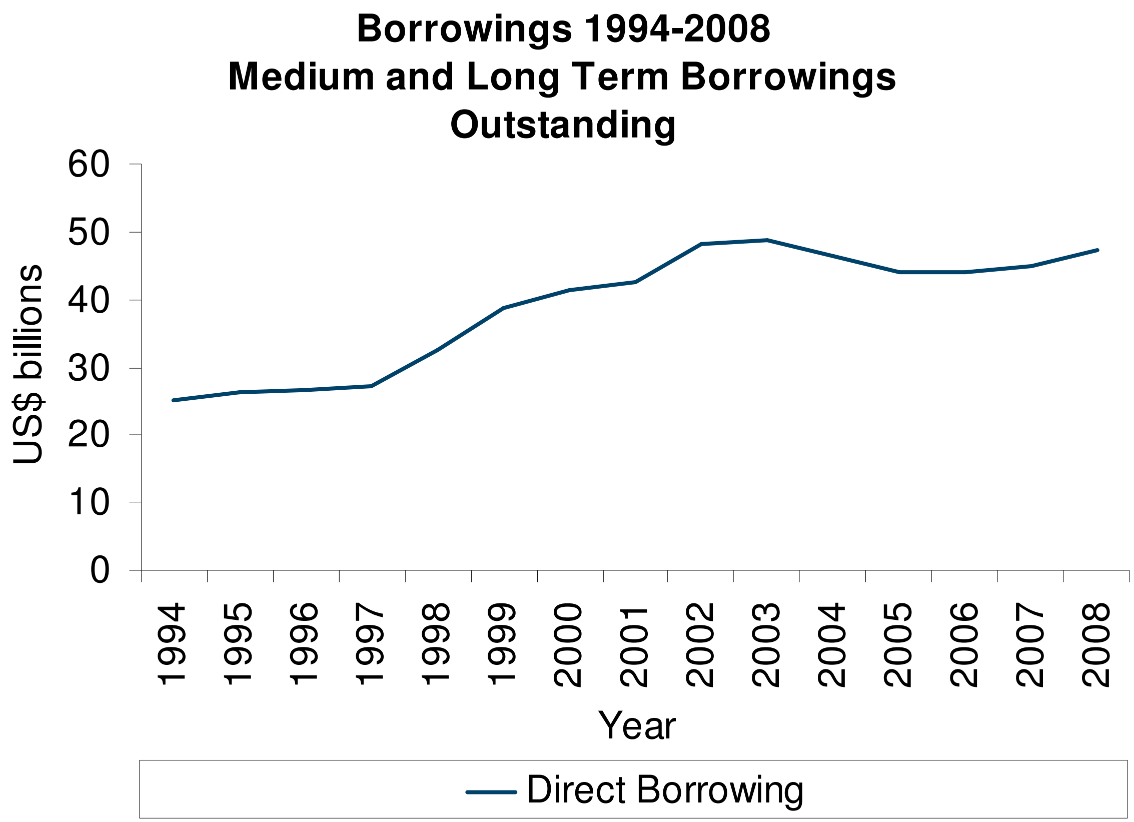
V. Borrowings 1994-2008

Table V.1 - Medium and Long Term Borrowings Outstanding *(Before swaps - in US$ billions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Direct Borrowings															
	25.2	26.3	26.6	27.3	32.5	38.8	41.4	42.7	48.1	48.7	46.5	44.2	44.0	44.8	47.3

Source: IDB Annual Reports

Graph V.1



Source: IDB Annual Reports

VI. Outstanding 1994-2008

Table VI.1 - Outstanding Portfolio by Country *(Ordinary Capital - in US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Argentina															
SG	3,054	3,944	3,925	4,388	5,774	6,714	7,207	8,270	8,042	8,619	8,593	8,474	8,465	8,567	8,668
NSG			43	92	55	252	283	311	274	209	180	141	52	2	1
Barbados															
SG	71	75	97	101	118	118	118	132	149	165	165	150	141	133	140
NSG															
Bahamas															
SG	132	135	129	139	171	174	179	186	195	71	71	71	74	79	90
NSG															
Belize															
SG					1	5	16	34	49	64	70	71	80	96	94
NSG															
Bolivia															
SG	717	777	711	655	620	590	542	480	456	424	366	282	233	195	161
NSG							6	6	6	77	94	123	93	81	73

VI. Outstanding 1994-2008

Table VI.1 - Outstanding Portfolio by Country *(Ordinary Capital - in US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Brazil															
SG	3,152	3,371	3,572	4,367	5,914	8,465	10,662	11,147	12,139	11,673	10,506	10,820	11,743	12,506	12,543
NSG			12	14	12	29	101	222	327	377	368	298	346	558	925
Chile															
SG	2,537	1,485	986	595	575	602	587	580	525	619	569	535	550	551	591
NSG							25	23	25	43	38	21	12	9	302
Colombia															
SG	2,543	2,576	2,407	2,174	2,498	3,224	3,200	3,763	3,468	4,846	4,824	3,571	4,294	4,813	5,620
NSG				32	32	30	29	27	25	19	13	10			125
Costa Rica															
SG	591	721	688	726	771	748	733	669	692	747	770	569	535	495	251
NSG					4	14	17	16	15	14	13	12	11	10	180
Dominican Republic															
SG	237	308	311	296	324	364	377	473	569	708	923	999	1,067	1,029	1,025
NSG									69						

VI. Outstanding 1994-2008

Table VI.1 - Outstanding Portfolio by Country *(Ordinary Capital - in US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ecuador															
SG	968	1,102	1,066	1,056	1,194	1,233	1,315	1,339	1,379	1,485	1,418	1,286	1,326	1,465	1,487
NSG													22	25	79
El Salvador															
SG	195	280	444	519	617	732	807	922	1,049	1,114	1,101	1,099	1,128	1,166	1,377
NSG															50
Guatemala															
SG	335	344	302	336	446	561	573	631	804	825	887	874	959	1,135	1,197
NSG														25	25
Guyana															
SG	88	81	67	55	49	41	31	25	22	19	12	9	6	3	4
NSG															
Haiti															
SG															
NSG															

VI. Outstanding 1994-2008

Table VI.1 - Outstanding Portfolio by Country *(Ordinary Capital - in US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Honduras															
SG	329	345	233	227	237	232	207	184	178	168	151	120	104	88	75
NSG			9	9	8	7	6	6	4						
Jamaica															
SG	386	412	388	386	427	470	541	514	632	635	647	594	565	542	627
NSG											30	30	30		
Mexico															
SG	4,027	4,808	5,154	5,078	5,571	5,668	5,798	5,929	6,711	7,174	7,429	7,597	3,999	4,574	4,782
NSG			24	61	116	139	185	301	345	336	317	275	235	105	87
Nicaragua															
SG	134	161	161	154	155	151	136	120	118	114	108	92	84	78	77
NSG							11	10	10	9	9	8	7	7	
Peru															
SG	1,250	1,482	1,478	1,863	2,100	2,490	2,439	2,663	2,913	2,935	3,212	3,401	3,622	3,823	3,957
NSG				23	52	48	45	41	52	14	89	92	127	201	401

VI. Outstanding 1994-2008

Table VI.1 - Outstanding Portfolio by Country *(Ordinary Capital - in US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Panama															
SG	229	293	330	426	555	588	612	640	717	795	777	767	842	853	911
NSG								19	17	16	14	12			50
Paraguay															
SG	165	220	247	291	358	425	492	507	556	632	655	627	658	678	705
NSG															
Suriname															
SG	14	13	12	10	10	28	27	27	27	42	42	44	49	55	59
NSG														7	7
Trinidad & Tobago															
SG	284	386	424	427	458	485	458	435	438	444	437	414	377	389	396
NSG															
Uruguay															
SG	652	705	712	806	939	1,235	1,310	1,436	1,970	2,281	2,241	2,230	1,838	1,835	2,056
NSG					5	12	10	8	7	12	16	12	10		

VI. Outstanding 1994-2008

Table VI.1 - Outstanding Portfolio by Country *(Ordinary Capital - in US$ millions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Venezuela															
SG	1,457	1,651	1,377	1,278	1,778	1,861	1,968	2,037	2,164	2,122	1,966	1,723	1,574	1,153	1,330
NSG															
Regional															
SG	929	894	720	721	693	817	814	750	742	728	658	579	531	484	520
NSG							5	74	90	93	92	104	143	138	128
Total															
SG	24,478	26,572	25,940	27,071	32,352	38,020	41,149	43,892	46,704	49,451	48,598	46,997	44,843	46,786	48,740
NSG			88	229	283	531	722	1,063	1,265	1,219	1,271	1,138	1,089	1,168	2,433

Source: Finance Department DataMart.

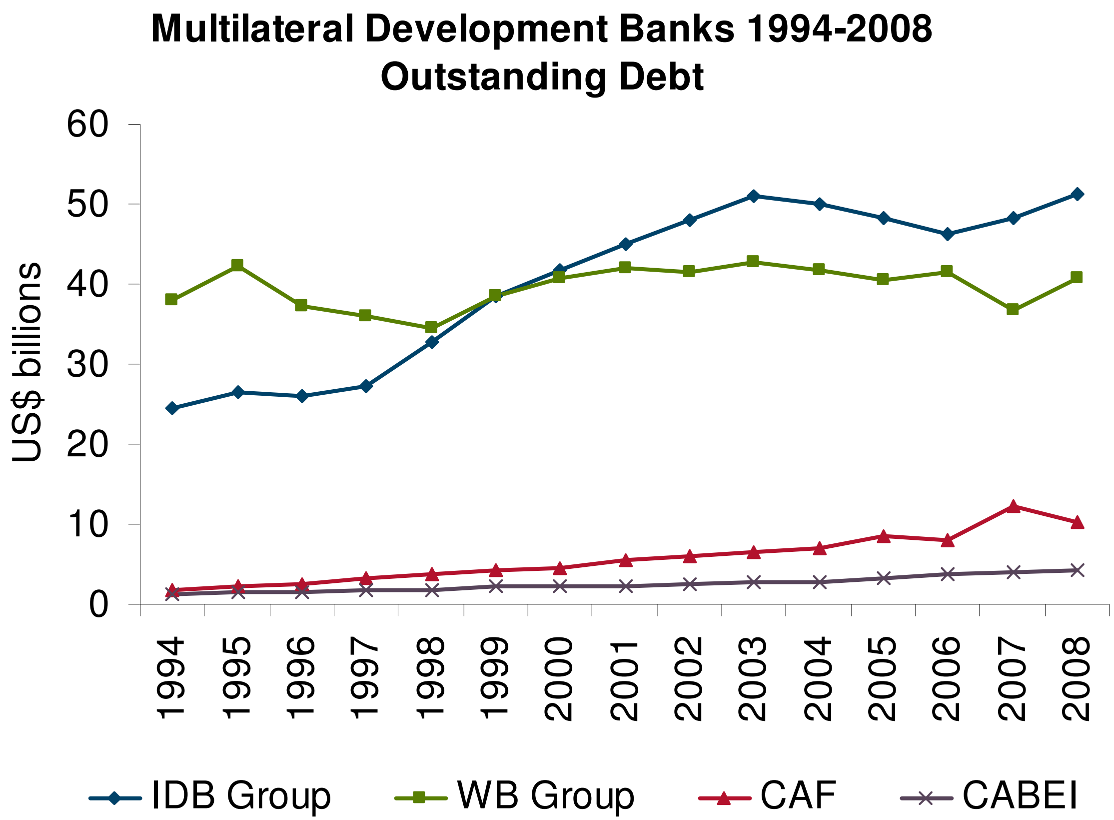
VII. Multilateral Development Banks 1994-2008

Table VII.1 - Outstanding Debt *(In US$ billions)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
IDB Group (Ordinary Capital)															
	24.5	26.6	26.0	27.3	32.6	38.6	41.9	45.0	48.0	50.9	50.1	48.3	46.2	48.2	51.2
WB Group															
	38.1	42.2	37.3	36.1	34.4	38.5	40.8	41.9	41.5	42.7	41.9	40.4	41.4	36.7	40.8
CAF															
	1.8	2.3	2.6	3.2	3.7	4.2	4.5	5.5	6.1	6.6	7.1	8.5	8.1	12.3	10.3
CABEI															
	1.3	1.4	1.5	1.7	1.8	2.2	2.3	2.3	2.6	2.9	2.8	3.2	3.7	3.9	4.2

Source: IDB Data Warehouse, Annual Reports of MDBs

Graph VII.1



Source: IDB Data Warehouse, Annual Reports of MDBs

Annex 1-C
IDB's Contribution to the Region's Development: Outputs in Key Areas of Bank Activity
1994-2008

Social Programs	
Output Indicators	**1994-2008**
Education	
· Classrooms built or upgraded	71,099
· Teachers trained	931,151
· Students Benefited	22,048,326
Health & Social, Labor	
· Personnel Trained	4,091,815
· Number of facilities built or upgraded	297,633
· Individuals benefited	100,407,057
Urban Development	
· Houses built or improved	214,894
· Families benefitted	1,690,936

Infrastructure	
Output Indicators	**1994-2008**
Agriculture	
· Land improved through irrigation/drainage (ha)	484,666
· Families benefitted	3,161,533
Energy	
· Transmission lines installed/upgraded (km)	6,442
· Distribution lines installed/upgraded (km)	1,807
· Households benefited	539,471
Transport	
· Roads built or upgraded (km)	732,372
Water and Sanitation	
· Households connected to water supply	4,232,437
· Households served with sanitation connection	2,272,201
· Water/Sewer systems built or upgraded	862

Strengthening of public institutions	
Output Indicators	**1994-2008**
Finance	
· Credit lines	546,894
· Projects/operations benefitted	170,092
Institutional Capacity	
· Civil servants trained	1,466,093
· Information systems and improved processes	1,314

Environmental Protection Programs	
Output Indicators	**1994-2008**
Environment	
· Protected land (ha)	90,651
· Hydric Regulation Works	1,847

Annex 2
LAC Progress towards the Millennium Development Goals

Fostering equality of opportunities requires, among other things, speeding progress to meet the Millennium Development Goals (MDGs). The tables below show that, for the region as a whole, progress has been positive but uneven among various indicators, and between and within countries (e.g., the rural/urban divide). Clearly, progress ought to be assessed vis-à-vis the goal: for example, Argentina's small progress towards primary education completion is explained by its almost universal coverage to begin with; as is Chile's null progress in increasing access to safe drinking water in urban areas. This annex expands the discussion on MDGs from the main document's chapter III by reviewing the progress in achieving the MDGs and remaining gaps. Providing equality of opportunity in LAC requires continued progress towards meeting global development goals.

MDG 1: Eradicate Extreme Poverty and Hunger

Eradicating extreme poverty is perhaps one of the most important MDGs. Poverty, either measured by income or expenditure levels, is directly related to other outcomes in health, education, access to basic services, and, even, environmental. The region has made substantial efforts to reduce the incidence of poverty. ECLAC data shows that extreme poverty in the region fell from 22% in 1990 to 12% in 2007. In 2007, 190 million people in LAC still lived in poverty; more than 65 million of them in extreme poverty. Despite this overall regional progress, several countries may be unable to meet the MDG target of reducing by half the percentage of population living in extreme poverty by 2015.

Table 2.1 shows that, on average, the region's progress to meet the Poverty MDG has surpassed the level of advancement needed to meet the goal by 2015. To be on track to meet the goal, the overall reduction in extreme poverty rates by 2007 should have been 7.5 percentage points. The observed reduction has been around 10 percentage points. Despite this important achievement, poverty reduction has not been equal across IDB country groups. Only A and B countries have progressed more than expected. D countries, which comprise the poorest countries in the region, have shown slow progress. These countries still had 27% of their population living in extreme poverty in 2007.

With labor income comprising more than 80% of household income in LAC, progress towards the first MDG will be achieved only by tackling disparities in labor opportunities which are related to large differences in earnings and productivity. The employment-to-population ratio has increased in all Bank country groups, particularly in groups B and D. In 1991, 57% of the population was employed in D countries. This percentage increased to 62% in 2006. Despite this progress, the proportion of people working as self-employed or in family businesses, and also those earning less than 1 dollar a day, has increased, particularly in B and D countries. This implies that further efforts are needed to guarantee access to decent work. Additionally, informal employment levels are still very high in some countries, such as Bolivia, Guatemala, and Paraguay.

In 2006, about 7% of children under age five were still moderately or severely stunted in the region, and 10% of the population was below the minimum level of dietary consumption. According to the latest United Nations Report on MDGs, progress in reducing hunger has been eroded by the worldwide increase in food prices. The poor are the most affected as raising food prices limit their ability to obtain food, increasing their risk of hunger and malnutrition. As Table 2.1 shows, the reduction in malnutrition in the Region has been slow and below what was expected. D countries are still far behind. Haiti presents the highest proportion of its population below the minimum dietary energy consumption (around 47% in 2003), and Guatemala exhibits the highest malnutrition rates among children below age five (around 23% in 2006).

Table 2.1 MDG 1: Eradicate Extreme Poverty and Hunger

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 1A. Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day						
Extreme poverty rate	1990	19.70	23.19	7.96	38.53	22.09
	2007	8.42	14.96	6.65	26.94	11.94
	Expected progress	6.70	7.89	2.71	13.10	7.51
	Observed progress	11.28	8.23	1.31	11.59	10.14
Extreme poverty gap ratio	1990	7.34	8.26	4.09	14.48	8.20
	2007	3.29	5.69	2.30	11.55	4.77
Share of poorest quintile in national consumption	2006	3.28	3.41	4.17	2.94	3.28
Target 1B. Achieve full and productive employment and decent work for all, including women and young people						
Growth rate of GDP per employed person	1992	-4.00	-1.16	2.00	-1.09	-2.95
	2006	3.66	3.92	4.63	2.06	3.49
Employment-to-population ratio	1991	58.09	54.18	54.49	56.81	57.17
	2006	59.72	60.84	58.89	61.75	60.17
Proportion of employed people with income below 1 dollar a day PPP	1992	11.88	6.43	7.75	25.15	12.26
	2004	8.96	9.71	3.95	28.05	12.06
Proportion of employed people that are self-employed or work in a family business	1990	31.06	30.53	28.35	37.09	31.46
	2005	29.23	38.33	25.62	45.98	32.83
Target 1C. Halve, between 1990 and 2015, the proportion of people who suffer from hunger						
Children below age 5 with weight below normal	1981/1993	8.48	8.51	6.05	18.18	9.77
	1995/2006	6.10	5.68	5.36	12.44	6.93
	Expected progress	2.71	2.72	1.94	5.82	3.13
	Observed progress	2.38	2.83	0.69	5.74	2.84
Proportion of population below minimum level of dietary energy consumption	1990/1992	8.76	23.25	11.48	24.54	13.37
	2001/2003	7.25	11.48	9.93	21.69	10.13
	Expected progress	2.28	6.04	2.99	6.38	3.48
	Observed progress	1.51	11.77	1.55	2.85	3.23

Source: Authors own calculations based on ECLAC data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: Averages are weighted by the population in each country every year of available information.

MDG 2: Achieve Universal Primary Education

Despite substantial progress in education outcomes, sizable access and quality disparities persist. The primary school enrollment rate is close to 96% and the completion rate is close to 91% region-wide. But large differences exist between countries (46% in Haiti, 58% in Guatemala vs. 99% in Jamaica and Chile) and within countries. On average, primary school completion rates among children belonging to the top quintile are more than 30 percentage points greater than those of the bottom quintile.

Table 2.2 shows important disparities within Bank country groups in terms of completion rates. For the year 2005, while the proportion of students starting grade 1 who reach the last grade of primary school was 94% for C countries, it was only 79% for D countries. In Nicaragua, for example, the primary completion rate in 1990 was 60% and in 2005 it was only 65%.

Table 2.2 MDG 2: Achieve Universal Primary Education

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 2A. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling						
Net enrollment ratio in primary education	1990	90.92	78.20	90.65	73.02	86.37
	2006	96.90	94.60	94.42	94.11	96.08
	Expected progress	6.18	14.83	6.36	18.35	9.27
	Observed progress	5.99	16.41	3.77	21.09	9.71
Proportion of pupils starting grade 1 who reach last grade of primary according to CINE 1997	1992	85.64	87.45	90.04	70.38	84.11
	2005	93.41	92.63	94.37	78.69	91.35
	Expected progress	8.62	7.53	5.98	17.77	9.54
	Observed progress	7.77	5.18	4.33	8.32	7.24
Literacy rate of 15-24 year-olds, women and men	1990	93.82	95.39	96.40	81.89	92.48
	2007	98.06	98.13	97.24	91.89	97.13

Source: Authors own calculations based on ECLAC data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: Averages are weighted by the population in each country every year of available information.

Even though the second MDG focuses only on primary education, in recent years much attention has been paid to early childhood development, pre-primary education, quality issues, as well as on promoting higher levels of education among adolescents. Large inequalities characterize pre-school enrollment in the region: 70% of the children between age 3 and 5 from the richest income quintile attend pre-school, while only 50% of the poorest do. The same occurs with secondary enrollment and completion rates (particularly upper secondary): for the region as a whole, on average 67% of children of secondary school age are enrolled at that level, 16% are out of school and 18% are still in primary school. However, regional averages mask large variations between and within countries: while 68% of 15-19 years old from the richest quintile graduate from 9th grade, only 28% of the poorest do.

Unequal opportunities in education are perhaps deeper when quality is the focus. In this dimension, critical to translate quantitative goals into learning and human capital accumulation, LAC countries compare unfavorably with their emerging peers, especially in Asia. Gaps in quality disproportionally affect the poor: a gap of almost 100 points in the measurements carried out by the Program for International Student Assessment, PISA, equivalent to 25% of the average score, separates upper and lower socioeconomic strata.

MDG 3: Promote gender equality and empower women

The third MDG acknowledges that gender can have a major impact on development and calls to end the disparities between boys and girls at all education levels. It also promotes gender equality in the access to wage employment and political decision-making positions. While only one goal explicitly addresses gender equality, it is of critical importance to every MDG. As men and women participate together in almost every aspect of life, the rules that regulate their behaviors and values in a given society (or their gender perspective) can have a large impact on development outcomes.

As Table 2.3 indicates, the gender gap in school enrollment has closed for all education levels. Progress has been especially high for tertiary education. The main concern now is the underachievement of boys in urban areas and girls in indigenous communities. The reversed gaps observed in higher levels of education could be attributed to increased labor market opportunities for boys in urban areas that translate into high opportunity costs for staying in school. It is important to highlight that country differences persist. For example, the ratio of girls to boys in tertiary education in Bolivia is 0.55, while in Barbados and Belize these ratios are 2.46 and 2.43 respectively.

In recent years, women in the region have also been gaining important ground in political decision-making. On average, 7% of the seats in national parliaments where held by women in 1990 and in 2008 this percentage increased to 17%. The progress has been notorious, but it is still marked by country differences. Belize and Haiti are the countries with less women participation in politics, only 3 and 4 percent, respectively, of their parliament positions were held by women in 2008. In Argentina 40% of the parliament seats were held by women in the same year.

Table 2.3 MDG 3: Promote gender equality and empower women

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 3A. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015						
Ratios of girls to boys in primary education	1990	0.97	1.06	0.98	0.97	0.98
	2006	0.96	0.99	0.98	0.97	0.97
Ratios of girls to boys in secondary education	1990	1.08	1.12	1.06	1.03	1.08
	2006	1.08	1.07	1.09	1.06	1.07
Ratios of girls to boys in tertiary education	1990	0.95	1.07	0.79	0.84	0.95
	2006	1.19	1.06	1.63	1.10	1.17
Ratios of girls to boys that complete primary education	1992	1.02	0.99	1.01	0.96	1.01
	2005	1.03	1.02	1.02	1.01	1.02
Index of gender parity in literacy rates	1990	0.93	1.34	0.72	1.38	1.05
	2007	1.01	1.00	1.02	1.02	1.01
Share of women in waged employment in non-agricultural sector	1990	38.09	35.67	42.18	37.49	37.75
	2006	43.94	43.10	43.42	41.25	43.45
Proportion of seats held by women in the national parliament	1990	7.50	5.40	8.36	8.74	7.41
	2008	17.20	16.20	21.59	16.45	17.06

Source: Authors own calculations based on ECLAC data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: Averages are weighted by the population in each country every year of available information.

MDG 4 and MDG 5: Reduce Child Mortality and Improve Maternal Health

Substantial reductions in under-five mortality rates have been achieved in the Region. Table 2.4 shows that under-five mortality was reduced from 55 deaths per 1,000 live births in 1990 to 27 in 2007. The infant mortality rate (measured for children under age one) is slightly lower at 22 deaths per 1,000 live births in 2007. This rate, however, could be underestimated as many vulnerable children below age one are not registered, which means their deaths are not recorded. For this indicator, uneven progress across countries is also notable. While outstanding

improvement has been achieved in B countries, efforts have been insufficient for group C. As mentioned before, countries with higher achievements in the baseline year generally show less progress as they have less room for improvement in their indicators.
Important inequalities persist in access to health services. Low service quality exacerbates inequity as the poor are much more likely to receive substandard services, and could be discouraged from using services altogether even if these are free. These inequities could hamper further progress in achieving the MDGs. Currently, a child born in the poorest quintile is almost three times as likely to die before his or her fifth birthday, between five and six times as likely to suffer from chronic malnutrition, and about two-thirds as likely to receive medical attention for a fever, compared to a child born in the richest quintile. In maternal mortality, the number of deaths per 100,000 live births was 119 in 2005, a figure still too high for the level of development of the region, and that also hides substantial regional variations.

Reducing maternal mortality rates in the Region requires expanding access to pre-natal and post-natal care and assisted delivery, particularly for indigenous women in rural areas, and improving basic sanitation, among other measures. Policies and programs must also factor in the strong links that exist between health and education outcomes and related factors, such as lack of access to clean water and basic sanitation.

Table 2.4 MDG 4 and MDG 5: Reduce Child Mortality and Improve Maternal Health

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 4A. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate						
Under five mortality rate (per 1,000 live births)	1990	49.73	56.59	25.74	82.72	54.96
	2007	25.03	24.25	17.27	41.83	27.18
	Expected progress	22.66	25.78	11.73	37.69	25.04
	Observed progress	24.71	32.34	8.47	40.89	27.77
Infant mortality rate (per 1,000 live births)	1990	40.16	36.47	21.22	60.42	41.82
	2007	20.36	17.88	13.82	31.92	21.50
Proportion of children immunised against measles	1990	77.66	76.25	82.85	69.50	76.45
	2007	96.39	86.35	91.84	83.59	92.74
Target 5A. Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio						
Maternal mortality ratio (per 100,000 live births)	2005	87.92	138.25	39.92	250.79	118.74
Proportion of births attended by skilled health personnel	2000	93.37	80.35	96.01	62.86	86.92
	2006	97.42	87.47	95.20	69.81	86.71

Source: Authors own calculations based on ECLAC data
Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.
Note: Averages are weighted by the population in each country every year of available information.

MDG 6: Combat HIV/AIDS, Malaria and Other Diseases

Even though the prevalence of HIV/Aids in the LAC region is relatively low, particularly when compared to other regions such as Africa and some countries in Asia, the region experienced slow progress in reducing its incidence in the last 5 years. In some countries the prevalence of this disease has even increased, particularly in B and C countries, and, especially, in Jamaica and Suriname, where the prevalence of HIV/Aids has doubled in the last 5 years.

Prevalence of tuberculosis, as well as the mortality rates caused by this disease, has decreased over the past 15 years. Overall, the region reduced the prevalence rate from 160 in the year 1990 to 71 per 100,000 people in 2006. A and B countries recorded the greatest progress. In Brazil the prevalence rate decreased from 146 to 55 per 100,000 people in 15 years. In Venezuela it decreased from 618 in 1990 to 187 per 100,000 people in 2007. In D countries progress has been slow, particularly in tuberculosis mortality rates. Paraguay, Guatemala and Haiti have seen almost no improvements in recent years and rates have increased in Guyana.

Table 2.5 MDG 6: Combat HIV/Aids, Malaria, and other Diseases

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 6A. Have halted by 2015 and begun to reverse the spread of HIV/AIDS						
HID/Aids prevalence among population aged 15 to 49 years	2001	0.52	0.43	0.88	1.35	0.64
	2007	0.52	0.51	0.98	0.80	0.57
Target 6C. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases						
Prevalence rate of tuberculosis (per 100,000 people)	1990	116.39	258.75	52.09	280.85	160.16
	2006	45.46	91.23	25.56	168.43	70.53
Mortality rates associated with tuberculosis (per 100,000 people)	1990	10.94	23.66	4.73	25.94	14.88
	2006	3.67	8.55	2.74	21.84	7.13

Source: Authors own calculations based on ECLAC data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: Averages are weighted by the population in each country every year of available information.

MDG 7: Ensure Environmental Sustainability

The region has one of the world's largest areas covered by forests (44 percent of total land area in 2005). This vast territory is mostly comprised by the Amazonian rainforest. Important deforestation has taken place in D countries, mainly due to human settlements and land use for cattle pasture and other agricultural and economic activities. Forest reduction has been especially important in Honduras, Ecuador, and Nicaragua. As Table 2.6 shows, overall, carbon dioxide (CO2) emissions in the region have increased slightly from 2.46 metric tons per inhabitant in 1990 to 2.61 in the year 2004. Trinidad & Tobago is the country with the highest levels of emissions per inhabitant in the region. These have increased from 14 to 25 metric tones per inhabitant in the period considered. D countries, which have the least developed economies, have lowest levels of emissions per capita.

Considerable improvements in access to clean water and basic sanitation have been achieved in the region, but further efforts are required to cover remaining access gaps, especially in rural areas. In 2001, 83% of the population in LAC had access to improved water sources. This figure increased to 91% by 2006, but it remained around 71% in rural areas. Unequal access is a characteristic within countries, both by income and by region. For example, in Paraguay 98% of the top quintile and only 74% of the bottom quintile have access to clean water, and the rural/urban access figures stand at 52%/75% respectively. In Peru 93% of population in the top quintile and 60% in the bottom quintiles have access to clean water, and rural/urban access figures stand a 33%/83% respectively. To meet the water MDG by 2015, the Region requires extending access for 40 million people. Similar results hold for basic sanitation: while urban areas have shown marked improvements, rural areas lag behind. Access to hygienic restrooms and sewerage varies strikingly across and within countries. For instance, in Chile hygienic restrooms are available for 40% of the rural population and 95% of the urban one, while in

Guatemala those figures were 16.4% and 73.9%, respectively. As a whole, the region needs to expand basic sanitation services to 30 million people to reach the MDG target.

Table 2.6 MDG 7: Ensure Environmental Sustainability

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 7B. Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss						
Proportion of land area covered by forest	1990	48.36	50.26	37.83	41.31	47.35
	2005	44.83	50.00	38.96	34.43	43.95
CO2 Emissions (Metric Tons per habitant)	1990	2.97	1.64	3.03	0.83	2.46
	2004	3.07	1.70	4.20	1.20	2.61
Consumption of ozone depleting substances	1990	8468.66	1370.37	344.62	242.89	5932.94
	2003	1295.33	357.79	67.97	109.75	933.41
Per capita consumption of biomass	1990	0.06	0.11	0.11	0.16	0.08
	2001	0.05	0.08	0.07	0.13	0.07
Energy use for each 1,000 of GDP	1990	174.16	137.16	225.75	159.82	167.72
	2005	146.89	106.08	207.65	158.73	143.72
Protected areas as percentage of total area	1990	12.30	19.47	8.87	11.35	13.21
	2005	17.75	23.81	14.15	23.46	19.46
Target 7C. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation						
Proportion og population using an improved drinking source (national)	1990	84.04	85.86	94.36	71.40	82.74
	2006	92.10	90.54	95.87	85.47	90.98
	Expected progress	5.43	4.81	1.92	9.72	5.87
	Observed progress	8.06	4.68	1.51	14.07	8.23
Proportion og population using an improved drinking source (urban)	1990	92.24	95.12	98.70	85.29	91.92
	2006	96.50	96.60	98.04	93.12	96.06
	Expected progress	2.64	1.66	0.44	5.00	2.75
	Observed progress	4.26	1.48	-0.66	7.82	4.13
Proportion og population using an improved drinking source (rural)	1990	59.91	60.56	89.62	57.71	60.40
	2006	69.12	71.64	91.57	76.05	71.22
	Expected progress	13.63	13.41	3.53	14.38	13.47
	Observed progress	9.21	11.08	1.95	18.34	10.82
Proportion of population with access to improved sanitation facilities (national)	1990	68.15	72.80	86.57	48.96	66.58
	2006	79.01	79.11	89.58	66.04	77.41
	Expected progress	10.83	9.25	4.57	17.35	11.36
	Observed progress	10.86	6.31	3.01	17.07	10.82
Proportion of population with access to improved sanitation facilities (urban)	1990	80.30	85.92	93.97	62.89	79.05
	2006	85.92	87.25	90.43	74.34	84.55
	Expected progress	6.70	4.79	2.05	12.62	7.12
	Observed progress	5.63	1.34	-3.54	11.45	5.49
Proportion of population with access to improved sanitation facilities (rural)	1990	30.45	40.17	83.00	35.16	34.42
	2006	46.02	54.07	86.41	54.87	49.82
	Expected progress	23.65	20.34	5.78	22.05	22.30
	Observed progress	15.57	13.89	3.41	19.70	15.40
Target 7D. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers						
Proportion of urban population living in slums	1990	36.67	32.72	18.90	53.84	37.89
	2001	31.56	33.98	19.99	47.68	33.95

Source: Authors own calculations based on ECLAC data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: Averages are weighted by the population in each country every year of available information.

MDG 8: Develop a Global Partnership for Development

The increased access of the population to new information and communication technologies is probably one of the most important achievements in the region in the last years. The private sector has rapidly spread fixed and mobile phone technologies across developing countries. While only 0.04 percent of the population in the region had access to mobile technologies in 1990, in 2006 almost 6 out of 10 persons have a mobile subscription. Internet connectivity has also experienced important developments, however current access levels are still low when compared to advanced economies. On average, 65% of the population in OECD countries had access to Internet in the year 2006, while the LAC average is 19% for this same year. In this area, disparities also persist within the Region. A and C countries have the greatest access to information and communication technologies. Approximately, 85% of the population had a mobile subscription in Jamaica, Barbados, and Argentina in the year 2006, while only 30% of the population had access to these technologies in Bolivia, Honduras, and Nicaragua.This is closely related to the higher percentage of rural population in these countries, where it is more difficult to provide these services.

Table 2.7 MDG 8: Develop a Global Partnership for Development

Indicator	Year	Group A	Group B	Group C	Group D	LAC
Target 8F. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications						
Telephone lines per 100 people	1990	6.79	5.48	10.79	2.80	6.14
	2006	14.60	14.90	23.58	8.97	14.08
Mobile subscriptions per 100 people	1990	0.06	0.03	0.01	0.01	0.04
	2006	57.04	55.90	62.70	44.26	55.12
Personal computers being used per 100 people	1998	3.54	3.74	6.10	1.27	3.42
	2006	14.16	8.60	13.32	4.48	11.80
Internet users per 100 people	1996	0.34	0.36	0.87	0.07	0.32
	2006	20.73	19.16	28.24	9.00	18.96

Source: Authors own calculations based on ECLAC data

Note: Group A: Argentina, Brazil, Mexico, and Venezuela; Group B: Chile, Colombia, and Peru; Group C: Bahamas, Barbados, Trinidad & Tobago, Uruguay, Costa Rica, Panama, Jamaica, and Suriname; Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

Note: Averages are weighted by the population in each country every year of available information.

Annex 3

Development Gaps in Latin America and the Caribbean
June 2, 2009

What are the needs of the region in the main areas of activity of the Bank?

This first section estimates gross capital formation (GCF), social expenditure and climate change investment gaps for the Latin American and the Caribbean (LAC) region through benchmarks with OECD and middle income Asian countries[1]. Estimates are also provided for sector specific infrastructure investments in electricity, water and sanitation, transport and telecommunications.

Table 1.1
Gross Capital Formation and Social Expenditure in LAC
(Current Levels and Additional Resources Required to Close the Gaps)
(As percentage of GDP and in Billion US Dollars) (Year 2006)

Variables	Current investment levels		Additional resources required to close the development gaps	
	% of GDP	In Billions USD	% of GDP	In Billions USD
Gross capital formation				
Public	3.57	145.12	2.45	99.64
Private	15.50	630.05	2.14	87.17
Total	19.07	775.17	4.60	186.81
Adaptation costs to climate change			0.47	18.93
Social expenditure				
Education	4.02	163.42	0.47	19.16
Health	3.89	158.13	3.56	144.55
Social Assistance	1.58	64.23	1.64	66.48
Total	**28.56**	**1160.95**	**10.72**	**435.94**

Source: Authors calculations based on WEO, WDI, CIA Factbook, International Energy Agency, CEPAL, and World Bank data.

Note: Gross capital formation uses middle income asian countries as benchmark. The rest of the information uses OECD countries as benchmark.

Social assistance expenditure uses the United Kingdom as benchmark given the availability of information.

Note: As latest information available corresponds to 2006, calculations assume that the share of each variable in the GDP has remained unchanged. We use the GDP information for 2008 to obtain the investment amounts in billions of USD.

Table 1.1 shows the latest information on GCF and social expenditure for the region. GCF is around 20 percent of the region's Gross Domestic Product (GDP) or 775 billion US Dollars. Social expenditures amount to an additional 10 percent of GDP, around 400 billion dollars.

Table 1.1 also shows the additional resources required to close the gaps with OECD and middle income Asian countries. Our calculations indicate that additional 436 billion US

[1] The group of middle income countries include: Indonesia, Philippines, Thailand, Malaysia, India and Sri Lanka.

dollars will be needed to close the gaps in GCF and social expenditure (education, health, and social assistance). Of this amount, 19 billion US dollars will be needed to adjust GCF to climate change. In terms of social expenditure, it is noteworthy to mention that the region is very far behind in terms of public health expenditure. The following sections will present individual estimates by country in each of the sectors and investment areas just mentioned.

Gross public and private capital formation

This section estimates annual gross public and private capital formation gaps comparing the performance of each LAC country with the average for middle income Asian countries. Public capital formation is on average 1.9 percent of GDP lower in LAC than in Asian middle income countries. Private capital formation is 2.1 percent of GDP lower per year. This implies that at current dollars the region should increase public capital formation by 99.4 billion dollars per year and private capital formation by around 87.2 billion. Individual estimates by country are presented in Table 1.2. This estimates will likely double or triple to close the gap in capital stocks between regions under a perpetual inventory method (depending on the assumed depreciation and catch up rates).

Table 1.2
Annual Gross Capital Formation Requirements to Close the Gap with Asian Middle Income Countries (In Billions US Dollars)

Countries	Gross public capital formation	Gross private capital formation
Argentina	10.98	5.54
Belize	0.00	0.07
Bolivia	0.00	1.19
Brazil	60.80	42.64
Chile	4.86	0.00
Colombia	0.00	15.26
Costa Rica	0.34	0.67
Dominican Republic	0.17	0.54
Ecuador	1.07	0.00
El Salvador	0.55	0.97
Guatemala	0.56	1.13
Honduras	0.00	0.00
Mexico	16.52	0.00
Nicaragua	n.a.	n.a.
Panama	0.28	0.00
Paraguay	0.00	0.28
Peru	2.50	1.17
Uruguay	0.72	1.70
Venezuela	0.00	16.00
Latin America average	**16.07**	**17.43**
Latin America total	**99.36**	**87.17**
Bahamas	0.26	0.00
Barbados	0.00	0.00
Guyana	n.a.	0.00
Haiti	n.a.	0.00
Jamaica	n.a.	0.00
Suriname	0.02	0.00
Trinidad y Tobago	0.00	0.00
Caribbean average	**0.05**	**0.00**
Caribbean total	**0.28**	**0.00**
Latin America & Caribe total	**99.64**	**87.17**

Source: Authors calculations based on World Economic Outlook (WEO) database

Note: Gaps were calculated considering the average value of 1996-2006

Investment requirements in specific sectors

Table 1.3 shows current level of access to basic infrastructure services for LAC and its comparison regions. To calculate access gaps, we use per capita access levels for OECD countries. Table 1.4 shows annual investment requirements (private and public) to close the gap with OECD countries. These investments amount to 113 billion US dollar, or 2.8 percent of the region's GDP in 2008.

Table 1.3
Infrastructure Access in LAC, OECD and Asian Middle Income Countries
(Year 2006)

Regions	Access to electricity (%)	Water (%)	Sanitation (%)	Mainlines per 100 people	Mobile cellular subscribers per 100 people	Roads (KM/Km2)
Latin America	91.99	91.89	79.27	18.11	56.10	0.16
Caribe	52.93	71.60	44.69	8.09	41.71	0.12
OECD	100.00	99.63	99.63	53.00	92.00	0.49
Middle income Asian average	71.01	86.69	68.26	7.58	41.14	0.32

Source: World Development Indicators,International Energy Agency, and CIA Factbook

Table 1.4
Annual Investment Needed to Close Electricity, Water and Sanitation, Roads and Telecommunications Access Gaps with OECD countries
(In Billions US Dollars)

Countries	Electricity (by 2020)	Water (by 2020)	Sanitation (by 2020)	Roads (by 2040)	Telephone lines (By 2020)	Mobile cellular (By 2020)
Argentina	0.09	0.02	0.07	15.29	0.13	0.29
Belize	n.a.	0.00	0.00	0.11	0.00	0.01
Bolivia	0.19	0.02	0.12	6.46	0.06	0.44
Brazil	0.29	0.20	0.89	33.07	0.72	5.04
Chile	0.01	0.01	0.02	3.96	0.06	0.17
Colombia	0.32	0.04	0.21	4.76	0.19	0.73
Costa Rica	0.00	0.00	0.00	-0.15	0.01	0.18
Dominican Republic	0.03	0.01	0.04	0.15	0.05	0.29
Ecuador	0.07	0.01	0.05	1.27	0.06	0.26
El Salvador	0.07	0.01	0.02	0.00	0.03	0.17
Guatemala	0.16	0.01	0.05	0.54	0.08	0.39
Honduras	0.15	0.01	0.05	0.57	0.04	0.32
Mexico	0.26	0.06	0.40	8.09	0.41	2.70
Nicaragua	0.09	0.01	0.06	0.56	0.03	0.22
Panama	0.03	0.00	0.02	0.35	0.02	0.06
Paraguay	0.05	0.02	0.04	2.28	0.04	0.17
Peru	0.39	0.05	0.16	7.55	0.14	1.12
Uruguay	0.00	0.00	0.00	0.11	0.01	0.04
Venezuela	0.01	0.03	0.08	4.63	0.12	0.43
Latin America	**2.21**	**0.51**	**2.28**	**89.60**	**2.19**	**13.04**
Bahamas	n.a.	0.00	0.00	0.03	0.00	0.00
Barbados	n.a.	0.00	0.00	0.00	n.a.	n.a.
Guyana	n.a.	0.00	0.00	1.22	0.00	0.02
Haiti	0.26	0.05	0.17	0.13	n.a.	n.a.
Jamaica	0.01	0.00	0.01	0.00	0.00	0.01
Suriname	n.a.	0.00	0.00	1.03	0.01	0.07
Trinidad y Tobago	0.00	0.00	0.00	0.00	0.01	n.a.
Caribbean	**0.27**	**0.05**	**0.18**	**2.41**	**0.02**	**0.10**
Latin America & Caribbean	**2.49**	**0.56**	**2.46**	**92.01**	**2.21**	**13.14**

Source: Authors calculations based on information from the World Development Indicators, CIA Factbook and World Bank unit cost estimates for infraestructure investment: (a) electricity US$ 430 per person; (b) water US$ 400 per connected household; (c) sanitation US$ 700 per connected household; (d) roads US$ 410,000 per Km. of two lane paved road; (e) telephone lines US$ 400 per line; (f) mobile cellular US$ 580 per subscriber).

Note: Annual investment in roads considers closing the gap by 2040

Climate Change

To estimate the resources needed to respond to climate change we use initial World Bank estimates, updated by the Stern Climate Change Review, of additional resources needed to adapt Gross Domestic Investment to climate change. In the case of low vulnerability to climate change 0.1 percent of gross capital formation is needed to adjust to climate change. In the case of high vulnerability 2 percent of gross capital formation is needed to adjust investment flows.

Table 1.5
Resources needed to adapt Gross Capital Formation to climate change
(In Billions of US Dollars)

Countries	Gross public capital formation		Gross private capital formation	
	Low	High	Low	High
Argentina	0.018	0.356	0.058	1.151
Belize	0.000	0.002	0.000	0.005
Bolivia	0.001	0.018	0.003	0.059
Brazil	0.089	1.783	0.288	5.765
Chile	0.009	0.187	0.030	0.604
Colombia	0.011	0.223	0.036	0.720
Costa Rica	0.002	0.035	0.006	0.112
Dominican Republic	0.002	0.041	0.007	0.134
Ecuador	0.003	0.055	0.009	0.176
El Salvador	0.001	0.024	0.004	0.078
Guatemala	0.002	0.039	0.006	0.127
Honduras	0.001	0.015	0.002	0.049
Mexico	0.052	1.045	0.169	3.377
Nicaragua	0.000	0.007	0.001	0.023
Panama	0.001	0.025	0.004	0.081
Paraguay	0.001	0.013	0.002	0.043
Peru	0.007	0.138	0.022	0.447
Uruguay	0.001	0.029	0.005	0.095
Venezuela	0.018	0.368	0.060	1.190
Latin America average	**0.047**	**0.935**	**0.151**	**3.023**
Latin America total	**0.220**	**4.404**	**0.712**	**14.237**
Bahamas	0.000	0.008	0.001	0.027
Barbados	0.000	0.004	0.001	0.013
Guyana	0.000	0.001	0.000	0.004
Haiti	0.000	0.008	0.001	0.025
Jamaica	0.001	0.016	0.003	0.051
Suriname	0.000	0.003	0.001	0.011
Trinidad y Tobago	0.001	0.027	0.004	0.088
Caribe average	**0.001**	**0.010**	**0.002**	**0.033**
Caribe total	**0.003**	**0.068**	**0.011**	**0.218**
Latin America & Caribe total	**0.224**	**4.472**	**0.723**	**14.456**

Source: Authors calculations based on WEO GCF data (already scaled up to match Asian middle income country levels) and Stern Reviw on Climate Change

The high vulnerability to climate change estimate translates into additional resource requirements 4.5 billion US dollars for public sector capital formation and 14.5 billion US dollars for private capital formation (this figures already assume increased capital formation to match middle income Asian countries). As with the case of gross capital formation, the resources needed to adapt the existing capital stock to climate change will double or triple the flow estimate, depending on assumed depreciation and catch up rates.

Education, Health and Social Assistance

Both in education and health public spending we use as benchmark OECD public spending in both sectors as percentage of GDP.

Table 1.6
Public Education and Health Expenditure Requirements to Close the Gaps with OECD countries (GDP Scaled) (In Billions of US Dollars)

Countries	Education	Health
Argentina	0.29	7.84
Belize	0.00	0.06
Bolivia	0.00	0.46
Brazil	0.00	57.07
Chile	2.08	6.71
Colombia	0.37	1.19
Costa Rica	0.00	0.48
Dominican Republic	0.98	1.88
Ecuador	1.34	2.39
El Salvador	0.34	0.70
Guatemala	0.50	1.78
Honduras	0.08	0.50
Mexico	0.00	37.98
Nicaragua	0.06	0.16
Panama	0.17	0.42
Paraguay	0.03	0.49
Peru	2.15	5.39
Uruguay	0.34	0.95
Venezuela	1.93	15.73
Latin America average	**1.87**	**27.20**
Latin America total	**19.00**	**142.19**
Bahamas	n.a.	0.26
Barbados	0.00	0.09
Guyana	0.00	0.03
Haiti	n.a.	0.22
Jamaica	0.00	0.59
Suriname	n.a.	0.11
Trinidad y Tobago	0.16	1.07
Caribbean average	**0.00**	**0.32**
Caribbean total	**0.16**	**2.37**
Latin America & Caribbean total	**19.16**	**144.55**

Source: Authors calculations based on UNESCO and WEO 2008 data.

In the case of education this implies a regional gap of 0.22 percent of GDP and in the case of health a gap of 3.3 percent of GDP. These estimates translate into a public spending gap of around 19 billion dollars per year for education and 145 billion dollars for health (Table 1.6 presents individual estimates by countries).

There are no reliable comparable figures for social assistance spending for LAC countries. Evidence exists from a sample of LAC countries (Argentina, Bolivia, Colombia, Honduras, Mexico, Nicaragua and Peru) and for two developed countries, the United States (US) and the United Kingdom (UK).

Table 1.7
Public Social Assistance Spending Requirements to Close the Gap with High Income Countries and the Maximum of LAC Spending Levels
(In Billions of US Dollars)

Countries	To close gaps with respect to United Kingdom	To close gaps with respect to the maximum of the LAC region
Argentina	0.78	2.88
Belize	0.02	0.03
Bolivia	0.00	0.00
Brazil	25.94	36.48
Chile	2.72	3.82
Colombia	2.81	4.13
Costa Rica	0.51	0.71
Dominican Republic	0.60	0.85
Ecuador	0.79	1.12
El Salvador	0.35	0.49
Guatemala	0.57	0.80
Honduras	0.08	0.17
Mexico	20.13	26.30
Nicaragua	0.07	0.11
Panama	0.37	0.51
Paraguay	0.19	0.27
Peru	3.79	4.61
Uruguay	0.43	0.60
Venezuela	5.36	7.53
Latin America average	**13.60**	**19.13**
Latin America total	**65.50**	**91.42**
Bahamas	0.12	0.17
Barbados	0.06	0.08
Guyana	0.02	0.03
Haiti	0.11	0.16
Jamaica	0.23	0.32
Suriname	0.05	0.07
Trinidad y Tobago	0.40	0.56
Caribbean average	**0.15**	**0.21**
Caribbean total	**0.98**	**1.38**
Latin America & Caribbean total	**66.48**	**92.80**

Source: Authors calculations based on information of Breceda, Rigolini and Saavedra (2008), WEO, CEPAL and UK Office for National Statistics.

Note: Social assistance expenditure includes expenditure in cash transfers and other social spending (excluding health, education, contributions to social security, and pensions). For countries with no available information we use the average of the region to calculate the gaps

To estimate gaps in this case 2 benchmarks are assumed: social assistance spending for the UK and the highest social assistance spending of our sample of LAC countries. To estimate gaps for countries with no available information we assign them the LAC average of social assistance spending as percentage of GDP (Table 1.7 presents individual estimates by country). On average, the sample of LAC countries spends 1.6 percent of its GDP on social assistance[2]. Under the UK benchmark (3.2 percent of GDP) additional resources for 66 billion US dollars for social assistance spending are needed per year. To take all countries to the LAC maximum[3] (3.8 percent of GDP) additional resources of 91 billion dollars are needed.

[2] Social assistance includes expenditure in cash transfer programs and other social spending excluding health, education, social security contributions, and pensions.
[3] The maximum value corresponds to Bolivia.

ANNEX 4

Country Development Challenges and Financing Requirements

Argentina
Development Challenges and Financial Requirements, 2010-2020

Background

Argentina emerged from the 2002 crisis thanks to strong fiscal and exchange rate policy adjustments which, together with a favorable international environment, created conditions for growth rates of above 8 percent for five consecutive years. From a longer term perspective, however, Argentina's growth performance has not been as encouraging; per capita GDP has grown by only 0.8 percent per year over the past 25 years. High monetary and financial instability and recurrent fiscal sustainability problems are behind the low investment rates (at 17 percent of GDP on long-term average), and the weak contribution of capital accumulation to economic growth. Studies have identified deficits in the energy and transportation infrastructure, and a weak—and even deteriorating—institutional framework to support business operations and development, as the main obstacles to sustained productivity growth in Argentina.

Argentina is an emerging market economy with relatively high levels of achievement in terms of broad development indicators. According to World Bank estimates, Argentina has a per capita Gross National Income of just under US$13,000 in PPP terms, among the highest in Latin America, and number 77 in the world. The number of internet users and mobile phone subscribers has grown sharply in this decade, and are also among the top in Latin America. Argentina has made good progress toward the Millennium Development Goals (MDGs) in health areas such as child mortality and maternal health, and in gender equality. It is lagging behind or has made slow progress, however, in eradicating extreme poverty, providing access to potable water and sanitation services, ensuring universal primary education and curbing carbon emissions.

Table 1.- Argentina:. Selected Indicators of Progress toward the MDGs

Millennium Development Goals	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	2	2	10	5
Goal 2: Achieve universal primary education				
Primary completion rate, total (% of relevant age group)	..	..	99	97
Goal 3: Promote gender equality and empower women				
Ratio of female to male enrollments in tertiary education	..	..	155	145
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	37.1	39.9	42.6	45.0
Goal 4: Reduce child mortality				
Mortality rate, under-5 (per 1,000)	29	25	21	16
Goal 5: Improve maternal health				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	77
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	60	49	40	31
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP $ of GDP)	0.6	0.4	0.4	0.4
CO2 emissions (metric tons per capita)	3.4	3.4	3.7	3.9
Improved sanitation facilities (% of population with access)	81	85	89	91
Improved water source (% of population with access)	94	95	96	96
Goal 8: Develop a global partnership for development				
Internet users (per 100 people)	0.0	0.1	7.0	25.9
Mobile cellular subscriptions (per 100 people)	0	1	18	102
Other				
GNI per capita, Atlas method (current US$)	3,190	7,360	7,470	6,040
GNI per capita, PPP (current international $)	5,160	7,680	8,860	12,970
Trade (% of GDP)	15.0	19.7	22.4	45.0
Source: World Development Indicators database				

Expected Bank Support in Priority Areas

Social indicators in Argentina reflected the powerful impact of the 2002 financial crisis, and have recovered only gradually. Poverty incidence still exceeds 20 percent, compared to just over 15 percent in 1994. Extreme poverty rates more than double those prevailing before the financial crisis. Thus, the Bank's vision emphasizes strengthening the social protection system. This will require action in several areas including streamlining and better targeting cash transfer programs that help relieve the incidence of extreme poverty. In addition, the Bank will continue its support for the improvement of the quality and equity of education, an area where achievement indicators have shown increasing gaps relative to advanced economies. Health and citizens' security are areas that affect the well-being of the population, especially the poor, and are also likely to receive prominent attention in the Bank strategy for the next decade, in particular through projects to enhance the ability of provinces and municipalities to deliver services.

Access to water and sanitation services is a critical infrastructure objective, especially in view of its impact on a range of other social and health objectives. More that 20 percent of the population does not have access to the public network that distributes drinking water, although many of those can obtain potable water from other sources. The situation is even worse in terms of access to sanitation networks, where only 44 percent of the population is connected to the public networks. Although coverage has been improving, progress has been slow and Argentina is behind schedule to reach MDGs in this area. The Bank has accumulated valuable experience by supporting a number of projects to expand and improve water and sanitation infrastructure in the Buenos Aires metropolitan area and other cities.

Road infrastructure presents a bottleneck for economic growth in many regions of Argentina, with paved roads representing only 20 percent of provincial roads by length. This is particularly important in Argentina, as 80 percent of commercial transport is made by roads. Urban transport also presents significant development challenges especially in the largest cities. The Bank has developed expertise in the transport sector in Argentina through a number of projects for road expansion and better integration of productive areas, particularly in the northern region of the country and in urban transport in Buenos Aires. The

Bank could also help promoting private sector investment on those areas that the GOA has opened to the private sector, including ports.

The Bank has also identified **institutional development** as a priority area, offering many opportunities to strengthen governance and fiscal sustainability. In this regard, the more recent assessments of the overall quality of governance compiled by the World Bank put Argentina at about the median of the 210 countries ranked, and the scores achieved by Argentina in various indicators have been steadily falling over the past decade. Some fruitful initiatives in this sector include strengthening the judiciary system, upgrading e-government, introducing results-driven management and budgeting, promoting transparency in government actions, and enhancing the regulatory system.

In the area of **competitiveness and international integration**, the Bank has identified several areas that could contribute to economic growth and technological advancement. These include financial and technical capacity support to the Argentine exporter MSMEs through a variety of programs; programs for science, technology and innovation development that stress the national innovation system and upgrade the scientific and technological infrastructure; and a number of actions to upgrade technical capacity and infrastructure to help improve productivity in the agriculture & beef sectors and the related sectors that support this industry.

Although, **private sector operations** in Argentina have lagged behind in the aftermath of the financial crisis, in recent years this sector has presented a number of potential opportunities for beneficial Bank involvement. The private sector in Argentina, including the financial sector, lacks long term financing, and the recent financial crisis has significantly affected its ability to access long term financing, so that multilateral loans are the main source of available long term financing. Moreover, the Bank could continue to increase its participation to help foreign trade through the Trade Finance Facilitation Program, and through transactions that promote the local capital market. Examples of industries that have had Bank finance or present potential for future financing from the Bank are: extractive industries; food and beverages; tourism; oil and gas; cement & construction; renewable energy, ethanol, biofuels and any other that could contribute to improve climate change; pulp and paper; petrochemical; and the iron & steel sectors.

Development in Argentina will also be fostered though the implementation of **knowledge and capacity-building (KCPs)** initiatives. Areas in which the Bank's contribution could be most productive include transparency, education policy, urban development, environmental protection, alternative energy, disaster management, social protection policy, and results-based management.

Demand for IDB Products

The Bank has 45 loans outstanding in Argentina, for a total of US$8.9 billion. Debt with the IDB represents about 6 percent of total government debt (at the nonfinancial public sector level), and about 60 percent of Argentina's total debt with multilateral institutions. In the past three years, net loan flows have been negative for a total amount of about US$160 million, owing to large repayments of emergency loans that the Bank granted during the financial crisis. Reflecting sector priorities and opportunities, 44 percent of the current Bank's portfolio in Argentina comprises projects in the social area, including education, health, social investment, and urban development and housing. Another 32 percent of the outstanding Bank's portfolio is made up of infrastructure projects, including in the areas of energy, roads, and water and sanitation.

Looking forward, the Bank operations will probably shift towards areas that have been lagging behind, including especially the private sector. New Bank initiatives, such as those in the field of environmental and climate-change related operations, will also gain in their share. In the social area, less resource may be needed in relative terms, as the economy continues to growth and the crisis of 2002 recedes. But an increase in the lending capacity of the Bank would be necessary to permit to continue to support the social sector and infrastructure investments, key areas of Argentina's development needs, while at the same time accommodating the new objectives that are at the core of the Bank's mandate for the next decade.

BAHAMAS
Development Challenges and Financial Requirements 2010-2020
As of May 20, 2009

Background

The Bahamas has one of the highest per capita incomes and lowest debt-to-GDP ratios (39.9%) in the English-speaking Caribbean. Despite the favorable macroeconomic indicators, recent economic performance in the wake of the international financial crisis has been weakened and has highlighted the disparities between the family islands and the urban centers of Nassau and Freeport. Gross domestic product (GDP) fell 1.3% in 2008 and is projected to decline –by 4.5% in 2009, making The Bahamas the Caribbean nation most adversely affected by the crisis, according to the IMF. Tourism, the main driver of the economy accounting directly for 22% of GDP, has been hardest hit. Tourist arrivals contracted by approximately 5% in 2008 and the sector continues to weaken in 2009 due to the struggling US market, which accounts for an estimated 87% of visitor arrivals. With the resultant major job losses, unemployment rose to 12.1% for 2008 from 7.9% in 2007. In the construction and real estate sectors, activity also contracted sharply while the outlook for the offshore financial sector remains guarded as further tightening of regulatory controls by the OECD countries ensue. However, the country is expected to rebound to positive growth in 2011 and 2012, following the expected strengthening of the US economy and continued prudent macroeconomic management of the Bahamian economy through the crisis.

The Bahamas has made substantial progress on its Millennium Development Goals. While the net enrolment ratio in primary education has experienced a slight setback falling from 90.3% in 1991 to 88.4% in 2006, completion rates have soared from 83.4% in 2000 to 94.9%. Additionally The Bahamas has experienced significant health-care progress in sharply reducing the rates of infant and child mortality by 28% and 42% respectively. Although a small contributor to climate change, the country has been exemplary in reducing the consumption of ozone depleting substances while more than doubling protected terrestrial and marine areas. Additionally, solid increases in the number of fixed and cellular subscribers have played an integral role in the country’s inter-connectivity and economic productivity. According the UNDP Human Development Index, The Bahamas is a ranked 49^{th} out of 177 countries – 2^{nd} among Caribbean countries behind Barbados (30^{th}).

Table 1- Bahamas: Millennium Development Goals

BAHAMAS Millennium Development Goals						
Series	**1991**	**1995**	**2000**	**2005**	**2006**	**Progress**
Goal: Achieve universal primary education						
Net Enrolment Ratio in primary education Both sexes	90.3		86.8	90.7	88.4	Setback
Primary completion rate, both sexes			83.4	100.7	94.9	Fast
Goal: Promote gender equality and empower women						
Percentage of women in wage employment in the non-agricultural sector	49.6[7,8,9]	49.4[8,9]		50.0[8,9]	50.1[8,9]	Maintained
Goal: Reduce child mortality						
Infant mortality rate (0-1 year) per 1,000 live births		18	15	13	13	Fast
Children under five mortality rate per 1,000 live births		24	19	15	14	Fast
Goal: Ensure environmental sustainability						
Consumption of all ODS	0	69.9	70.3	18.6	8.9	Fast
Consumption of ozone-depleting CFCs in ODP metric tons	[10]	69.9	65.9	13	4	Fast
Terrestrial and marine areas protected, sq. km.	1253[22,23]	1458[22,23]	1458[22,23]	2831[22,23]	2831[22,23]	Fast
Goal: Develop a global partnership for development						
Telephone lines per 100 population	30.12	29.99	37.93	41.19	40.18	Fast
Cellular subscribers per 100 population	0.78	1.47	10.46	70.5	77.27	Fast

Expected Bank's support in priority areas

The Bank's Country Strategy with The Bahamas 2008-2012 (CSP), to be approved this year, will propose strategic interventions that aim to advance infrastructure development, explore and develop alternative sources of sustainable energy, enhance competitiveness, and support the GOBH efforts to improve the timely and efficient delivery of public services. The key objectives are to build resilience to the adverse impacts of recent negative shocks while positioning the economy for long-term sustainable growth with the knowledge that the market for tourism and other export services will be significantly more competitive. In the coming years, the new strategy will be centered on two strategic pillars (i) Infrastructure for Growth and Environmental Sustainability and (ii) Institutions for Competitiveness and Social Sustainability. To support the development challenges of The Bahamas, the Bank has identified the following priority areas of collaboration:

a. **Infrastructure for Competitiveness and Social Welfare.** In line with GOBH priorities to complete its priority capital expenditure projects to stimulate competitiveness and foster economic productivity, the Bank will provide direct investment and policy based financing support in road and air transport, energy, climate change, water and sanitation, and natural disaster and risk management sectors.

b. **Social Policy for Equity and Productivity.** While the country's social indicators are generally good, this data masks (i) the weaknesses in the human capital base and (ii) the increasingly significant areas of vulnerability including the inefficient targeting of the current social safety net. The mainstays of Bank intervention over the medium term will be the continuation of the US$18 million Transforming Education and Training Program (1695/OC-BH) and the possible initiation of Phase II and a possible social protection response diagnostic assessment.

c. **Institutions for Growth and Societal Welfare.** Building management capacity for results-based monitoring and evaluation systems could boost the responsiveness of the public sector by increasing the availability of quality, integrated, low-cost information, which at present, constrains the government's capacity for action and decision-making. Therefore, a partnership between the GOBH and the Bank could yield significant development impacts in critical areas such as control of public spending, strategic planning, and targeting and designing policies.

d. **Competitive Regional and Global Integration.** The Bank will draw on its expertise to assist The Bahamas in continuing the regularization of landholding, ownership rights and property registration in order to facilitate access to financing. The Bank proposes technical assistance followed by investment in Trade Sector Support Program to assess the needs and implement recommendations to upgrade the Customs management system, procedures and workflows based on World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Global Trade (SAFE) in order to meet the requirements of the European Union, United States, and World Trade Organization.

e. **Private Sector.** An increase in demand for the Bank's resources from the private sector, in particular enterprise development to facilitate access to capital and business development services (BDS) for small and medium enterprises (SMEs), which will enhance the sector's competitiveness and contribution to domestic production. Therefore, the Bank proposes to support SME competitiveness and productive contribution through two channels of support: (i) implementation of the FINPYME program which will support the performance of diagnostic reviews of selected SME's as the basis for the preparation of business plans that could be subsequently used in approaching the banking sector for financial support; and (ii) provision of direct, fast-disbursing, medium term financing working capital and fixed investment for eligible SME's.

Demand for IDB Products

Among the multilateral organizations, the IDB plays the most important role as the sole lender to The Bahamas, accounting for 20% of the country's total external public debt. For the next decade, Bank's objective is to maintain its role as an important source of financing and technical assistance for both public and private sectors in The Bahamas.

In the short run, an increase in demand for IDB resources to mitigate the impact of the international financial crisis and to finance the costs of completion of the priority capital expenditure projects is expected. In the medium term, as international credit markets loosen and The Bahamas' regains its superior level of access, external financing needs from the Bank are expected to moderate.

During the next decade, as foreign direct investment in the tourism sector and real sector activity regain momentum, there will be further demand from both public and private sectors particularly to relieve infrastructure, institutional and human capital bottlenecks, and to improve environmental and social sustainability, and domestic private sector growth. Despite broadened access to international credit markets, the Bank will maintain its comparative advantage as an important supplier of technical knowledge to support the management of the growth process in The Bahamas.

The Bank's financial role will face a number of complex challenges, namely, i) continue to be relevant as The Bahamas regains its historically high level of access to international capital through commercial banks; ii) provide financing apt to the scale of the private sector and other NSG clients; and, iii) explore mechanisms to work with central and local governments on the efficient provision of public services.

Barbados
Development Challenges and Financial Requirements, 2010-2020

Background

Barbados is a small upper middle income country with per capita GDP of US$12,426 in 2008. Over the last 5 years growth performance has been higher than usual, averaging 3% compared to 1.5% since the early 1980s. Barbados is forecasted to experience a sharp GDP contraction of 3.5% in 2009 as a consequence of the current global recession.

A source of vulnerability is high economic concentration with tourism accounting for half of total export earnings, and generating half of all economic activity according to satellite account measures. At the same time, the country is challenged to strengthen its competitiveness to maintain market share and growth in its tourism and other industries. Rising public debt resulting in a debt/GDP ratio of 96% has reduced the room for policy responses in face of economic shocks. The country is also vulnerable to hurricanes which occur annually in the region, and has to constantly devote resources to protecting its coastal resources.

Barbados ranked 37th out of 179 countries on the UN Human Development Index in 2008, reflecting the combination of its per capita income and considerable progress in social areas. Consequently, Barbados is well set to achieve most of the MDG targets by 2015. In addition, available information shows that the proportion of the population below the poverty line is 13%. This information needs to be updated although it is not expected that current estimates would diverge markedly from this.

Table 1- Barbados: Summary of Millennium Development Goals

Millenium Development Goals	1990	1995	2000	2005	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Poverty headcount ratio at US$ 1 a day (%of population)		13%				On track
Goal 2: Achieve universal primary education						
Net enrollment ratio in Primary Education	87.00%		54.30%	97.60%	100%	Achieved
Goal 3:Promote Gender equality and empower women						
Eliminate Gender Disparity in primary and secondary education (Gender Parity Index)	1.0		0.99	1	1	Achieved
Goal 4: Reduce Child Mortality						
Infant Mortality Rate per 1000 live births	17	15	13	12	11	Achieved
Goal 5: Improve Maternal Health						
Maternal mortality ratio per 100,000 live births	43	33	95		32	Achieved
Goal 6: Combat HIV/AIDS, malaria and other diseases						
HIV Prevalence among poulation			1.60%	1.80%	1.50%	Moderate
Goal 7: Ensure Environmental sustainability						
Proportion of Urban Population with access to an improved drinking water source	100%	100%	100%	100.00%	100%	Moderate
Goal 8:Develop a Global Partnership for Development						
Telephone Lines (per 100 Population)	28.06			126.7		
Cellular subscribers (per 100 Population)	0.19			76.65		
Personal Computers (per 100 Population)	5.67			12.55		Fast

Source: UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL (ECOSOC) 2007

Priority Areas for Expected Bank Support

The current Barbados country strategy (CS) was approved in May 2006, and a new CS is under preparation. Support for the strengthening of competitiveness is the overarching theme linking the current and the new strategies. The new strategy proposes four priority areas which are consistent with the competitiveness theme and respond to the specific needs of Barbados. They also reflect the Bank's attention to environmental, water and energy-related issues as indicated by the SECCI, and draw on its strong experience in social areas. The new CS has identified four priority areas as follows:

a. **Coastal risk management and climate change adaptation.** This area is critical to addressing environmental vulnerability and resisting coral reef degradation and coastline erosion. These are vital priorities for Barbados in light of the importance of coastal conditions to the tourist industry. Bank support will focus on: improving information for the management of coastal risk and climate change adaptation, protecting and restoring coastal resources and infrastructure, and strengthening the regulatory and institutional framework.

b. **Water and sanitation.** Activities in this area will address the problems of limited water supply as a social issue and also as an input to the tourist industry. It will also pay attention to wastewater management which relates to tourism and to coral reef conservation. Bank activities will support efforts to strengthen the sector-wide institutional framework, improve the financial and operational condition of the Barbados Water Authority, support the mains replacement process and improve wastewater treatment.

c. **Energy.** This area is a priority because of high energy import dependence, despite some limited local fossil fuel production, and high levels of carbon dioxide emissions. Consequently, the focus in this area is to support the strengthening of energy efficiency and the generation of renewable energy.

d. **Education.** Strengthening of education is critical as a social issue as well as for improved competitiveness. Bank support will be targeted at strengthening sector planning and data collection capacity, improving the quality of primary and secondary education, and strengthening the school-to-work transition and vocational training.

Demand for IDB Products

The IDB plays a significant role as a development partner in Barbados. It is the leading multilateral development bank active in Barbados, accounting for 64% of total sovereign debt owed by the country to MDBs and 14% of total sovereign external debt. Since joining the Bank in 1969, IDB loans to Barbados have totaled $467 million of which $364 million have been disbursed and at present the outstanding debt to the IDB is $144 million. Barbados is only eligible for ordinary capital resources.

The IDB loan portfolio consists of 11 projects with a total value of $140 million of which 42% has been disbursed. Eight projects were approved since 2005 indicating a rising momentum of Bank support in recent years. Projects have been contributing to development in important sectors including 3 social sector projects accounting for 66% of the portfolio, six public sector management projects accounting for 21% and one infrastructure/environmental project accounting for 12%.

For the period 2011-20, it is assumed that in the context of its fiscal constraints, Barbados will be substituting multilateral for commercial debt. Moreover, the increased demand appears reasonable in the context of measures to respond to the global crisis. It is also anticipated that VPP activity, which has been low in Barbados in recent years, will increase significantly. It has to be borne in mind also that Barbados has a high public debt-GDP ratio.

However, assuming that recent growth rates averaging 3% are attained again as the international economy recovers, there will be room for continued borrowing.

Belize
Development Challenges and Financial Requirements 2010-2020
As of May 21, 2009

Background

Belize's long-term development performance has, on balance, been impressive. Although the second poorest country in Central America in 1960, Belize's per capita income is now behind only Panama and Costa Rica. However, it remains one of the less developed Caribbean nations. Moreover, it faces several challenges in maintaining its development momentum. Belize's economic growth is constrained by low national saving. Growth spurts in the last two decades have relied heavily on external saving and have been accompanied by significant fiscal and current account deficits. As a result of such deficits, Belize's public debt stood at 78% by end of 2008. Consequently, Belize has exhausted this external debt-financed avenue for growth and its debt and overall macroeconomic sustainability will require an extended period of fiscal discipline. It will need to eschew external commercial borrowing and significantly reduce the debt-to-GDP ratio by 2019, when heavy amortization of its existing commercial debt becomes due. In addition to being fiscally sustainable, future growth will have to be environmentally sustainable, given that the economy is based on natural resources (tourism alone accounts for approximately one-quarter of economic activity) and the country's fragile environment.

Belize has dedicated increasing public resources to the social sectors, which have contributed to raising life expectancy, universal access to primary education and progress towards achieving most of the Millennium Development Goals (MDGs). However, challenges remain, in particular with respect to access and quality of social services. In education, coverage at the secondary level is a concern, particularly in rural districts with high proportions of ethnic minority populations. In the health sector, despite an improvement in health conditions[1], the country still faces a high prevalence of neglected tropical and traditional infectious diseases, as well as an emerging epidemic of chronic diseases. The HIV prevalence rate is 2%, the highest in Central America and the fifth highest in the Caribbean.

The least progress with respect to the MDGs has occurred in poverty reduction. According to the most recent estimates (2002), 33.5% of the population is poor, and 10.8% are indigent, which is similar to the levels of 1995 (33% and 13% respectively).[2] Belize has a dual poverty structure. In some districts poverty is predominantly temporary -- the vulnerable population is close to the poverty line and poverty rates are significantly correlated with the country's overall economic performance. However, in the southern district of Toledo, where 9% of the population lives and the population is ethnically concentrated (76% Maya), poverty is more structural.

[1] Life expectancy increased from 72 to 76 and infant mortality decreased from 35 per 1,000 births to 22 between 1990 and 2007.

[2] Belize has conducted two poverty assessments, one in 1995 and one in 2002. The latest Living Standards Measurement Survey was conducted in 2002. An update is expected in 2009.

Table 1 – Belize:. Millennium Development Goals

Millennium Development Goals	1990	1995	2000	2007	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Extreme poverty rate (% of population)*		13.0	10.8			Slow
Poverty rate (% of population)*		33.0	33.5			Maintained
Goal 2: Achieve universal primary education						
Total enrollment, primary (% net)			97.0	99.0	100	Slow
Primary completion rate, total (% of relevant age group)		90.0	99.0	106.0	100	Achieved
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	0.0	3.0	7.0	7.0	50	Slow
Ratio of female to male primary enrollment	96.0	96.0	96.0	99.0	100	Maintained
Ratio of female to male secondary enrollment	109.0		107.0	107.0	100	Maintained
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	35.0	26.0	24.0	22.0		
Mortality rate, under-5 (per 1,000)	43.0	32.0	29.0	25.0	17	Fast
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	77.0		83.0	96.0		Fast
Maternal mortality ratio (modeled estimate, per 100,000 live births)				52		
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Prevalence of HIV, total (% of population ages 15-49)	0.1	1.9	2.1	2.1	0.1	Setback
Goal 7: Ensure environmental sustainability						
Improved water source (% of population with access)		91	91			Maintained
Improved sanitation facilities (% of population with access)		47	47			Maintained
Goal 8: Develop a global partnership for development						
Mobile cellular subscriptions (per 100 people)	0	1	7	39		
Other						
GNI per capita, Atlas method (current US$)	2,210	2,740	3,090	3,760		
Population, total (millions)	0.2	0.2	0.2	0.3		
Trade (% of GDP)	122.3	97.2	126.3	121.6		

Source: World Development Indicators database and *BelizeStats

Expected Bank's support in priority areas

The Draft IDB Country Strategy with Belize seeks to contribute to the following country development objectives: (1) Ensuring Sound Fiscal Management and Public Sector Transparency. (2) Creating the conditions for and restoring sustainable private sector led growth (3) Improving human resource development and social protection. And (iv) Rehabilitating roads. To meet these objectives, the Bank will be working with the Government of Belize in the following priority areas:

Social Equity for Equity and Productivity

In **education,** work will concentrate on improving coverage at the secondary level, particularly in the poorest regions, and improving quality of the delivery of education. Activities in the **health** sector will concentrate on increasing access to primary healthcare by the poor. In addition, the Bank will work with the Government of Belize on improving the efficiency of existing **social protection** programs, creating information and targeting system for social services and identifying options for effective and sustainable safety net activities for the poor.

Infrastructure for competitiveness and social welfare

Work in this area will concentrate on improving infrastructure bottlenecks for the development of Belize's main productive sectors: tourism, agriculture, and increasingly petroleum. In **tourism**, joint Country-Bank activities will seek to strengthen planning capacity, infrastructure improvements, promote participation of the private sector and reduce environmental risks. In **agriculture**, activities to support the Government's objective of increasing agricultural exports will include technical assistance to guide prioritization of public investments as well as support for applied production innovation and plant, animal and food safety risk management. In addition, the Bank will initiate work on the **petroleum** sector, by facilitating policy dialogue and exploring private investment opportunities.

The Bank will support efforts to rehabilitate **road infrastructure** damaged by natural disasters, such as the floods of November 2008. Private investment in infrastructure will be considered in tourism and agriculture, key productive sectors in Belize.

In the **water and sanitation** sector, Bank-Country collaboration will focus on the development of a solid waste management system for the Western Corridor of Belize, and institutional strengthening of water resource planning. Feasibility of investments in sanitation will be explored.

Institutions for growth and societal welfare

Credit markets. The Bank will work to reduce fiscal pressures on domestic interest rates and improve access to credit. Activities will concentrate on strengthening capacity of local financial institutions, such as credit unions, to lend to micro and small enterprises (MSEs) as well as building capacity of MSEs to improve their ability to access credit by providing training. The Bank will also mobilize financing to financial institutions to improve their ability to lend to MSEs and expand trade finance services for local export oriented businesses.

Fiscal sustainability. Work with Government will focus on strengthening the institutional framework for fiscal management. The expected results of the Bank-country partnership towards this objective are: (i) the establishment of an improved legal framework for fiscal sustainability; (ii) a greater incorporation of a medium-term perspective into fiscal planning; (iii) improved capacity to prioritize, monitor and evaluate new public investment projects; (iv) a reduction in fiduciary risks; and (v) a strategy to manage fiscal risks stemming from natural disasters and climate change. Furthermore, the Bank will stand ready to assist the government efforts to prevent or mitigate long–term threats to fiscal sustainability such as pensions and infrastructure maintenance.

Furthermore, the Bank will continue to contribute to improving capacity for **land management**.

Environmental Sustainability and Climate Change. Joint Country-Bank activities will seek to strengthen planning capacity for disaster risk management and adaptation to climate change, utilization of alternative sources of energy, and exploring the potential of bioenergy.

Competitive Regional and International Integration

As part of the work towards increasing agricultural exports, the Bank will support Belize with the necessary institutional strengthening to ensure access to CARICOM and Central American markets and expand trade financing.

Country objectives will guide the totality of IDB public and private sector activities. In the case of NSG activities, the Bank will seek to concentrate on addressing financing constraints by the productive sectors by strengthening local financial institutions, strengthening micro and small enterprises to increase their capacity to obtain credit, and expanding trade finance activities by commercial banks. Furthermore, the NSG windows will pursue opportunities to invest in highly developmental projects that can mobilize additional capital in the productive sectors. This includes potential hotel and infrastructure investments related to tourism, agro industry, bio energy and expansion of petroleum production.

In light of the limited fiscal space for sovereign guaranteed lending many of the expected results outlined above will be achieved by non-reimbursable technical assistance. Although non-reimbursable financing for Belize is circumscribed by its relatively high per capita income, under the strategy the Bank will seek to mobilize grant resources to complement lending and generate synergies.

Demand for IDB Products

The IDB is Belize's leading multilateral financier, accounting for 44 percent of total multilateral debt and 10 percent of public sector external debt at the end of 2008. The Caribbean Development Bank also plays an important role and accounted for 9 percent of public sector external debt.

Over the last decade multilateral debt has been overshadowed by the rapid growth in external commercial debt, which accounted for 60 percent of total public sector external debt at the end of 2008. But the share of multilateral debt in total external debt is likely to grow over the medium term because the current government is committed to eschewing external commercial finance and relying on multilateral and bilateral creditors.

This is reinforced by the fact that Belize currently does not have access to external commercial finance on affordable terms (the spread over US treasuries on Belize's super-bond was approximately 1,800 basis points in the first four months of 2009). Provided that the government limits the fiscal deficit to an amount equivalent to or less than net loan flows from multilateral and bilateral creditors, it will not need access to external commercial financing until 2019, when amortization on the super-bond starts to become due. The ability of the IDB to scale up financing to Belize in the 2010-20 period is constrained by debt sustainability considerations.

Bolivia
Development Challenges and Financial Requirements 2010 – 2020
May 8, 2009

Background

In recent years, Bolivia experienced an export boom led by hydrocarbons and mining. The positive external environment supported an improvement in the growth and a strengthening of the external and fiscal positions, but inflation accelerated and investment remained low. Bolivia's political environment remains very complex in light of entrenched regional and social polarization, running up to the presidential elections to be held in December 2009.

The current global crisis is affecting Bolivia mainly through declines in commodity prices and remittances, given its very limited integration with international capital markets. The adverse external environment is expected to slow GDP growth to 4 percent in 2009, while the overall fiscal position is projected to shift from a surplus of 3.5 percent of GDP in 2008 to a deficit of 0.5 percent in 2009. Reductions in food prices would help lower inflation. The GoB has responded to the expected economic deceleration through fiscal measures that include a 20.6% increase in public investment in infrastructure, energy and agriculture.

Despite recent economic growth and progress towards the achievement of the millennium development goals (especially with regard to female-to-male primary school enrollment and incidence of tuberculosis), Bolivia still lags behind Latin America and the Caribbean in terms of reducing poverty and extreme poverty, and holds the fifth lowest ranking on the human development index, according to UN. Moreover, Bolivia's Gini coefficient was 0.60 (in 2005), placing the country among the most non-egalitarian in Latin America, where poverty afflicts primarily the rural, indigenous population. Therefore, improving the living conditions of the poorest and most vulnerable population remains the key development priority of Bolivia.

Table 1 - Bolivia: Millennium Development Goals

Millennium Development Goals	1990/91	1995/96	2000/01	2006/07	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Extreme poverty rate (% of population)	..	41.2	45.2	37.7	24.1	slow
Malnutrition prevalence, weight for age (% of children under 5)	*8.9*	*12.6*	*5.9*	..	4.4	fast
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*4*	*19*	*25*	*20*		
Goal 2: Achieve universal primary education						
Literacy rate (% age group 15-24)	*94*	..	*97*	99	100	fast
Primary completion rate, total (% of relevant age group)	71	..	99	...	100	fast
Total enrollment, primary (% net)	..	..	96	*96*	100	slow
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	9	*7*	12	17	50	slow
Ratio of female to male primary enrollment	93	*97*	99	*100*	100	accomplished
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	89	76	63	48	27	fast
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	*43*	*47*	51	65	70	fast
Maternal mortality ratio (modeled estimate, per 100,000 live births)	416	..	..	*290*	200	fast
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	255	220	190	155	255	accomplished
Prevalence of HIV, total (% of population ages 15-49)	*0.1*	0.1	0.1	0.2	0.1	slow
Goal 7: Ensure environmental sustainability						
Improved sanitation facilities (% of population with access)	33	36	39	*43*	64	
Improved water source (% of population with access)	72	78	82	*86*	78.5	*
Goal 8: Develop a global partnership for development						
Internet users (per 100 people)	0.0	0.1	1.4	10.5		
Mobile cellular subscriptions (per 100 people)	0	0	7	34		
Other						
GNI per capita, Atlas method (current US$)	740	860	1,000	1,260		
Life expectancy at birth, total (years)	59	61	63	66		
Income share held by lowest 20%	*5.5*	*2.2*	*1.3*	*1.8*		

Source: World Development Indicators database if not differently specified

Figures in red come from the "Quinto informe de progreso de los Objetivos de Desarrollo del Milenio en Bolivia" (2008), UDAPE

Targets 2015, in green, are built on the 1990-1991 data. They could be slightly different from the actual county targets.

* data from the Bolivian Informe are quite different, so it is difficult to give a proper evaluation on the status of these MDG.
However, water and sanitation covearege are highlighted by the UNDP MDGMonitor as indicators qhere it has been registered a favourable fast trend

Expected Bank's support in priority areas

Approved in October 2008, the Bank's Country Strategy with Bolivia (CSB) supports the objectives of Bolivia's National Development Plan (NDP), and focuses on the following four strategic development challenges: (i) productivity, competitiveness and productive infrastructure as needed to promote balanced and sustained economic growth centered in areas with high economic potential and clear comparative advantages; (ii) development of the water and sanitation sector and socially productive development centered in municipalities where poverty levels and vulnerability are high; (iii) creating opportunities for the majority and development with identity; and (iv) strengthening the State through institutional development at the national level and enhancing decentralization in order to produce a more efficient and effective public sector.

The Bank has identified the following priority areas of collaboration to support Bolivia's development challenges:

a. **Productivity, employment, and productive infrastructure.** Efforts to reconcile economic growth with equity translate into actions to remove obstacles to production and to involve the poor more actively in the process of wealth generation. The central elements of this orientation revolve around (i) promoting territorial integration and market access by financing upgrades to transportation infrastructure, in particular the road network, and (ii) boosting economic growth and employment generation by improving the productive infrastructure and fostering productivity and competitiveness, which promote local entrepreneurship and create arrangements that link small farms to dynamic business schemes and expand nonfarm employment opportunities.

b. **Social welfare and water and sanitation development.** In its support for implementing the social policy objectives of the NDP, the Bank gives priority attention to (i) investments in water and sewer services for the poor living in rural and peripheral urban areas, and (ii) the implementation of innovative intervention models that make conditional cash transfers to rural families and/or communities who assume responsibility of improving their social and economic development indicators.

c. **Opportunities for the majority and development with identity.** The key elements for promoting social inclusion incorporate activities that (i) assist GoB efforts to modernize the civil registry and provide identity documents necessary to pursue formal productive activity and to qualify for basic services and civil rights, (ii) improve labor market functioning and address the extreme exploitative practices such as indentured labor, debt bondage and forced labor in agriculture and remote rural areas, (iii) access to financial services for micro and small enterprises, and (iv) improve targeting methods so as to extend social service coverage to rural municipalities and indigenous communities who represent the most vulnerable population.

d. **Institutional strengthening at the national and decentralized level.** Modernization of public administration at the central level targets interventions such as multiyear budgeting and management for results, financial and asset management, procurement, tax and customs administration, and combating corruption. Recognizing its the importance to the economy, the Bank participates in strengthening the institutional framework of the oil and gas sector organizations, as well as strengthening risk management for mitigating the social and productive impact of natural disasters. At the decentralized level, the Bank focuses its efforts on development of departmental and municipal institutions and strengthening human resource management, as part of the decentralizing responsibilities and devolving resources to the regional and local levels.

Demand for IDB Products

The IDB has a close and very active relationship with Bolivia. As of 2008, the Bank accounted for 18.5% of Bolivia’s total external public debt, and is one of the country’s primary sources of multilateral financing, with 25.4% of its total multilateral debt. The Bank expects to maintain its role as Bolivia’s development partner of choice in terms of knowledge, design and implementation of public policies, and the financing of projects, in close harmony with other international donors.

The multilateral debt relief initiative (MDRI) eliminated a large part of Bolivia’s foreign debt and reduced its vulnerability, by cutting the country’s total public debt to 30% of GDP. In this context, the prospects for fiscal sustainability of the public sector external debt have improved greatly. The baseline outlook under the *debt sustainability framework and enhanced performance-based allocation system*, the Bank classified Bolivia as having a low risk of debt distress, and projected that Bolivia’s indebtedness and debt service levels would remain very manageable—an assessment that would hold even under significant stress tests.

Portfolio management exercises over the past five years have identified persistent issues that affect portfolio performance, such as long approval processes, delays in project eligibility and disbursements, frequent institutional or staffing changes, and procurement delays. It will be incumbent on the Bank to seek solutions to these problems to assist the national authorities' efforts to increase the annual disbursements as a percentage of the active portfolio and to increase disbursements in absolute terms, both of which have been on a historical downward trend.

In the short run, a modest increase demand for additional IDB resources, within the current framework of concessional resources, is expected in order to mitigate the impact of the international financial crisis and to finance the costs of social sector stimulus packages and infrastructure projects.

In the medium term, it can be expected that that Bolivia will continue to lack access to the international financial markets, but that execution capacity and volume of disbursements will increase and that debt sustainability indicators remain favorable. This will lead to a significant increase in demand for Bank resources for sovereign lending. Likewise, medium term demand for fast-disbursing resources may be necessary to cover fiscal shortfalls, and the demand for technical assistance and financing for the energy sector (both electricity and hydrocarbon) will likely increase.

Private sector. Ongoing changes in the legal and regulatory environment affecting the prevailing business climate, coupled with a relatively healthy, well capitalized and liquid financial system, have resulted in a fairly limited demand for the Bank's private sector resources. Bank support for the private sector and non-sovereign public sector would be primarily for financial markets (support of financial institutions through their SME and housing programs as well as the trade finance facilitation program), manufacturing and agribusiness. Additionally, the Bank is seeking potential investment opportunities primarily through the MIF window, focusing on efforts to enhance access to financial services to microfinance and small business sectors.

Under these circumstances, the Bank's financial role will face the complex challenge of responding to the country's dynamic political, social and institutional reforms while maintaining relevance and continuity, using programmatic approaches and flexible instruments as necessary to address both risks and opportunities as they arise.

Brazil
Development Challenges and Financial Requirements, 2010-2020.

Background

After overcoming a bout of financial instability associated to the political transition in 2003, Brazil enjoyed a period of healthy economic growth, low inflation and ample access to international capital markets. Although Brazil's growth during the past 5 years (4.7% per year on average) has been robust, its economic performance during the past three decades (growth of 2.4%, or 0.7% in per capita terms per year on average) has not been dazzling. With a sound macroeconomic framework in place, Brazil is still struggling to overcome its biggest growth challenges: to increase its historically low investment rates (16 percent of GDP), upgrade its human capital and reform its inefficient taxation system. Other important factors to be addressed to foster sustained economic growth are infrastructure bottlenecks (especially in electricity and transportation) and the high cost of financing for private companies.

Brazil enjoys relatively high levels of achievement in terms of broad development indicators, although it still lags in some areas. According to World Bank estimates, Brazil's per capita Gross National Income surpassed US$9,000 in 2007 in purchasing power parity (PPP) terms. Brazil has made good progress in Millennium Development Goals (MDGs) indicators such as reducing extreme poverty and undernourishment, lowering infant mortality rates and the incidence of tuberculosis, expanding immunization against measles, and broadening access to water sources. It needs to advance at a faster rate, though, in maternity health indicators such as adolescent fertility rates and maternal mortality ratios, and in environmental protection objectives such as improving sanitation facilities.

Table 1 – Brazil: .Selected Indicators of Progress toward the MDGs

Millennium Development Goals	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	15	11	*11*	5
Prevalence of undernourishment (% of population)	*10*	*10*	..	*6*
Goal 2: Achieve universal primary education				
Primary completion rate, total (% of relevant age group)	..	*90*	108	*106*
Goal 3: Promote gender equality and empower women				
Ratio of female to male enrollments in tertiary education	..	..	130	*130*
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	78	87	99	99
Mortality rate, infant (per 1,000 live births)	49	37	28	20
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*90*	90	89
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*110*
Pregnant women receiving prenatal care (%)	..	*86*	..	*97*
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	84	71	60	48
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP $ of GDP)	0.3	0.2	0.3	*0.2*
CO2 emissions (metric tons per capita)	1.4	1.5	1.8	*1.7*
Improved water source (% of population with access)	83	86	89	*91*
Goal 8: Develop a global partnership for development				
Internet users (per 100 people)	0.0	0.1	2.9	35.2
Mobile cellular subscriptions (per 100 people)	0	1	13	63
Other				
GNI per capita, Atlas method (current US$)	2,700	3,740	3,870	5,860
GNI per capita, PPP (current international $)	5,050	6,210	6,810	9,270
Literacy rate, adult total (% of people ages 15 and above)	..	..	86	90
Trade (% of GDP)	15.2	16.0	21.7	26.2
Source: World Development Indicators database				

Expected Bank Support in Priority Areas

The Bank's loan portfolio with Brazil is oriented towards three clusters: Social Inclusion and Welfare (23 percent), Competitiveness and Sustainable Development (38 percent), and Infrastructure and Integration (38 percent). Going forward, the IDB has identified five broadly-defined areas where medium-term development needs and the Bank's accumulated expertise would be the most conducive to effective results. These areas comprise Equity and Human Capital Development, Improving Living Conditions in the Cities; Infrastructure, Modernization of the State, and Competitiveness and SMEs, with transversal actions in environmental issues.

Equity and Human Capital. Inequality, in addition to extreme poverty alleviation, remains an important development challenge, notwithstanding an encouraging recent decline in the Gini Coefficient measure of inequality. Poverty still affects 53 million people (nearly one third of population) and inequality (the income of the richest 1% of the population is as large as the income of the poorest 50%) far exceeds levels observed in countries with similar relative development. Data regarding income, education and labor demand for different levels of qualification, indicates that fewer years of schooling reduce income levels of Brazilian workers relative to comparator countries, including those in Latin America. Projects aiming at filling the education gap and improving the functioning of labor markets could be most helpful in this area.

Improving Living Conditions in the Cities. Despite high poverty levels in rural areas, concentration of poverty in the cities has become an increasing concern. It has generated a tremendous pressure on the public sector's capacity to deliver services, ranging from education, public safety, labor training for youths, efficient urban transportation, and water and sanitation deficits.

Infrastructure. Higher Public Investment will require boosting expertise in project formulation and evaluation, dealing with environmental and social issues, and improving flexibility and efficiency of public expenditure. At the subnational level, the provision of finance and advice from the IDB might be a critical component for the success of the projects. There is a large potential for private sector involvement through credits for energy and transportation, and in investments related to climate change such as renewable energy and energy efficiency for larger firms

Modernization of the State. At the federal level, IDB efforts will be devoted to enhance public sector capabilities for long term planning, execution, and evaluation of public investment, and to develop innovative public policies, including youth development, public security and citizenship. The support of states and municipalities has been firmly established since 2006, and will develop further in areas that include social-urban infrastructure, transportation and water and sanitation, in addition to sustainable tourism, tax and fiscal modernization, and integrated urban development. The innovative approach designed in the Procidades project is showing results and becoming a leading reference for other sector interventions at the subnational level.

Competitiveness and SMEs. A complex regulatory environment and assorted obstacles to doing business are yet an impediment to a sustainable increase in private investment and productivity. Regulations and lack of competition in the financial sector result in wide intermediation spreads which increase costs of investment financing, especially for SMEs that have limited access to foreign markets. An important initiative in this regard will be the further development of the Trade Finance Facilitation Program (TFFP) through banks operating in medium and smaller markets. Financing of private investment in less developed regions such as the Northeast will also help achieve objectives in this area.

The portfolio of Knowledge and Capacity building Products (KCPs) shows a relative concentration in social issues, with 25 percent of the total. There is also an increasingly significant share of KCP activities focused on environmental issues (16 percent). Going forward, KCP products will also be developed on public management and social policies, particularly for sub-national governments.

Demand for IDB Products

Demand for IDB finance has rebounded in Brazil in the recent years, owing to several structural factors. Long years of strained public finances and financial stress created an accumulation of infrastructure deficits and unmet financing demands by SMEs, which the large federal banks are now struggling to meet. Private sector demand for longer term finance from the IDB has grown significantly in areas such as infrastructure and renewable energy. The reforms introduced with the Fiscal Responsibility Law have improved fiscal soundness at the state and local level, enhancing borrowing capacity to undertake long overdue investment projects.

With an outstanding loan debt of US$13.7 billion, Brazil is the largest borrower of the Bank. Debt to the IDB is about 50% of the total debt to multilaterals but only about 3% of the net public debt. Going forward, Infrastructure for competitiveness is expected to continue to absorb about half of the lending program, with the share of social projects increasing in importance and institutional projects continuing to account for an important share, while environmental projects are traditionally inputted transversally to the different sectors.

Chile
Development Challenges and Financial Requirements, 2010-2020

Background

Chile is a success story among emerging economies. Economic reforms have achieved benefits in many areas, including inflation control, financial market stability, institutional quality, countercyclical fiscal policy, export dynamism and management of income volatility from natural resources. Today, Chile has a stable and open, competitive economy supported by a sound institutional framework. Since 2000, Chile's GDP grew at a robust annual rate of 4.3 percent. Although this growth rate is lower than that achieved during the economic recovery in the 1990s, it is higher, for example, than that of the 1960s, a period of high growth in Latin America. A growth accounting decomposition suggests that the rates of accumulation of capital and labor have continued to be strong but that total factor productivity—the "residual" growth in GDP over and above what is accounted for by capital and labor—basically failed to make a contribution. Addressing the productivity stagnation is an area where the IDB could make a valuable contribution.

With a GNI per capita of above US$ 12,000, in PPP terms, Chile is one of the highest income economies in Latin America and is well positioned regarding MDGs, having made substantial progress toward most of them. Poverty reduction, infant mortality, improved sanitation, education and health indicators are among the MDG achievements that have been facilitated by the advancement of the economy as a whole.

Table 1 – Chile: Millennium Development Goals

Millennium Development Goals	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	4	*2*	2	*2*
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	*99*	..	*99*	99
Primary completion rate, total (% of relevant age group)	..	87	98	..
Goal 3: Promote gender equality and empower women				
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	36.2	36.2	36.9	*38.5*
Goal 4: Reduce child mortality				
Mortality rate, infant (per 1,000 live births)	18	13	10	8
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*67*	64	60
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	38	27	19	12
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP $ of GDP)	0.6	0.4	0.4	*0.3*
CO2 emissions (metric tons per capita)	2.7	3.1	3.9	*4.1*
Improved sanitation facilities (% of population with access)	84	88	91	*94*
Goal 8: Develop a global partnership for development				
Internet users (per 100 people)	0.0	0.3	16.5	31.1
Mobile cellular subscriptions (per 100 people)	0	1	22	84
Other				
GNI per capita, Atlas method (current US$)	2,250	4,340	4,840	8,190
GNI per capita, PPP (current international $)	4,490	7,170	8,910	12,330
Gross capital formation (% of GDP)	25.2	26.2	21.9	21.1
Population, total (millions)	13.2	14.4	15.4	*16.4*
Trade (% of GDP)	64.5	56.4	61.3	80.4
Source: World Development Indicators database				

Expected Bank Support in Priority Areas

Given Chile's advanced institutional development, efficient management of its fiscal accounts and broad access to international financial markets, the Bank's involvement is more selective than in other countries, and more tightly focused on areas of the Bank's comparative advantage. In this regard, Bank's participation and support in the next ten years will span areas where there has been consistent Bank involvement since the 1990s and areas where innovative products will need to be designed to address new challenges faced by the country.

The first priority area is to ***enhance the country's competitiveness***. Analysis of Chile's growth determinants shows that, despite the rapid physical capital accumulation total factor productivity has stagnated in the last decade. An analysis of returns to investment in physical capital comes to a similar conclusion. To address this issue, Chile would need to considerably raise its research and development expenditure, currently at 0,7% of GDP, boosting the private sector's share and forging links between research centers and the production sector. Additional steps to encourage innovation and improve competitiveness include expanding secondary and post-secondary education enrollment ratios and improving education quality in general; furthering the development of capital markets; strengthening market competition and anti-trust regulations; increasing women's and youth's participation in the labor force and improving labor market regulation; and enhancing coordination among public and private sector agencies to respond to market opportunities in a timely manner.

A second priority area is to ***make government more efficient and accountable to the citizenry***. Chile has made impressive advances in the last 20 years regarding several issues related to this goal, including fiscal policy sustainability and counter-cyclicality, an independent Central Bank, concession laws, public-utility regulation, reforms of the State and the judicial branch, changes in health care system, the creation of the Chile Solidario system, and the pension system reform, among others. Notwithstanding this progress, some challenges remain, especially in decentralization of responsibilities to subnational government and improving coordination, and further increasing public sector transparency and the e-government system, fostering a more effective engagement of citizens in public policy decisions and in scrutinizing government performance. A long-standing objective is to improve the system for recruiting and hiring public civil servants. A new area is to strengthen the government's ability to coordinate the broad range of measures required to face climate change.

The third area is focused on ***improving the efficiency and coverage of social policies***, in order to ensure equal opportunities and increase the country's competitiveness. Development inequalities have also an important geographic dimension, as output and income are heavily concentrated in a handful of regions, cities and municipalities. The strengthening of subnational governments mentioned above, as well as the increase in coverage and quality of the education and health sectors will be key factors in reducing the opportunity gaps.

The fourth area is related to ***supporting private sector development*** through new financing alternatives and further development of the financial markets. Bank support for the private sector and non sovereign public sector would be on infrastructure (renewable energy, transportation, water and sanitation, healthcare, and education) and financial markets (capital markets, mortgage securitization and financial institutions).

Demand for IDB Products

Chile's demand for IDB financial support has been declining in the last decade and becoming more focused on areas where the perceived IDB value added is greater. Currently, the Bank has an outstanding portfolio of US$550 million, of which 44% is in the area of infrastructure and competitiveness; 21% on modernization of the state; 18% on environmental and climate change issues, and 11% in the social sector. Technical cooperation has been a major area of engagement between the Bank and Chile, with a current portfolio of 58 operations (including regional TCs executed by CCH), totaling US$41.3 million and covering a wide range of sectors. For the next decade, demand is expected to increase strongly in projects with the private sector and subnational governments. While institutional development and infrastructure for competitiveness is likely to attract the bulk of the program in the next decade, social policy will remain relevant and environmental and climate change issues are expected to increase their overall participation.

Colombia
Development Challenges and Financial Requirements 2010 – 2020

Background

The Colombian economy has grown steadily over the last several years as a result of the wide-ranging structural reforms and strong macroeconomic policies implemented by the government, as well as the favorable conditions in the international market. Between 2003 and 2008, the GDP rose at an average annual rate of 5.3%, in a context of relative macroeconomic stability. Growth has been underpinned by a large increase in private investment, increased exports and improvements in domestic security. In this context, the most recent IMF report on the Colombian economy favorably highlights the positive macroeconomic results and the adequate management of structural policies and reforms.

More recently, economic growth has slowed as a result of the global financial turbulence and less buoyant domestic demand and risks from increased spillovers from abroad are substantial. Nevertheless, Colombia is well positioned to weather the effects of the international crisis and maintain a real growth rate of 0.1%-1.5% in 2009, due in large part to its adequate level of international liquidity, well managed public debt and robust financial system.

Colombia has made significant progress toward achieving the Millennium Development Goals. In the areas of primary school completion, female primary and secondary school enrollment rates, births attended by a skilled health practitioner, and reduction of tuberculosis, the 2015 targets have already been achieved. Also, important progress has been made in improving literacy, reducing infant and child mortality rates. Slower progress, however, is seen in reducing poverty and malnutrition, total primary school enrollment, the proportion of women elected to national parliament, maternal mortality rates, and improved access to water and sanitation.

Table 1 - Colombia: Millennium Development Goals

Millennium Development Goals	1990/91	1995/96	2000/01	2006/07	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Extreme poverty rate (% of population)	18.7	15.5	18.7	14.7 (2005)	8.8	slow
Malnutrition prevalence, weight for age (% of children under 5)	..	6.3	4.9	*5.1*	3	slow
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	11	17	*16*		
Goal 2: Achieve universal primary education						
Literacy rate (% age group 15-24)	..	*97*	..	98	100	fast
Primary completion rate, total (% of relevant age group)	71	84	92	107	100	accomplished
Total enrollment, primary (% net)	..	..	93	91	100	slow
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	5	*12*	12	8	50	slow
Ratio of female to male primary enrollment	115	99	100	99	100	accomplished
Ratio of female to male secondary enrollment	*119*	..	110	111	100	accomplished
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	28	25	21	17	14	fast
Mortality rate, under-5 (per 1,000)	35	31	26	20	17	fast
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	82	86	86	*96*	95	accomplished
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	99	*130*	45	slow
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	53	47	42	35	53	accomplished
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.3	0.5	0.6	0.1	*
Goal 7: Ensure environmental sustainability						
Improved sanitation facilities (% of population with access)	68	71	74	*78*	**	slow
Improved water source (% of population with access)	89	90	91	*93*	**	slow
Goal 8: Develop a global partnership for development						
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	35	24	21	13		
Internet users (per 100 people)	0.0	0.2	2.2	27.5		
Mobile cellular subscriptions (per 100 people)	0	1	6	77		
Telephone lines (per 100 people)	7	11	18	18		
Other						
GNI per capita, Atlas method (current US$)	1,260	2,200	2,280	4,100		
Life expectancy at birth, total (years)	68	70	71	73		
Literacy rate, adult total (% of people ages 15 and above)	..	*91*	..	93		
Income share held by lowest 20%	..	3.1	2.6	*2.3*		

Source: World Development Indicators database if not differently specified
Figures in red come from the "Informe de Colombia - ODM 2005" (2007)
Targets 2015, in green, are built on the 1990-1991 data. They could be slightly different from the actual country targets.
* The Informe gives as target an incidence of 1.2%, so it is difficult to give a proper evaluation
** These goals in Colombia are different for urban and rural areas

Expected Bank support in priority areas

The Bank Country Strategy for Colombia (CSC), approved in March 2008, aims to support efforts as put forth in the National Development Plan to achieve greater, broad-based growth, reduce poverty and enhance equity. The CSC recognizes the substantial progress the country has made in the areas of macroeconomic stability, economic growth and institutional reform, which have enabled excluded majorities to participate in the creation of wealth and benefit from economic growth. The CSC contributes to Colombia's efforts to achieve key development objectives, by channeling support through three strategic areas, which are (i) competitiveness, (ii) social development, and (iii) governance and strengthening of the State. Bank collaboration supports the following development challenges of Colombia.

a. **Broad-based growth, poverty reduction and equity enhancement.** To increase sustainable growth of the economy in the context of greater openness to international markets, while ensuring that the low-income segments of the population participate in the benefits of development, the Bank focuses on the following three strategic areas: (i) enterprise development, through promoting a favorable business climate and improving physical and institutional infrastructure that will contribute to effective integration into local, regional, and global markets; (ii) physical and institutional infrastructure development that fosters competitive enterprise development within the framework of free trade agreements, the country's regional comparative advantages and technological innovation; and (iii) promotion of socially and environmentally responsible entrepreneurship as a requirement for effective entry into the global marketplace.

b. **Opportunities for the poorest population to participate in economic growth.** In Colombia, the highest incidence of poverty is registered among African-Colombians, indigenous populations, rural women, and children. The Bank supports capacity building to improve the efficacy and impact of social investments, and thus accelerate the reduction of poverty and inequality, through the following actions: (i) Improved targeting of social spending to ensure access to social services by underwriting disability, old-age, and death pensions for the highest risk populations, and through expanding access to technical and university education for the poorest young people; (ii) Improve quality of information systems in order to assist national and regional decision makers to improve public policies and coordinate public expenditures; and (iii) Support decentralization of social spending to local governments, especially those with the highest poverty rates, by building their capacity to effectively implement health and education programs and facilitating the population's access to them.

c. **Establishing an efficient, effective, and transparent State.** Within the framework of consolidating the peace process, Bank support is provided to (i) comprehensive government services such as healthcare, justice and education; (ii) national and regional control systems that may include justice administration, legislative function, finance, audit, attorneys general; (iii) efficient and effective public spending and reporting through budgetary processes that ensure fiscal neutrality in the decentralization process, clear jurisdictional distribution between the central and sub-national governments, a comprehensive strategy to monitor and control local public spending, and opening avenues for citizen dialogue and social oversight; and (iv) improved regulatory capacity contributing to proper market functioning, reduced transaction costs and effective public management.

Demand for IDB Products

The Bank's lending program with Colombia will contribute to financing investment projects and the country's other financial requirements. If current disbursements projections prevail, the Bank should consolidate its position as Colombia's main source of multilateral financing, with a 41% share of its total debt with multilateral agencies, representing 9.5% of total public debt.

In the short to medium term, Colombia is expected to continue to demand IDB resources to mitigate the effects of the international financial crisis, to finance the costs of fiscal stimulus packages and to fund social and infrastructure investment. However as the economy rebounds, the proportion of private NSG demand may increase relative to sovereign demand. Moreover, in order to face the crisis and to prepare the economy to the impact of the signed FTAs, the Colombian Government has set up a counter-cyclical policy where most future infrastructure investment are planned to be financed through private participation. So, a further additional raise in the demand for NSG operations is expected in the next years.

Consequently, private sector demand for Bank financing in the next decade will remain strong as the economy recovers and private investment expands. The Bank will continue to serve Colombia's private sector through an integrated program of all the financing windows and is prepared to support efforts in the areas of (i) infrastructure and logistics, (ii) financial sector, (iii) renewable energy, (iv) late-yield and alternative agro industry, (v) innovative and strategic sectors such as cement, petrochemicals, biofuels and ethanol. Additionally, as the process of decentralization continues, business opportunities with subnational governments and other public non-sovereign entities are expected to increase over the next decade.

The Bank's financial role will face a number of crosscutting challenges associated with all three areas include: (i) targeting actions and resources to support regional development and better understanding the regional inequities related to poverty, public management, and competitiveness; and (ii) the interrelationship among physical, human and social capital development, as necessary for greater competitiveness, stronger institutions and governance, and reduced poverty and inequality.

Costa Rica
Development Challenges and Financial Requirements 2010 – 2020

Background

Costa Rica is an upper-middle income developing country. Its population is of about 4.5 million people and it has an income per capita of US$6,579[3]. Costa Rica has experienced steady economic expansion during the last 15 years. Moreover, the country has recently experienced one of the strongest macroeconomic performances in Latin America. In comparison to the regional average GDP growth (5% in 2006 and 4.5% in 2007), Costa Rica's GDP growth reached 8.8% in 2006 and 6.8% in 2007, thanks to a combination of internal and external factors, such as low interest rates, growing private consumption and investment, strong growth in the manufacturing sector, as well as, high inflows of foreign direct investment (FDI) and increasing exports, among others.

Costa Rica's key social indicators perform better than the regional average. It's worth noticing that between 1991 and 2006 the percentage of Costa Ricans living in poverty decreased from 32% to 22%[4]. In 2007 and 2008 poverty reached record low levels, namely 16.7% and 17.7%. As far as Millennium Development Goals (MDGs) are concerned[5], Costa Rica's centerpiece planning document, the National Development Plan for 2006-2010, was prepared with technical assistance from the United Nations and its agencies and it includes cross references to the MDGs. The country, whose performance overtakes other countries' in the region, is facing the challenge of sustaining the progress toward implementing the MDGs[6], especially in such areas as gender equality and the rights of indigenous peoples. Monitoring the situation in such areas as education, health and protection of the environment, as well as violence and security will be a serious challenge.

[3] IMF, World Economic Outlook, April 2009.
[4] The World Bank, "Costa Rica. Country Economic Memorandum: The Challenges for Sustained Growth", September 20, 2006.
[5] A table with Selected Indicator of Progress toward the MDGs can be found in annex I.
[6] United Nations, MDG Monitor, "Tracking the Millennium Development Goals" (http://www.mdgmonitor.org/).

Table 1 - Costa Rica: Selected Indicators of Progress toward the MDGs

Millennium Development Goals	1990	1995	2000	2007	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Poverty gap at $1.25 a day (PPP) (%)	3	*2*	1	*1*	1.5	Achieved
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	9	*7*	4	*2*	4.5	Achieved
Prevalence of undernourishment (% of population)	*5*	*5*	..	*5*	2.5	Setback
Goal 2: Achieve universal primary education						
Literacy rate, youth male (% of males ages 15-24)	..	..	97	98	100	Maintained
Literacy rate, youth female (% of females ages 15-24)	..	..	98	98	100	Maintained
Primary completion rate, total (% of relevant age group)	74	81	87	91	100	
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	11	*16*	19	39		Fast
Ratio of female to male enrollments in tertiary education	..	..	120	*126*	100	
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	16	14	13	10	5	Fast
Mortality rate, under-5 (per 1,000)	18	16	14	11	6	Fast
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*87*	81	71		
Births attended by skilled health staff (% of total)	*98*	..	*98*	..		
Contraceptive prevalence (% of women ages 15-49)	..	*75*	*80*	*96*		
Pregnant women receiving prenatal care (%)	*95*	..	*70*	..		
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	18	16	14	11		
Prevalence of HIV, total (% of population ages 15-49)	*0.1*	0.1	0.2	0.4		Setback
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	0.9	1.4	1.4	*1.7*		Setback
Forest area (% of land area)	50	48	47	*47*		Setback
Improved sanitation facilities (% of population with access)	94	95	96	*96*		Maintained
Improved water source (% of population with access)	..	96	97	*98*		
Goal 8: Develop a global partnership for development						
Internet users (per 100 people)	0.0	0.4	5.8	33.6		
Mobile cellular subscriptions (per 100 people)	0	1	5	34		
Telephone lines (per 100 people)	9	14	23	32		
Other						
Gross capital formation (% of GDP)	18.5	18.2	16.9	24.6		
Life expectancy at birth, total (years)	76	77	78	79		
Literacy rate, adult total (% of people ages 15 and above)	..	..	95	96		

Source: World Development Indicators database

Expected Bank's support in priority areas

The Costa Rica Country Strategy 2006-2010 (BCS-CR) is the product of a dialogue between the Bank and both the Government of Costa Rica and the private sector regarding the major challenges facing the country, the administration's policy priorities, and the Bank's comparative advantages for action in specific areas. The BCS-CR's general objective is to help Costa Rica deepen economic growth and social progress. The BCS-CR has identified three strategic areas of action: (i) Strengthening the macroeconomic and public expenditure management framework; (ii) Deepening the country's growth and international positioning model; (iii) creating opportunities for inclusive economic growth. Moreover, the development of the activity of the Bank's private sector window is considered crucial.

As for **strengthening the macroeconomic and public expenditure capacity**, the Bank contributes, through technical cooperation and non financial initiatives, as well as through investment loans such as the cadastre and registry project, in the following areas: strengthening of the national public investment system, designing of a management-for-results model and public expenditure review. The Bank gave support for tax reform implementation, however this issue is still pending approval by the authorities and it will remain one of the main challenges of the future government[7].

In order to support the country's growth and **international positioning model**, the BCS-CR points to the need for a cross-cutting and sector specific policy agenda to strengthen the linkages between Costa Rica's most dynamic economic sectors and the rest of the production system, especially **small and medium enterprises (SMEs)**. The following type of interventions were identified to achieve this objective: (i) Support for the infrastructure development plan (Energy project, road infrastructure, sewer expansion and wastewater treatment); (ii) Enhancement of competitiveness and promotion of industry linkages (A loan supporting a pro-competitiveness reform, approved by the Bank in 2006, is waiting for restructuring and ratification by the Congress); (iii) Support for sustainable tourism and (iv) Enhancement of environmental management capacities.

As far as opportunities for **inclusive economic growth** are concerned, the BCS-CR supports the government's priority of narrowing the opportunity gap and lowering the poverty rate by: (i) improving access to the housing market (cadastre and registry project as well as improving access to credit lines), (ii) supporting the launch of a social safety net and (iii) improving access to secondary education and employment training.

In the coming years, the institutional sector will continue to be crucial for Costa Rica, as well as the infrastructure sector. Moreover, the social sector will gain more importance as well as the integration and competitiveness one.

So far **social sector** activity has focused in supporting the launch of a social safety net, especially related to ensure access to social services, employment training and improve education attendance through a conditional transfers program. Over the next decade, the Bank will devote particular attention to **education and security issues** in Costa Rica. On one hand, the country is experiencing a decrease in the quality of the education system and drop out rates in secondary education are growing. Moreover, the school to work transition presents some challenges in sectors which require technical specialization and a good knowledge of English. On the other hand, violence and urban security are becoming a major issue of concern in the country, affecting quality of life, business climate, and trust in the institutions. Costa Rica's violence indicators still perform better than other countries' in the region, however, some preventive action must be taken to avoid that violence becomes a serious development issue. Hence, investment loans are expected to be demanded for these two areas.

For the **Institutional sector**, fiscal capacity is expected to remain an issue as long as a fiscal reform is approved by Congress. Increasing the efficiency of tax policies and administration, should be a priority for the new Government. Moreover in order to make public expenditure more effective and responsive, the Bank's future partnership with the country should continue to involve strong action to improve Costa Rica's institutional capacity and to reverse the, so called, "from near–success to reform paralysis"[8] trend, which has often negatively affected Costa Rica's development .

Over the next decade the share of the **Infrastructure for Competitiveness sector** in the Bank's portfolio is expected to maintain its importance. The Bank will continue supporting

[7] Elections will take place in February 2010 and the new Government should start its activity in May.

[8] Cornick, J. and Trejos, A. (2008), "Helping reforms deliver growth: The role of political and institutional obstacles, and the case of Costa Rica.

the implementation of the Infrastructure Development Plan. The current Government identified infrastructure as one of the main obstacles for development and growth in the country. This problem will be a priority also for the next administration. Hence, the main areas of Bank intervention are expected to be road infrastructure (the metropolitan train, for instance) and energy. Moreover, improving water and sanitation services will continue being a relevant part of the Bank's activity with the country, not only in urban areas, but also in rural areas at the municipal level.

The **Infrastructure for Competitiveness** sector together with the **Competitive Regional and Global International Integration sector** should gain relevance through the ratification of the competitiveness loan, waiting for ratification in Congress since 2006. In order to enhance competitiveness and to deepen the country's international positioning model, the Bank's actions will focus on trade and FDI related issues and technology investments. SMEs productivity and access to credit will be a crucial part of the Bank's support for Costa Rica. The implementation of the DR-CAFTA will also require major support, not only in monitoring improvements and strengthening institutional capacity, but also in making structural improvements in areas such as public health standards, not to mention certification procedures and environmental requirements.

As for **Protecting the Environment and Responding to Climate Change sector** one of the objectives of the BCS-CR is to support sustainable tourism, to diversify the tourist offer and to upgrade tourism services. Several projects were approved and implemented in this sector. In the coming years, the Bank will continue working on the implementation of agricultural and sustainable tourism projects.

In terms of ongoing **private sector operations**, the Bank's portfolio is composed of both loans and trade finance facilitation programs that aim to improve competitiveness, impulse SMEs and improve infrastructure. Over the next decade, the activity of the private sectors is expected to increase in its importance.

As for **technical assistance,** the Bank partnership with the country has been very fruitful in the past years. Technical cooperation projects are mostly related to investment loans such as the cadastre and registry project, the justice project or the road security project. Other technical assistance activity in Costa Rica focuses on institutional capacity strengthening, education and labor markets. For the future, the Bank is expected to keep using technical cooperation, not only as a preparation tool, but also as an instrument to transfer knowledge and to assist in designing and evaluating national initiative and programs.

Demand for IDB Products

The Bank is Costa Rica's main development partner. During the period 2006-2008 the average debt to the Bank represented 50% of the country's total multilateral debt. For the period 2009-2011 this percentage should be maintained. For the next decade, the Bank's objective is to maintain its position as Costa Rica's main development partner, and to continue working with the country in order to support it in the achievement of its development goals.

In the coming years current demand levels are expected to be stable. The progress recently made in securing congressional ratification and declaration of eligibility of the Bank-approved projects supports this expectation and positively affects the Bank's programming activity.

The demand for NSGO should grow during the next decade. The current strategy is orientated in promoting public and private partnerships. As mentioned before, the BCS-CR was enriched by a dialogue with the private sector, which led to the formulation of strategy guidelines to support Costa Rica's private sector. The main objective of private sector operations will continue to be increasing private sector competitiveness, supporting financial sector and capital market development, contributing to improving the efficiency of and access to credit markets, including mortgages, promoting and developing SMEs, supporting trade and regional integration, and improving productive infrastructure.

As for its financial role, the Bank will be facing two major difficulties: on one hand, meeting the increasing demand for resources, and, on the other, in spite of recent improvements, overcoming Costa Rica's institutional challenges related to Congress Ratification and implementation capacity.

Dominican Republic
Development Challenges and Financial Requirements 2010-2020
As of May 8th, 2009

Background

The Dominican Republic has been one of the most dynamic economies of the region in the last decades reaching the second fastest growth rate in Latin America during 1990-2007, due to specific engines of growth such as free zones and the tourism industry. Although this rapid growth was temporarily halted during the 2003/2004 financial crisis, the economy recovered rapidly achieving double digit growth rates during 2005-2006. Recent economic performance, however, has been affected by external shocks, especially the increase in oil prices during the first half 2008 and more recently the U.S. financial crisis, mainly due to the strong links between the two countries in terms of exports, tourism, remittances and foreign direct investment (FDI), all key variables in the performance of the economy. The final impact of the U.S. crisis in the Dominican economy is still uncertain, but no contraction of the economy is expected in 2009 or in the medium term, despite the deceleration in some of the main variables such as exports and FDI.

The rapid growth of the last two decades, however, did not bring a significant improvement in most development indicators. Although there was some progress in reducing poverty, the incidence of extreme poverty, for instance, has remained practically unchanged since the year 2000 and inequality has actually increased[9]. Progress has been made in terms of improving primary education and literacy, but there has been very slow progress in terms of gender equality, maternal health and child mortality.

[9] Social Panorama of Latin America 2008, ECLAC., http://www.eclac.org/publicaciones/xml/3/34733/PSI2008-SintesisLanzamiento.pdf

Table 1: Dominican Republic: Millennium Development Goals

Millennium Development Goals	1990	1995	2000	2007	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Poverty gap at $1.25 a day (PPP) (%)	3	1	1	1	1.5	achieved
Malnutrition prevalence, weight for age (% of children under 5)	8.4	4.7	3.5	..	4.2	achieved
Poverty gap at $1.25 a day (PPP) (%)	3	1	1	1		
Prevalence of undernourishment (% of population)	27	24	..	21	13.5	slow
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	12	6	4	5		
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	..	..	95	97	100.0	fast
Literacy rate, youth male (% of males ages 15-24)	..	..	93	95	100.0	fast
Primary completion rate, total (% of relevant age group)	..	62	80	89	100.0	slow
Total enrollment, primary (% net)	..	..	86	85	100.0	slow
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	8	12	16	20	50.0	slow
Ratio of female to male primary enrollment	..	..	97	94	100.0	slow
Ratio of female to male secondary enrollment	..	..	123	120	100.0	achieved
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	96	96	88	96		
Mortality rate, infant (per 1,000 live births)	53	41	34	31	17.7	slow
Mortality rate, under-5 (per 1,000)	66	45	37	38	22.0	slow
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	93	96	98	98		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	150	27.5	slow
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Prevalence of HIV, total (% of population ages 15-49)	0.6	1.2	1.3	1.1	0.6	setback
Tuberculosis cases detected under DOTS (%)	..	..	6	66	6.0	setback
Goal 7: Ensure environmental sustainability						
Improved water source (% of population with access)	84	88	92	95	96.0	fast
Goal 8: Develop a global partnership for development						
Telephone lines (per 100 people)	5	7	10	9		
Other						
GNI per capita, Atlas method (current US$)	850	1,400	2,050	3,560		
Source: World Development Indicators database						

Expected Bank's support in priority areas

The New IDB Country Strategy with the Dominican Republic (ICS-DR) is currently being designed and will be aligned with government priorities and with the country strategy of other multilateral institutions, due to the close relationship that the Bank has developed with the Government through the Policy Dialogue Process and several Non Financial Products. The New ICS-DR is expected to be approved by the Board of Directors in September 2009.

In the short run, the Bank will work with DR to mitigate the impact of the international financial crisis and to protect the poorer segments of the society from macroeconomic instability. In the long run, the Bank will maintain its role as development partner with DR to foster productivity as well as to improve infrastructure for competitiveness. Therefore, the key priority areas for the new country strategy are defined as follow: a) Social Protection Network and Social Sectors, b) Energy Sector and Basic Infrastructure, and c) Competitiveness and Institutional Development.

In terms of the new corporate priorities, the Bank's activities in DR can be classified as follows:

a. **Social Sector.** The Bank will continue its work on the social sector with a programmatic approach. On the demand side, the Bank will work primarily on a multi-phase program with the **social protection network** (through *Solidaridad* program), to strengthen its institutional and administrative capabilities and to enhance its technical design. On the supply side, the Bank will work on different **strategic interventions in the education sector** and in **labor intermediation**.

b. **Infrastructure Sector.** The Bank will help DR to overcome one of its main development challenges: the reform of the electricity sector. With a programmatic approach, the Bank will work with the authorities to **improve the electricity sector**, in terms of **operative efficiency** and financial flows. The main goal will be achieving the **financial sustainability** for this sector in the long term, through different operations associated with electricity distribution and the energy matrix. In addition, the Bank will help DR to improve its basic infrastructure for competitiveness, with strategic operations in urban transportation and road network rehabilitation, **water and sanitation** (through the creation of technical capacities that will help to **improve coverage and quality** of the service **in rural communities**), tourism (through the creation of a tourism national plan), and agriculture.

c. **Environment and Climate Change.** The Bank will continue its work on environment with an intervention in watershed management addressed to help the country to improve the sustainability and quality of the water supply. On other hand, the bank will work with the authorities to define strategic actions related with energy efficiency in the public sector and **foster the production of biofuels**. These interventions will help with the **improving of the environment and the reduction of carbon emissions**.

d. **Institutional Sector.** The Bank will support the authorities to overcome the consequences of the international financial crisis in the short and long terms. In the short term, the Bank help is designed to confront the liquidity restrictions in the financial markets as well as the public finance necessities. In the long term, the Bank help will foster productivity and competitiveness, through a programmatic approach designed to **finance reforms in fiscal management**, **technological innovation**, **business climate reform**, and **international trade**. In addition, the Bank will support institutional reforms related to **citizen security**, **transparency**, and innovative programs to **improve the financial management for natural disaster**s.

e. **Private Sector.** The key areas of activities for the private sector window are associated with infrastructure (transport, energy), mining and the financial sector. While in the short term the electricity sector requires institutional strengthening first, in the medium and longer term it is a key sector for the private window and for the country's development. The Bank's support for the private sector during 2009 is estimated to be US$135 million and will be focused in a very important gold mining operation, a toll-road concession, and a trade facility and guarantees with the financial sector. Additionally, FOMIN has identified strategic areas of support such as: i) **human resources management of small and medium enterprises (SME)**, ii) **competitive development of SME** and, iii) **support to financial sector supervision**. The IIC will continue supporting the country with operations in the financial sector.

Demand for IDB Products

Although the IDB is the country's primary source of financing, accounting for the 70% of its total multilateral debt, the percentage of IDB financing in the Dominican Republic's total external public debt has been decreasing in the recent years. The IDB accounted for almost 23% of the total external debt in 2000, but only 17.6% in 2008, mainly due to the access of the Dominican government to international financial markets and bilateral assistance in the past decade.

In the short term, the Bank will support DR to fulfill its financial necessities in the public and private sector and to overcome the impact of the international financial crisis. Therefore, the mix of resources will be assigned primarily towards budget support and activities related to improve the public finance and the macroeconomic balance. In the long term, as economic activity and foreign investment continue to expand, it is expected that the private sector will increase its demand for resources and the mix of resources will shift towards private sector financing and project development areas such as infrastructure, climate change, sustainable tourism and environmental conservation.

Due to the restrictions imposed by the Stand-By agreement with the IMF between 2005 and 2008, in terms of fiscal restrictions and debt ceilings, the historical average of operations is biased. Likewise, due to the use of the Liquidity Program and the Emergency Loan in 2009, the amount of investments projects approved during this year is artificially low.

Ecuador
Development Challenges and Financial Requirements 2010-2020
As of May 12, 2009

Background

In the last few years, the Ecuadorian economy has been growing steadily in a context of macroeconomic stability. Average annual growth during the 2000-2007 period was 4.5%, thanks to favorable external conditions and a strong oil sector. Expansion peaked in 2008 and started experiencing a slowing trend, owing primarily to the impact of the international financial crisis, the decline in oil prices, the reduction in private investment and other structural problems such as bottlenecks in the energy (power and oil) and infrastructure sectors. For 2009, a decline in GDP is projected, mainly associated to fall in oil revenues, exports and remittances. In a dollarized economy -and in the absence of countercyclical instruments and limited access to external financing-, the government is relying in fiscal adjustment to face the crisis which will affect growth. For 2010 onwards, a modest recovered is expected.

One of the major long term challenges of the Ecuadorian economy is to overcome its external vulnerability and macroeconomic volatility due to fiscal and external dependence on oil revenues. Moreover, given the current monetary system, developing a dynamic and diversified productive sector is key to sustain growth and increase its participation and integration to the global economy.

In terms of performance towards achievement of the Millennium Development Goals (MDGs), Ecuador faces challenges in terms of coverage and quality of basic public services (health, drinking water). Its achievements have been low in terms of eradicating extreme poverty and hunger, as well as in reducing maternal mortality rates. It has made important progress in achieving universal primary education through enrollment and completion rates, as well as in reduction of child mortality rate and incidence of tuberculosis. Also, it has achieved excellent results in promoting gender equality and empowerment of women. However, it has had a setback in combating the prevalence of HIV.

Table 1 -Ecuador: Millennium Development Goals

Millennium Development Goals	1990/91	1995/96	2000/01	2006/07	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Extreme poverty rate (% of population)	..	14*	15.5 (1999)	13*	7.7	slow
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	16	15	5		
Prevalence of undernourishment (% of population)	24	17	..	15	8.6	slow
Goal 2: Achieve universal primary education						
Literacy rate (% age group 15-24)	96		96	96	100	slow
Primary completion rate, total (% of relevant age group)	..	89	98	..	100	fast
Total enrollment, primary (% net)	..	89	100	99	100	fast
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	5	6	17	25	50	fast
Ratio of female to male primary enrollment	99	102	99	100	100	accomplished
Ratio of female to male secondary enrollment	..	..	102	101	100	accomplished
Goal 4: Reduce child mortality						
Mortality rate, under-5 (per 1,000)	66	43	32	22	21.9	fast
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	99	..		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	117	..	..	210	29.3	slow
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	167	144	124	101	167	fast
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.3	0.3	0.1	setback
Goal 7: Ensure environmental sustainability						
Improved sanitation facilities (% of population with access)	71	75	80	84	68.6	
Improved water source (% of population with access)	73	80	88	95	80.4	**
Goal 8: Develop a global partnership for development						
Mobile cellular subscriptions (per 100 people)	0	0	4	76		
Telephone lines (per 100 people)	5	6	10	14		
Other						
GNI per capita, Atlas method (current US$)	890	1,590	1,340	3,110		
Life expectancy at birth, total (years)	69	71	73	75		
Income share held by lowest 20%	..	3.1	3.4	3.4		

Source: World Development Indicators database if not differently specified
figures in red come from the "Segundo MDG Informe Nacional de Ecuador"
Targets 2015, in green, are built on the 1990-1991 data. They could be slightly different from the actual country targets.
* Source: UNDP

Expected Bank support in priority areas

To help address the development challenges of Ecuador, the Bank's Country Strategy with Ecuador (2008-2011) aims to support the country's National Development Plan in three principal areas: (i) development of productive infrastructure (oil, energy, and transportation); (ii) productive development and access to financing; and (iii) economic and social inclusion.

Development of Productive infrastructure. The following priorities have been identified: (i) modernizing the State system for oil exploration, drilling, refining, and commercialization, expanding its capacity and enhancing its efficiency; (ii) developing a sustainable power system based on the use of available renewable energy resources, to ensure an economical, reliable, quality supply; (iii) maintaining and expanding the system of ground transportation, ports, and airports to support local production, domestic commerce and foreign trade, national integration, and productivity and competitiveness.

Productive development and access to financing. The fact that Ecuador is in the process of defining the State's new role in the economy has dampened private investment, adversely affecting growth. Given these circumstances, the Bank's support could help improve the business climate and generate confidence in the country's new development model. In the areas related to the institutional framework for fostering competitiveness, the Bank could help the country with: (i) efforts to strengthen and modernize the relevant institutions; and (ii) the design and implementation of policies to foster productivity and competitiveness at the local level. In the financial sector, the Bank could provide support in: (i) strengthening transparency and information systems; (ii) developing mechanisms for reducing system risk, such as strengthened banking supervision processes, deposit insurance, limited liquidity funds, and effective bank resolution processes; (iii) strengthening the regulatory framework to reduce intermediation costs; and (iv) financing national financial entities to improve their terms. Also, with a view to promoting sustainable productive development, the Bank could continue its initiatives to: (i) promote biodiversity-related productive and commercial activities involving sustainable extraction and nonextraction; (ii) strengthen the incentives for private-sector participation aimed at conservation and sustainable use of resources; (iii) encourage community-based resource management schemes; and (iv) promote natural resource conservation in the Galapagos Islands and other marine/coastal ecosystems with a long-range vision that is compatible with the welfare and progress of the local population.

Economic and social inclusion. The Ecuadorian government's strategy of financing interventions in the sector with its own resources calls for reflection on the most appropriate instruments to effectively support the authorities. The government's need for analytic support in formulating policies and intervention strategies would speak for using (i) programmatic loans, new instruments, and technical- cooperation resources. Based on these modalities, the Bank could participate in: (i) strengthening the institutional structure of the agencies in charge of providing public services and social safety net programs; (ii) designing policies, programs, and systems for monitoring and evaluating public spending; (iii) establishing quality standards for the management and delivery of public services; and (iv) reflecting on the public management decentralization processes that promote quality and efficiency in the provision of public goods.

Demand for IDB Products

Economic growth and the improved fiscal results of the last few years have made for a much lower public debt/GDP ratio. In July 2008, multilateral debt represented 42.5% of total external debt, with the trend over time complementing that of bonds, indicating that the authorities tend to combine financing sources. The burden of the bilateral debt and suppliers' credit has fallen since 2000. An analysis of multilateral financing sources reveals that the Bank's relative weight has slowly declined, from close to 47% of the total in 2000 to 42% in 2007, with a substantial gain by the Andean Development Corporation (CAF) from 21% to 40%. The debt with the World Bank has declined significantly, a trend that is expected to continue.

The Bank's lending program for the sovereign sector is consistent with the country's financing needs and the government's strategy for managing the public debt. The Strategy proposes a base-case scenario of US$1.2 billion in new operations in the 2008-2011 period, which would represent a significant increase in financing relative to historical averages. The lending program could be expanded up to a maximum of US$1.6 billion (high scenario), making the Bank the principal source of multilateral financing, provided that the following are maintained: (i) prudent policies that support fiscal sustainability; (ii) a strong commitment to policy reforms; (iii) progress in project design and portfolio execution; and (iv) a fluid dialogue between the Bank and the country.

The Bank's support to the private sector and the non-sovereign public sector will focus mainly on infrastructure (transportation, energy, water and sanitation, and financial markets—financial institutions, mortgage securitization, and the trade finance facilitation program).

El Salvador
Development Challenges and Financial Requirements 2010-2020

Background

El Salvador is a middle income country with a long history of market oriented reforms. Although the economy grew above its historic average in 2007 and 2008, the financial crisis is having a widespread impact on the economy, with growth rates widely expected to be negative in 2009 and into 2010. The country's past record of reform and macroeconomic stability had recently led to important gains in social indicators, with poverty declining from 16% in 1990 in PPP terms to 11% in 2007 (Table 1). Unfortunately, the financial crisis is expected to erase some of these gains due to the decline in remittances coming from migrants in the US (which make up 18% of GDP and mostly benefit poorer segments of the population), along with the impacts from lower exports and lower credit.

El Salvador has made good progress towards certain Millennium Development Goals (MDGs) such as reducing infant mortality rates, increasing primary education completion rate, and improving sanitation facilities and water sources. On the other hand, little advancement was made in ensuring environmental sustainability, reducing adolescent fertility rates, or combating HIV/AIDS. Additionally, the country is still facing serious challenges in terms of violence and insecurity. See Table 1.

Table 1- El Salvador. Selected Indicators of Progress toward the MDGs

Millennium Development Goals	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Income share held by lowest 20%	*2.4*	3.7	2.8	*3.3*
Poverty gap at $1.25 a day (PPP) (%)	*9*	5	6	*5*
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*16*	13	13	*11*
Prevalence of undernourishment (% of population)	*9*	*11*	..	*10*
Vulnerable employment, total (% of total employment)	..	37	37	*36*
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	*85*	..	..	94
Literacy rate, youth male (% of males ages 15-24)	*85*	..	..	93
Primary completion rate, total (% of relevant age group)	*61*	71	88	91
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	12	*11*	17	17
Ratio of female to male enrollments in tertiary education	..	..	120	122
Ratio of female to male primary enrollment	*99*	99	95	100
Ratio of female to male secondary enrollment	*113*	..	99	104
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	98	93	97	98
Mortality rate, infant (per 1,000 live births)	47	37	29	21
Mortality rate, under-5 (per 1,000)	60	46	35	24
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*95*	90	81
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	82	66	54	40
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.4	0.7	0.8
Tuberculosis cases detected under DOTS (%)	..	*46*	56	65
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.5	0.9	0.9	*1.0*
Forest area (% of land area)	18	17	16	*14*
Improved sanitation facilities (% of population with access)	73	77	82	*86*
Improved water source (% of population with access)	69	74	79	*84*
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	68	53	29	13
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	18	12	7	12
Internet users (per 100 people)	0.0	*0.1*	1.1	11.1
Mobile cellular subscriptions (per 100 people)	0	0	12	90
Telephone lines (per 100 people)	2	5	10	16
Other				
Fertility rate, total (births per woman)	3.7	3.3	3.0	2.7
GNI per capita, Atlas method (current US$)	930	1,580	2,030	2,850
GNI, Atlas method (current US$) (billions)	4.8	8.9	12.6	19.6
Gross capital formation (% of GDP)	13.9	20.0	16.9	20.4
Life expectancy at birth, total (years)	66	68	70	72
Population, total (millions)	5.1	5.6	6.2	*6.8*
Trade (% of GDP)	49.8	59.4	69.8	76.2
Source: World Development Indicators database				

Expected Bank's support in priority areas

The current Bank's Country Strategy with El Salvador (2004-2009) was approved in October 2005 and its main purpose of reducing poverty. In order to achieve this goal, the Country Strategy proposed two interrelated strategic objectives that are consistent with the government "País Seguro 2004-2009" plan: (i) to promote sustainable economic growth by increasing competitiveness; and (ii) to strengthen human capital and improve opportunities for the poorest segments of the population. The Strategy deemed necessary to foster a sustained acceleration in economic growth, while at the same time improving access by the very poor to basic services and optimizing the quality of these services, so as to provide the population with opportunities that enable them to benefit more from the country's economic growth. This, in turn, will foster sustainable increases in productivity and set the stage for stronger growth.

The new Administration will take office on June 2009 and the new Country Strategy will be prepared jointly during the second part of this year. It is anticipated that the new Strategy will be aimed –in the short term- at mitigating the severe impact of the current international crisis and at the same time –in the medium term- at supporting the government's efforts in reducing poverty. Expected priority areas will include the support and management of fiscal imbalances, rural and urban social protection, water and sanitation, housing, infrastructure for education and health, and rural competitiveness.

In the **Social Policy for Equity and Productivity**, coverage extension of the social protection programs including urban and rural areas and enhancement of their information and evaluation systems will be a main challenge to tackle. At the same time, in order to reduce poverty, social investment will have to focus on the creation a social assets in the priority areas of **early child development**, **pre-kinder education**, basic infrastructure for the provision of education and health services, and housing.

Infrastructure for Competitiveness and Social Welfare will be a sector in which the Bank's participation is expected to increase. The main areas will be **water and sanitation**, transportation (highways corridors and rural connectivity), and productive infrastructure in rural areas.

Institutions for Growth and Social Welfare. The fiscal situation is expected to remain an issue during the next few years. The Bank will support the government's effort to implement **a fiscal reform focused on enhancing the impact of public expenditure and increasing the revenue base**. At the same time areas like municipal strengthening and **citizen security** and violence prevention will be at the core of the Bank's activities.

Competitive Regional and Global International Integration will be supported through programs that will seek to identify and take advantage of the opportunities laid out by **CAFTA and by productive integration with the Mercado Común Centro Americano**. Within this framework, support for trade activities focused on micro, small and medium enterprises will be a key objective.

Protecting the Environment and Responding to Climate Change will be mainly addressed through environmental programs in the basin of the metropolitan area and disasters management.

Private Sector. In this context of important fiscal restrictions, it is expected that demand from the private sector for Ibis resources will increase, thus the participation of NSG operations in the Bank's portfolio. NSG demand is expected particularly in the sectors of infrastructure (energy, ports), private banking initiatives to expand the access of the **small and medium enterprises (SMEs)** and projects in sectors, such as, agribusiness, education, energy efficiency and tourism, among others.

Technical Cooperation. In the next few years, the Bank's technical assistance to El Salvador will be mainly focused in supporting the developing of a new investment projects portfolio and its timely and adequate implementation (including compliance of PBL conditions) . Other key areas of Bank´s support through technical cooperation will include strengthening of public institutions in aspects regarding control and transparency.

Demand for IDB Products

The IDB has a close and very active relationship with El Salvador. As of end-2008, IDB accounted for 27% of El Salvador's total external public debt, down from 49% in 2000, becoming the country's primary source of multilateral financing, with 65.4% of total multilateral debt. For the next decade, Bank's objective is to maintain its role as El Salvador's development partner of choice in terms of knowledge, design and implementation of public policies, and the financing of projects in the public and private sectors though a combination of programmatic and investment loans, and technical cooperation.

In the short run, it is expected an increase in demand for IDB's resources to mitigate the impact of the international financial crisis and to finance the costs of the Government's fiscal reforms.

Moreover, in the medium term El Salvador's external financing needs are expected to continue very high. In this context, besides large emergency operations, the Bank will also aim to developing a new portfolio of investments operations to support more accelerated productive growth and creation of social capital.

Demand from private sector is expected to grow significantly during the next decade as economic activity and private investment recover and continue to expand, in particular in the areas of infrastructure and finance.

Guatemala
Development Challenges and Financial Requirements 2010-2020

Background

Guatemala is a middle income country. Its per capita Gross National Income is under US$5,000 in PPP terms, among the lowest in Latin America and number 108 in the world. The country has made gradual progress towards macroeconomic stability over the past decade. The economy grew above its historic average, although the strong, sustained growth necessary to address the problems of poverty and marginalization was not achieved. Nevertheless, Guatemala has made good progress towards certain Millennium Development Goals (MDGs) such as reducing infant mortality rates (even if they remain among the highest of Latin America), increasing primary education completion rate, and improving sanitation facilities and water sources. On the other hand, little advancement was made in reducing extreme poverty prevalence; malnourishment –especially chronic malnutrition- and maternal mortality, which are indeed among the highest in the continent. Additionally, the country is still facing serious challenges in terms of violence and insecurity.

Table 1- Guatemala: Selected Indicators of Progress toward the MDGs

Millennium Development Goals	1990	1995	2000	2007	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	*2.2*	..	3.4	*3.4*		
Malnutrition prevalence, weight for age (% of children under 5)	..	21.7	*20.3*	..		
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*39*	..	13	*12*	20	**Achieved**
Prevalence of undernourishment (% of population)	*14*	*17*	..	*16*	7	Setback
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	..	*71*	*78*	83	*100*	Slow
Persistence to last grade of primary, total (% of cohort)	..	..	50	*62*		
Primary completion rate, total (% of relevant age group)	..	..	58	77	100	-
Total enrollment, primary (% net)	..	..	87	97	100	**Fast**
Goal 3: Promote gender equality and empower women						
Ratio of female to male enrollments in tertiary education	..	..	*72*	100	*100*	**Fast**
Ratio of female to male primary enrollment	88	86	89	94	100	Slow
Ratio of female to male secondary enrollment	..	..	88	92	100	Slow
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	60	49	39	29		
Mortality rate, under-5 (per 1,000)	82	64	53	39	27	**Fast**
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	34	*41*	..		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*290*[a]		
Pregnant women receiving prenatal care (%)	..	53	*84*	..		
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	74	71	68	63		
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.3	0.8	0.8	0.1	Setback
Goal 7: Ensure environmental sustainability						
Forest area (% of land area)	44	41	39	*36*		
Improved sanitation facilities (% of population with access)	70	75	80	*84*		
Improved water source (% of population with access)	79	85	91	*96*	90	**Achieved**
Goal 8: Develop a global partnership for development						
Aid per capita (current US$)	23	21	23	34		
Internet users (per 100 people)	0.0	0.0	0.7	*10.1*		
Mobile cellular subscriptions (per 100 people)	0	0	8	76		
Other						
GNI per capita, PPP (current international $)	2,360	2,950	3,470	4,520		
Gross capital formation (% of GDP)	13.6	15.1	17.8	20.7		
Life expectancy at birth, total (years)	63	65	68	70		
Literacy rate, adult total (% of people ages 15 and above)	..	*64*	*69*	73		
Source: World Development Indicators database						

Expected Bank's support in priority areas

The Guatemala Country Strategy 2008-2011 (EBGU) is the result of a fruitful dialogue maintained with the country authorities. The dialogue was nourished with a set of studies and sector technical notes produced to identify Guatemala's main challenges. The EBGU is focused in 4 goals: (i) reduce chronic malnutrition, (ii) reduce intergenerational transmission of poverty; (iii) upgrade and maintain production infrastructure, and (iv) improve the government's revenue collection capacity. Guatemala's revenue collection ratio is the lowest in Central America and it's among the lowest in Latin America. Shortage of fiscal resources is holding up delivery of public goods needed to make the nation more competitive and supply the most elemental needs to half its people (as a percentage of GDP, Guatemala's social public expenditures ranks second to last in Latin America only above Ecuador and less than half the Latin American average[10])

Those priorities are reflected in the existing Bank's portfolio, which is mainly focused in assisting the Government in implementing its fiscal and social reforms. About a third of the projects in execution (in terms of amounts to be disbursed) aim to improve the government's fiscal capacity and efficiency, and a little more than a quarter of the Bank's country portfolio is targeted to reinforce and improve Guatemalan social programs (its main objectives are to reduce infant mortality, malnutrition and poverty prevalence, as well as to improve primary education completion rate). Other relevant areas were the Bank is currently contributing are Water and Sanitation (which is strongly related with the country main development challenges: extreme poverty, malnutrition and infant mortality), Rural Electrification (as to increase rural electrification coverage) and Justice Reform (which objective is to increase efficiency and effectiveness of Guatemala's Justice System).

The strategy has strived to implement the main reforms at an early stage, therefore future Bank's projects are focused in implementing less complex projects, such as those directed to improving the country's competitiveness (the government has requested to reformulate a Violence program into a Competitiveness program that aims to develop Guatemala's trade opportunities and to reinforce its Foreign Direct Investment attractiveness), strengthening health and nutrition programs (as to improve access to health and nutrition services as well as the quality of care provided by public providers in Guatemala), and reinforcing the country's productive infrastructure (we expect to approve a Water and Sanitation program co-financed with Spanish Funds that aims to reinforce institutional capacity and efficiency and to promote investments in rural communities and in peripheral urban areas; as well as a private sector operation co-financed with several development agencies that aims to promote the construction of an energy plant).

In terms of ongoing private sector operations, the Bank's portfolio is composed by both loans and trade finance facilitation programs that aim to improve competitiveness, impulse SMEs and develop microfinance opportunities.

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[10] The World Bank, "GUATEMALA. Poverty Assessment. Good Performance at Low Levels", May 31, 2008.

In the coming years, the social and institutional sectors will continue to be crucial for Guatemala. Hence, we estimated that these sectors will continue to represent about ¾ of Guatemala's portfolio.

For the **Social sector**, malnutrition, infant and maternal mortality, as well as primary education achievement, will continue to be the main development challenges to overcome. Both, INV and PBL loans are expected to be demanded. The first type of instruments will focus in building new health and educational facilities, as well as ameliorating the existing ones. The later type of loans will mainly concentrate in supporting Guatemala's Conditional Cash Transfer Programs (CCTP). These programs have been identified[11] as quite successful in reducing poverty levels and increasing primary education and health prevention checks.

For the **Institutional sector**, while fiscal capacity is expected to remain an issue its relevance might decrease in relative terms as the challenges are surpassed (i.e. the fiscal reform finally takes place) and violence and security remains one of the country's biggest problems. Therefore in this sector we expect a more balanced mix of objectives between fiscal strengthening and violence reduction and prevention.

Moreover, the share of the **Infrastructure sector** in the Bank's portfolio is expected to increase. The main area in this sector is expected to be Water and Sanitation, namely the construction of water treatment plants, the extension of nationwide piped water coverage (especially in the rural areas), and the nationwide wastewater disposal access. Energy and transportation, especially the former, will be important areas as well.

Likewise, the **Competitiveness and Integration sector** is expected to gain relevance. Foreign Direct Investment Inflows development, SMEs support, and regional integration will be the key objectives to achieve for this sector.

The main focus for **Protecting the Environment and Responding to Climate Change** will be the development of agricultural projects directed to achieve more sustainable and productive production systems.

The **Private Sector** operations are expected to increase its share in Guatemala's Bank portfolio, and we expect these operations to gain scale as we presume an increasing number of infrastructure operations will be able to leverage others donors funding. The main objectives of private sector operations will remain invariable, thus: to increase private sector competitiveness, to promote and develop SMEs, to support trade and regional integration, and to ameliorate productive infrastructure.

In terms of **technical assistance** to the country, we expect an increasing demand for technical cooperation in the institutional and social sectors. In the first one, the main areas to cooperate will be diverse, from reinforcing the execution capacity of several public institutions, to reinforce the institutions itself. In the social sector, programs to improve the technical base of the Guatemala's Cash Transfer Program, as well as to communicate it better to its potential beneficiaries will probably be the focus.

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[11] The World Bank, "GUATEMALA. Poverty Assessment. Good Performance at Low Levels", May 31, 2008.

Demand for IDB Products

The IDB has a privilege and very active relation with the Government of Guatemala. As of 2008, the Bank accounted for 31.5% of Guatemala's total external public debt; this ratio places the IDB as the country's primary source of multilateral financing. For the next decade, Bank's objective it's to maintain its position as Guatemala's main development partner, and to continue working to overcome the country's prime development challenges.

In the coming years we expect the current demand levels to be maintained. We have to emphasize that this levels are well above the historical demand levels due to an improvement in IDB's partnership with Guatemala's Government.

In terms of the type of instrument we expect will be demanded for the NSGO loans, we have estimated a split of around a 55% in PBLs and 45% in investment loans as there are still several policy reforms to be implemented in the country.

The demand for NSGO is expect to grow during the next decade as private investment will continue to expand and we expect that our current strategy will be successful in promoting public and private partnerships. As mentioned previously, the main objectives of private sector operations will continue to be to increase private sector competitiveness, to promote and develop SMEs, to support trade and regional integration, and to ameliorate productive infrastructure.

We consider that the next decade the Bank's financial role will face several challenges, namely being able to meet the increasing demand for resources, as well as to overcome Guatemala's institutional challenges as to improve the implementation of reforms and the execution of its projects.

Guyana
Development Challenges and Financial Requirements 2010-2020

Background

Guyana continues to face steep development challenges. However, in recent years, it has shown that during periods of high pro-poor spending and sustained, stable economic growth, Guyana was able to make adequate progress with poverty reduction and other development objectives. The Government of Guyana (GoG) has attempted to ensure spending is pro-poor with social spending at close to 20% of GDP, throughout the medium term (2005-2012). However, although poverty has declined, levels are still high. According to the Millennium Development Goals (MDG), Guyana must reduce extreme poverty by an additional 4%. Guyana made sufficient progress with some MDGs, particularly universal primary education and gender equity, as of 2007 (see Table 1); however, significant gaps still remain in maternal health, child mortality, and combating malaria. Volatility also limits advances in enhancing productivity and producing and exporting more sophisticated goods, a means of lifting people out of poverty.

Table 1 – Guyana: Summary of Millennium Development Goals

Millennium Development Goals	1990	Target	Most Recent	Likelihood of Achieving Goal
Goal 1: Eradicate extreme poverty and hunger				
Population below national poverty line	43% (1994)	22.5%	36% (2005)	Potentially (2006)
Proportion of population below minimum level of dietary energy consumption	(WB est.) 21%	10.5%	9% (2005)	Probably (2006)
Goal 2: Achieve universal primary education				
Net Primary school enrolment of children	88.9%		99.2% (2002)	Probably (2006)
Children reaching grade 5 (% of grade 1 students)	93%	97%	87% (2003)	
Percentage of cohort reaching grade 6	(84%) (2001)		(86.9%) (2004)	
Goal 3: Promote Gender equality and empower women				Probably (2006)
Ratio of boys to girls				
Primary	0.98	1.00	0.96 (2003)	
Secondary	1.06	1.00	1.02(2003)	
Goal 4: Reduce Child Mortality				
Under 5 mortality per 1,000	88	48.5	62 (2006)*	Unlikely (2006)
Goal 5: Improve Maternal Health				
Maternal mortality per 100,000	150 (1995)	-	113.0 (2006)	Unlikely (2006)
Goal 6: Combat HIV/AIDS, malaria and other diseases				
Prevalence of HIV/AIDS (%ages 15-49)			2.4 (2006)	Potentially
Incidence of malaria cases (per 100,000)			18,526 (2005)	(2006)
Incidence of tuberculosis cases (per 100,000)	44.3		164.4 (2006)	Unlikely (2006)
Goal 7: Ensure Environmental Sustainability				
CO2 emission per capita (metric tons)	1.6	-	2.3 (2002)	Probably (2006)
Consumption of ozone-depleting CFCs in ODP metric tons	18.9	-	11.9 (2004)	
Proportion of population with access to potable water	-	-	83% (2004)	Probably (2006)
Goal 8: Develop a Global Partnership for Development				
Telephone lines and cellular subscribers (per 1000)	(20.1)		329 (2004)	Potentially
Internet users (per 1000)	(6) (1996)		193 (2004)	
Personal computers (per 1000)	(2.35) (1998)		36 (2004)	

Therefore, Guyana's main challenges to development are that: (i) its macroeconomic fundamentals remain fragile and highly vulnerable to shocks and impair its ability to consolidate and sustain growth, and (ii) although improved, poverty still diminishes the productivity and standard of living for many. The GoG and the IDB have thus agreed to concentrate on areas and interventions to address these challenges[12].

IDB Areas of Strategic Focus

Overcoming these challenges is contingent on the successful completion of the IDB-financed institutional and governance reforms underway and continued discipline in GoG's economic and fiscal management. For the projected period considered, the Bank aims to contribute to accelerating economic growth through economic diversification (for reducing vulnerability) and targeted social development (for improving social well-being). More specifically, the areas of focus include: (i) **strategic infrastructure investments**, (ii) **enhanced competitiveness**, and (iii) **social development for growth**.

The expected outcomes for strategic infrastructure investments will contribute toward improving the reliability, affordability, and supply of electricity and the quality and coverage of the road network, thereby reducing travel time and transportation costs. Additional support for Guyana's Competitiveness initiative will target improvements in the financial sector with the aim of expanding access to finance, lowering its costs, enhancing the supervision capacity of the Bank of Guyana, and increasing transparency in the financial sector (including reforms of the anti-money laundering framework). Also, specific programs will support new industries that yield higher-valued products (e.g., aquaculture). Under social development for growth, interventions will continue to increase housing opportunities for the poor, improve access to water and other basic services, reduce the incidence of malnutrition and improve the effectiveness of social sector spending.

There are diverse opportunities for private sector (NSG) lending in Guyana in the shorter and medium term. An area of particular interest is renewable energy (especially hydro). As energy remains a critical constraint to growth. This would be completely aligned to the objectives of the country strategy. A second is in infrastructure including the Linden to Lethem road that connects Guyana to Brazil. This would help developing exports to this important market, provide easier access to the coast for Brazilian products, and also increase interactions between Brazilian companies and Guyanese ventures. This would assist the diversification of the productive capacity and attempts to increase the sophistication of goods produced and exported by Guyana. Again this would be completely in alignment with the country strategy.

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[12] Guyana's development framework is carefully articulated in the IDB Country Strategy with Guyana 2008–2012 document (GN-2503-1), which provides the principal basis for the strategic focus outlined in this note. However, this document also reflects updates in the IDB country dialogue as of May 13th 2009.

Haiti
Development Challenges and Financial Requirements 2010-2020

Haiti has some of the most severe development challenges in the developing world. With GDP per capita of less than US$800, some 7.5 million Haitians under the poverty line and with relatively poor statistics on the provision of basic services there are many development priorities. Table 1 summarizes relevant MDG indicators. Good progress has been made on HIV/AIDS and in literacy but progress remains slow on poverty eradication, primary education, gender equality and child mortality.

Table 1 - Haiti: Summary of Millennium Development Goals

Millenium Development Goals	1990	1995	2000	2001	2005-2006	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger							
Poverty headcount ratio at US$ 1 a day (%of population)				54.90%			
Purchasing Power Parity, national currency per 1993 international dollar	1846	5030	8846	9822	20285		
Prevalence of underweight children under-five years of age	26.80%	27.50%	17.30%		22.20%	13.40%	Slow
Goal 2: Achieve universal primary education							
Net enrollment ratio in Primary Education	36.40%		54.30%		49.60%	100%	Slow
Literacy rate 15-24 years	54.80%		64.40%		82.40%	100%	Fast
Goal 3:Promote Gender equality and empower women							
Seats held by women in national parliament	3	3	3	3	4		Slow
Seats held by men in national parliament	80	80	80	80	94		
Goal 4: Reduce Child Mortality							
Infant Mortality Rate per 1000 live births	110.00%	87.1	89.40%		57.00%	37%	Slow
Goal 5: Improve Maternal Health							
Maternal mortality ratio per 100,000 live births	457	474	520		630	114	Setback
Goal 6: Combat HIV/AIDS, malaria and other diseases							
HIV Prevalence among poulation		5%	5.50%		2.20%	1.50%	Fast
Goal 7: Ensure Environmental sustainability							
Proportion of Urban Population with access to an improved drinking water source	47%	43%	49%		55.20%	94%	Slow
Goal 8:Develop a Global Partnership for Development							
Telephone lines	45000	60000	72500	80000	145300		Fast

Other	2001
Poverty Rate (Per capita income below US$ 2 per day)	76%
Poverty gap ratio at $1 a day (PPP), percentage	28%
Poorest quintile's share in national income or consumption, percentage	3%

Significant progress has been made in relation to security, the restoration of democracy and economic stability. UN-led security forces have reduced violence and elections (albeit with very low turnouts) now pass with relative calm. Macroeconomic stability now appears less fragile and inflation has fallen to 5.9% in February 2009 from almost 20% in September 2008.

However there remain challenges on the economic front too. Growth was positive, but was only 1.3% for 2008 and with the global economic crisis bearing down on the Caribbean is now forecast to be just 1% for 2009 and 2% for 2010. These growth rates are insufficient to reduce poverty given recent population growth rates of about 1.7% p.a. The country continues to recover from four devastating hurricanes and storms that were estimated to have caused damages of some 15% of GDP (US$900mn) and highlight the vulnerability to natural disasters especially given deforestation and degradation of the environment. Reconstruction continues to place a significant burden on the fiscal deficit. The overall deficit is estimated to be some 4% of GDP in 2009/10 including emergency spending of some 2.9% of GDP. Total revenue is projected to increase to 10.5% of GDP with the strengthening of customs and tax administration and there have been advances in execution capacity and financial control.

On April 14th 2009, the IDB hosted a donors' conference which agreed a common strategy for development summarized in a document entitled ""Haiti: a New Paradigm". At the occasion, donors were urged to scale up their actions in four areas namely (1) strategic infrastructure investments in transport, export zones, electricity and ports, (2) targeted measures to improve economic governance and the business environment, (3) improved provision of basic services, especially in the areas most affected by the 2008 hurricane season and 4) environmental sustainability. This is highly consistent with the current IDB Country Strategy that focuses on three areas; the provision of basic services, economic infrastructure, and governance in particular regarding fiscal budgetary processes. In addition the IDB is currently engaging the Government in discussions regarding social protection, disaster preparedness and private sector support.

Regarding infrastructure, the road system in Haiti remains far from ideal and is a vital component of development from ensuring goods are easily transported for export to people able to travel for work and also to obtain social services. Water supply remains a critical issue with less than 54% of Haiti's population having access to water and only 30% have access to basic sanitation services. Electric generation remains a critical constraint both for industry and for residential supply.

In the area of **Social Protection** the entire system requires considerable resources and creative reform – the Bank has written a report on the potential of a CTT for Haiti but discussion continues given the number of undocumented individuals and on the relevant forms of conditionality given the state of the supply of education services that also remains a priority.

Continued advances in the areas of **budgeting and fiscal reform and wider public sector reform** are also a high priority and are likely to attract Policy Based Grants. According to current policies such financing may be as high as 25% of the total envelope. The current program is aimed largely at modernizing the public spending processes and evaluating Government programs by producing indicators, centralizing information and working towards a results-based system.

Agricultural development is critical for both economic development and the protection of the environment in Haiti. The IDB will continue to work on watershed management and seek further interventions in agricultural and disaster prevention and mitigation consistent with the overall development strategy as agreed in the donors' conference. In particular the objectives are to boost output and agricultural exports, to protect natural resources and to prioritize competitive supply chains that employ anti-erosive production methods. Biofuel promotion is also linked to this objective

The area of Trade and Integration has not been a particular focus in the current strategy but Haiti has now confirmed full membership of CARICOM and has stated it will work towards EPA implementation. Moreover, the US's HOPE II Act gives Haiti priority access to US markets for garments. The area of Trade and Integration is one Haiti may benefit from future IDB operations.

Finally, the development of the **private sector** is considered key by both Government and all donors. The IDB (SCF), the IIC and the MIF continue to seek private sector interventions in Haiti in infrastructure, in relation to the export zones and the financial sector, including microfinance. The objectives are to (i) promote an enabling environment for private enterprise, (ii) identify opportunities for working with the private sector and creating the mechanisms to pursue these prospects and to (iii) support the development of private-sector exporters as a way of boosting foreign trade. The introduction of innovative financing through FINPYME and assisting in efforts to strengthen the Ministry of Trade and Commerce will also be instrumental.

Honduras
Development Challenges and Financial Requirements 2010-2020
As of May 20th, 2009

Background

Honduras is a very open economy with a historical record of low growth, reaching only a 1.2%, average annual growth in per capita terms for the period 1960-2007. Export diversification due to the introduction of free zones together with a significant increase in remittances facilitated a period of rapid and sustained growth between 2003 and 2007, the fastest expansion that Honduras experienced in the last 30 years. The drastic change in the external environment, however, has affected recent economic performance and the impact of the current international crisis on key variables such as exports and FDI poses challenges for the medium term outlook.

With a per capita income in PPP U.S dollars of $3,627, Honduras ranks among the poorest countries in the region. Although poverty incidence is still high, Honduras has made important progress in reducing the proportion of people living with less than $1 PPP a day, and has actually already reached the 2015 goal. Extreme poverty, however, is still among the highest in the region and progress towards its reduction has been much slower. The percentage of households under the poverty line has decreased from 54.2% in 1990 to 35.9% in 2007, or just 69% of the goal. Moreover, most social indicators, especially in terms of malnutrition, access to water and secondary education rank well below the regions average. Improving human capital remains the key development challenge of Honduras. In this context the country faces the dual challenge of consolidating the growth process while addressing the social needs.

Table 1 - Honduras: Millennium Development Goals

Millennium Development Goals	1990	1995	2000	2007	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Malnutrition prevalence, weight for age (% of children under 5)	..	19.2	12.5	8.6	10.0	Achieved
Poverty gap at $1.25 a day (PPP) (%)	20	11	5	8	10	Achieved
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	44	28	14	18	22	Achieved
Prevalence of undernourishment (% of population)	19	16	..	12	10	Fast
Goal 2: Achieve universal primary education						
Primary completion rate, total (% of relevant age group)	64	71	..	88	100	Fast
Total enrollment, primary (% net)	89	..	89	97	100	Fast
Goal 3: Promote gender equality and empower women						
Ratio of female to male enrollments in tertiary education	..	..	126	..	100	Achieved
Ratio of female to male primary enrollment	104	101	101	99	100	Achieved
Ratio of female to male secondary enrollment	123	..	..	124	100	Achieved
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	45	39	32	20	15	Fast
Mortality rate, under-5 (per 1,000)	58	49	39	24	19	Fast
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	45	55	56	67	100	Slow
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	95	46	Slow
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	98	84	73	59		On track
Prevalence of HIV, total (% of population ages 15-49)	1.3	1.3	0.9	0.7		On track
Tuberculosis cases detected under DOTS (%)	..	..	106	87		On track
Goal 7: Ensure environmental sustainability						
Forest area (% of land area)	66	57	49	42		Setback
Improved sanitation facilities (% of population with access)	45	51	58	66	80	Slow
Improved water source (% of population with access)	72	77	80	84	95	Slow
Goal 8: Develop a global partnership for development						
Aid per capita (current US$)	92	72	72	65		Setback
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	33	33	8	3		On Track
Internet users (per 100 people)	0.0	0.0	1.2	6.0		Slow
Mobile cellular subscriptions (per 100 people)	0	0	3	59		Fast
Other						
GNI per capita, Atlas method (current US$)	690	640	940	1,590		On Track
Gross capital formation (% of GDP)	23.0	31.6	28.3	33.5		On Track
Life expectancy at birth, total (years)	66	67	68	70		On Track
Literacy rate, adult total (% of people ages 15 and above)	..	..	80	84		On Track
Source: World Development Indicators database						

Expected Bank's support in priority areas

The Country Strategy for 2007-2010 with Honduras was approved in May 2008 with the core objective to help consolidate sustainable growth to generate opportunities for the most disadvantaged sectors. The priority areas are to support Honduras' development agenda around four main goals: (i) Improve the investment climate, (ii) Boost competitiveness, (iii) Promote the development of human capital and (iv) Strengthen the institutional framework and risk management. These priorities are reflected in the existing Bank's portfolio.

The Bank's program of loans is consistent with the needs of the country, which presents high levels of poverty and has been negatively impacted by the international financial crisis and recurrent natural disasters. The Bank coordinates the implementation of the CS and the program with other Honduras' development partners through the Donor Group G16.

In terms of private sectors operations, the bank's portfolio is composed by loans, technical cooperation and Trade Finance Facilitation Programs (TFFPs) to promote competitiveness, production, exports and bank services, and to strengthen MSMEs and develop microfinance opportunities. The Private Sector operations are expected to maintain its share in Honduras' total portfolio.

In the future, the Bank will continue its support to **strengthen the macroeconomic framework and the institutions conducive to growth,** aiming to achieve greater efficiency in public financial management, the modernization of the tax and customs administration systems, the build up of the National Country Systems and fiscal rules and the strengthening of the judicial system. As an HIPC/MDRI country, **the Bank will also support Honduras in the process of consolidating fiscal sustainability to promote policy responsiveness through counter cyclical measures.** Financial inclusion trough promoting a broader access to credit by micro, small, and medium enterprises is also a key area for Bank intervention both through the sovereign and non sovereign windows**.** These efforts will be accompanied by Bank support for strengthening financial intermediation and regulation.

In **social policy for equity and productivity,** the Bank will strengthen its support to the development of human capital and will continue to support the implementation of the Poverty Reduction Strategy while promoting a greater efficiency of public spending in the sector. Taking advantage of the Bank's expertise in social protection programs to alleviate extreme poverty, the Bank will continue supporting the conditional cash transfers program and will seek to strengthen the supply of complementary services these programs entail. **Other key areas for Bank intervention are going to be the increase of quality and reduce the gaps in coverage of preschool and secondary education**, where the country ranks among the lowest in the region, **and health, especially in terms of reducing malnutrition and achieving the related MDG's.**

In **infrastructure for equity and productivity,** the Bank will put emphasis in the supply of basic social capital, the reduction of logistical and production costs in transportation through investments in roads, ports and airports; and investments to change the energy matrix (alternative energy, wind power, hydroelectric power, and renewable forms of energy)**.**

Bank's support towards increasing access to water and sanitation services will be also important, given the country's slow progress towards the related MDGs and relative low coverage.

Improving **competitive regional and global international integration** is key for Honduras given its high degree of openness. The development of production linkages (maquila, tourism and agricultural sectors) and technical support for implementation and maximization of trade agreements, such as the CAFTA-DR, will be prioritized to capitalize the benefits of trade.

In terms of **citizen's security the Bank will build a multidimensional approach** based on the experience accumulated in the implementation of the Citizen Security of Valle del Sula's Program.

To **protect the environment and respond to climate change,** the Bank's strategy will seek to develop a risk management system needed to generate an enabling environment for growth and new opportunities to access the public goods associated with democratic participation. The Bank will support Honduras in its efforts to address the issue of prevention of disasters stemming from extreme climatic events.

The technical cooperation and non financial products programs are aim at promoting not only new loan operations of the Bank in the country, but they also will focus on the promotion of knowledge. In that sense, several studies are going to be elaborated that will constitute inputs for the Dialogue with country authorities and the development of the new Bank's Country Strategy with Honduras for the period 2010-2014.

Demand for IDB Products

The IDB has been a key development partner of Honduras. As of 2008, IDB accounted for 18.5% of the country's total public debt and 30% of total multilateral debt. These indicators, however, do not reflect the Bank's role in the country's multilateral financing as the main primary source of multilateral financing for several years. On the contrary, this relative low percentage of Bank's debt reflects basically the significant debt relief provided by the Bank in 2007 ($1,376 million in total relief), that resulted in an 87% nominal reduction of the outstanding Honduras' debt with the Bank.

For the next decade, the Bank's objective is to maintain its role as Honduras' main development partner in terms of concessional financing, technical cooperation and knowledge. In the coming years, the social, infrastructure, institutional, competitiveness and risk management and environmental sectors will continue to be crucial for Honduras. The Bank operations are expected to contribute to: (i) increase the coverage of the social protection system, reduce poverty and increase productivity of the Honduran population, (ii) foster competitiveness and decrease transport and energy costs in a more global integrated world, (iii) human capital formation, (iv) strengthening and modernization of the State to promote growth and social welfare and (v) protecting the environment and responding to climate change.

Jamaica
Development Challenges and Financial Requirements 2010-2020

Background

Jamaica has had a poor economic performance since its independence. The annualized growth rate is below 1.5%, much lower than other countries of the region. The debt burden exceeds 100% of the GDP and it crowds out private investment and growth. The economy is starting to feel the crunch in the global economy and Jamaica is one of the two countries in the region with negative 2008 growth. Jamaica is suffering a decrease in tourism activity, lower remittances and reduced bauxite production. The expectations for the coming years are not encouraging and the present crisis might impact on the gains in the social indicators reached during the last decades.

Jamaica made important progress toward eradicating extreme poverty and hunger and improving maternal health, as well as in promoting gender equality and developing a global partnership for development. It is making progress in reducing child mortality and ensuring environmental sustainability. However, Jamaica shows a setback in the indicators of achieving universal primary education and combating HIV/AIDS and other diseases.

Table 1- Jamaica: Millenium Development Goals

	1990	1995	2000	2007	Dynamics
Goal 1: Eradicate extreme poverty and hunger					
Prevalence of undernourishment (% of population)	*11*	*7*	..	*5*	fast
Goal 2: Achieve universal primary education					
Primary completion rate, total (% of relevant age group)	91	..	87	*82*	setback
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	5	*12*	13	13	fast
Ratio of female to male secondary enrollment	*106*	..	103	*103*	maintained
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	49.6	49.2	46.9	*47.6*	maintained
Goal 4: Reduce child mortality					
Mortality rate, infant (per 1,000 live births)	28	27	27	26	slow
Mortality rate, under-5 (per 1,000)	33	33	32	31	slow
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	*79*	*95*	*97*	*97*	fast
Pregnant women receiving prenatal care (%)	*98*	*99*	*98*	*91*	setback
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Prevalence of HIV, total (% of population ages 15-49)	0.3	0.9	1.4	1.6	setback
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.9	0.8	0.8	*0.6*	slow
Goal 8: Develop a global partnership for development					
Telephone lines (per 100 people)	4	12	19	14	fast

Expected Bank's support in priority areas

Some of Jamaica's development challenges are its low growth level, its limited fiscal space for government interventions because of the debt burden and its need to continue improving social conditions. In light of these issues, the new Country Strategy (that is in its preparation process) will build upon three basic pillars: (i) better public sector expenditure and revenue collection; (ii) economic growth; and (iii) poverty reduction and human capital enhancement.

Given the debt service burden, the public salaries demand and the fragility of capital expenditure, it is imperative to maximize both public revenue and the efficiency of expenditure. The Bank is supporting tax and administrative reforms as well as expenditure rationalization. Also, the Bank is contemplating financing cost saving and profitability enhancing programs to improve the public sector financial supply.

The Bank will support reforms to increase private sector competitiveness through tax reform, introduction of a credit bureau, widening collateral definitions and modernizing land tenancy legislation. The LPGS program approved in January 2009 will sustain growth by replacing trade finance and working capital credit lines curtailed as a result of the global economic downturn. The rural development operations will increase agricultural output that will save foreign exchange, providing jobs and generating growth. The infrastructure development that will result from the Bank's leadership role in the maintenance and rehabilitation of the road and water networks will play a central role in enabling economic growth. The Bank will draw on its expertise to assist Jamaica to continue the regularization of landholding, ownership rights and property registration in order to facilitate access to financing. There is a pressing need for upgrades to the Customs management system, procedures and work flows.

The Bank will help the Government meet urgent social needs in the short term to mitigate the impact of fiscal adjustment measures. Also, the Bank will support the medium term goal of decentralizing the management of the education sector and introducing essential performance management mechanisms. The investment programs in basic education and youth development will play an important role in improving human capital. The citizens' security and justice program will be central to efforts to improving the living conditions of the poor. It will curtail the erosion of the formal justice and security systems especially in areas heavily influenced by informal governance structures.

Mexico
Development Challenges and Financial Requirements 2010-2020
As of May 14th, 2009

Background

Mexico is the 14th largest country in the world by total area (2 million km^2) and the 11th by population (110 million people). Mexico is classified as an upper middle-income country and, in 2007 its economy was the 10th largest in PPP terms, representing 2.2% of world GNI. Economic growth over the past two decades has been modest, at an average of 3.1% per year. Growth forecasts for the 2010-2020 period stand at 3.6% *p.a.*, compared to 3.9% in Brazil, 4.4% in Chile and 7.2% in China.

Poverty has declined from 46.9% in 1996 to 20.7% in 2006, thanks in part to macroeconomic stability and low inflation, in addition to conditional cash-transfer programs and migrant remittance transfers. The MDG goal of improving primary education coverage has been achieved. Challenges ahead include reaching out to uncovered segments of the population (migrants, indigenous people), expanding coverage in higher school levels, and strengthening the quality of education. Regarding MDG health goals, infant and maternal mortality has fallen substantially and inroads have been made in fighting HIV/AIDS, malaria, and tuberculosis. (See table on MDG progress)

Table 1 - Mexico: Millenium Development Goals

Millennium Development Goals	1990	1995	2000	2007	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Malnutrition prevalence, weight for age (% of children under 5)	13.9		6.0	3.4		
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	8.0	7.0	5.0	2.0	4.0	Achieved
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	95.0		96.0	98.0	100.0	
Literacy rate, youth male (% of males ages 15-24)	96.0		97.0	98.0		
Primary completion rate, total (% of relevant age group)	88.0	96.0	99.0	104.0	100.0	Achieved
Total enrollment, primary (% net)			100.0	99.0	100.0	
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	12.0	14.0	18.0	23.0		
Ratio of female to male enrollments in tertiary education			93.0	93.0	100.0	
Ratio of female to male primary enrollment	96.0	97.0	98.0	97.0	100.0	
Ratio of female to male secondary enrollment	99.0		102.0	102.0	100.0	Achieved
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	42.0	36.0	32.0	29.0		Fast
Mortality rate, under-5 (per 1,000)	52.0	45.0	38.0	35.0	17.3	Fast
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)		86.0		93.0		
Maternal mortality ratio (modeled estimate, per 100,000 live births)				60.0		
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	61.0	44.0	32.0	20.0		Fast
Prevalence of HIV, total (% of population ages 15-49)	0.2	0.3	0.3	0.3		Maintained
Goal 7: Ensure environmental sustainability						
Improved sanitation facilities (% of population with access)	56.0	66.0	76.0	81.0		
Improved water source (% of population with access)	88.0	90.0	93.0	95.0	94.0	
Goal 8: Develop a global partnership for development						
Internet users (per 100 people)	0.0	0.1	5.2	22.7		
Mobile cellular subscriptions (per 100 people)	0.0	1.0	14.0	63.0		
Telephone lines (per 100 people)	6.0	10.0	13.0	19.0		
Other						
GNI per capita, Atlas method (current US$)	2,830	3,810	5,110	9,400		
Gross capital formation (% of GDP)	23.1	20.0	23.9	26.0		
Life expectancy at birth, total (years)	71.0	72.0	74.0	75.0		

Source: World Development Indicators database

Expected Bank support in priority areas

Mexico has made substantial progress over the past decade in strengthening its economic framework and improving social indicators. Nevertheless, the country still faces important challenges in reducing poverty and raising competitiveness in order to accelerate growth. In addition, the global financial crisis has raised additional challenges that demand efforts to alleviate the crisis´ impact on the most vulnerable sectors of the population. This includes not only putting in place the incentives needed to foster growth and reduce poverty, but also implementing measures to improve the uneven economic development that characterizes the country.

The country's economic performance and its successful insertion in the international capital markets generate a fundamental challenge for defining the areas of intervention where the Bank can add most value to the Mexican Government's development program.

As Mexico recovers from the impact of the 2009 crisis the sovereign will both reduce its public debt level and access global markets at better pricing conditions. As this happens (2011 and beyond) the Bank's strategy will focus more on the development of the non-sovereign business (i.e., sub-national development and private sector).

With that in mind, the Country Strategy with Mexico, which is the result of constant dialogue with national authorities, will focus on 4 fundamental objectives: a) strengthening the competitiveness of the Mexican economy; b) human capital development and its insertion in the ***labor market***; c) sustainable environmental management consistent with the government's agenda to mitigate the effects of climate change; and d) consolidation of the results-based management framework and strengthening public expenditure efficiency, both at the federal and sub-national levels.

Strengthening competitiveness: The first objective aims at increasing the levels of investment in ***infrastructure*** in order to strengthen economic competitiveness. To that end, the Bank's program includes several activities related to ***transport, water and sanitation, energy, rural development***, as well as to the strengthening of financial markets related to housing development and infrastructure. In addition, the program also supports small and medium enterprises and ***private sector initiatives***. The latter goes hand-in-hand with the development of a new business model for sub-national governments that complements the Bank's support to Mexico's development banks and will allow direct participation of the IDB in the identification of new projects with Mexican states.

Human capital development: The second objective is to support the government efforts to consolidate social development programs and to build up human capital among the most vulnerable segments of the population, in order to break from the poverty cycle. To that end, it is fundamental to establish a narrow connection between the programs to improve ***education, health and nutrition***, with those created to promote the ***generation of employment*** and permanent income.

Sustainable development: The third objective is to support government efforts to consolidate reforms designed to adapt to ***climate change*** effects and to mitigate its impact on the country. The Bank will support a management approach that will stimulate a more intensive use of clean technologies for the generation of ***energy*** as well as the use of alternative and sustainable energy sources.

Strengthening public spending efficiency: Finally, the fourth objective aims to fortify the public policy design process, emphasizing the ***quality of the public budget*** and a more suitable ***use of***

national systems. To that end, the program tries to stimulate the application of a results-based management approach as a standard to the processes of public administration, at both the federal and sub-national levels.

Consistent with the aforementioned objectives, the Bank has developed a substantial portfolio of loans based on its technical credibility and expertise in areas related to infrastructure and financial development; social protection and cash transfer programs, including rural development programs; education and human capital development; and, recently, with the climate change initiative and renewable energy program. In addition, the Bank has been working with Mexican authorities to develop a public framework to support the management for results initiative established by Mexico in 2008.

Looking ahead, the program with Mexico for the coming years will strengthen the lines of action already initiated in previous years and consolidate the programs approved during 2008 and expected for 2009. The program will seek to fortify the relation between the sub-national governments and the national development banks. Such activities will include programs with Banobras, Sociedad Hipotecaria Federal, Nacional Financiera, among others, that allow consolidating the programs of Mexican Government, and the initiatives of the Bank in programs that generate higher levels of investment and competitiveness.

In the social sector, the initiatives of the Bank will focus on programs that will contribute to breaking the intergenerational transmission of poverty, both at urban and rural areas. The Bank will maintain an active presence in programs where its expertise and contribution have been outstanding, as in the case of *Oportunidades*, Mexico's conditional cash-transfer program, as well as in programs in the education sector that look to fortify the capacities at basic level and the development of skills to allow students to access the labor market in better conditions.

The Bank will maintain its support for the country's agenda on climate change at both the national and sub-national levels. Actions in this area will include an important investment program in renewable energy projects related to the *Fund for Technology Development* of which Mexico is a beneficiary and which ties the initiatives of the IDB to those of the World Bank with respect to the development of renewable energy projects in the next years.

The Bank also foresees activities at the state level aimed at consolidating the model of "*management by results*" and efficiency in the budget expenditures. The work already initiated with states like Distrito Federal, State of Mexico, Tabasco, Yucatan and Michoacan, will make it easier to apply this model to other regions of the country as part of PRODEV's initiative and within the program of "*management by results"* that the Bank finances with Secretaria de Hacienda of Mexico.

It is important to indicate that the non-sovereign operations of the Bank are extremely active in Mexico. There is an over-abundance of projects that need financing support in Mexico. Thus SCF has participated actively in the identification and approval of new projects in traditional infrastructure (highways), health services (hospitals) and green energy (wind farms), as well guaranty and lending facilities with local financial institutions that contribute to the development of capital markets and housing finance. It has established a partnership with FONADIN designed to facilitate the implementation of critical infrastructure projects. It is actively seeking ways to promote public-private partnerships.

OMJ has obtained approval for the grassroots "mejora tu calle" program.

MIF has been involved in a sustained effort to implement programs to stimulate private investment and improve the competitiveness of the productive sectors in Mexico. Projects currently in execution are targeted at the development of micro, medium and small companies (61%), the development of new markets (17%) support for the financial system (9%), the environment (5%), infrastructure (4%) and labor force (2%).

From 1994 through 2008, MIF approvals totaled $142.6M, corresponding to 92 projects. For 2009 MIF in Mexico is expecting 8 or 9 approvals for a total of $6-$8 million.

NICARAGUA
Development Challenges and Financial Requirements 2010-2020
As of May 20, 2009

Background

Nicaragua is the second-poorest country in Latin America and the Caribbean, with a per capita GDP of US$1,123 in 2008. Its economy, traditionally based on agricultural exports, is small and open and continues to be vulnerable to external shocks and natural disasters. Since 1997, its terms of trade have fallen by two thirds. The country is dependent on remittances (about 12% of GDP) and grants from industrialized countries (about 3-4% of GDP and 16% of the central government's total budget).

Economic growth over the last decade has outpaced population growth, but has not been fast enough to bring about a substantial reduction in poverty levels. Overall poverty continues to affect close to one-half of the population, while extreme poverty had been reduced to 15% by 2005. Poverty is concentrated in rural areas and is particularly severe on the Caribbean coast.

Although Nicaragua made progress in the coverage and supply of basic social services in the last decade, the results have been mixed. From 2001 to 2006, programs were carried out that had documented impacts in the areas of nutrition, preventive health, and education. However, there are significant regional and gender differences in terms of access to social services and it must be recognized that not enough funding has been available to keep pace with the country's enormous needs. Furthermore, the impact of social spending has not been commensurate with the increase in its size, which suggests deepening the efforts initiated in 2007 to improve its efficiency and quality.

Given the above, it is unlikely that Nicaragua will meet the bulk of the MDGs, including reduction of extreme poverty, and it is very unlikely that it will meet the target for reducing maternal mortality. By contrast, Nicaragua has already surpassed the planned reduction in malaria and will likely achieve the access to sanitation and universal net primary enrollment.

Economic recession is likely to result in a decline in per capita incomes, increased unemployment and poverty in 2009 and possibly 2010. The structural development challenges facing Nicaragua for the period 2010-2020 are to: (i) secure a solid and stable macroeconomic framework, giving priority to deepening fiscal consolidation and reducing external vulnerability; (ii) quicken the pace of sustainable and inclusive growth, which will require comprehensive development of the rural sector and an improved framework for private investment; (iii) reduce poverty, particularly extreme poverty, which will require increased social investment (health care, housing, and water and sanitation) that is more effective and the development of a social welfare system; and (iv) build the country's capacity for environmental sustainability and natural disaster prevention.

Table 1. Nicaragua. Selected Indicators of progress toward the MDGs						
Millennium Development Goals						
	1990	**1995**	**2000**	**2007**	**Target 2015**	**Progress**
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	..	*2.6*	*4.2*	*3.8*		
Malnutrition prevalence, weight for age (% of children under 5)	..	*9.6*	*7.8*	..		
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	*33*	*19*	*16*	9.70%	Slow
Prevalence of undernourishment (% of population)	*52*	*40*	..	*22*		
Vulnerable employment, total (% of total employment)	..	..	*38*	*45*		
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	..	..	*89*	*89*		
Persistence to last grade of primary, total (% of cohort)	*40*	..	52	*50*		
Primary completion rate, total (% of relevant age group)	39	49	66	*73*	100	Fast
Total enrollment, primary (% net)	..	..	82	*91*		
Goal 3: Promote gender equality and empower women						
Ratio of female to male enrollments in tertiary education	..	..	*108*	..	100	Slow
Ratio of female to male primary enrollment	107	103	101	*98*	100	Slow
Ratio of female to male secondary enrollment	*120*	..	117	*114*	100	Slow
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	52	41	34	28		
Mortality rate, under-5 (per 1,000)	68	53	43	35	17	Slow
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	*67*	*74*		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*170*	27	Slow
Pregnant women receiving prenatal care (%)	..	72	86	*90*		
Unmet need for contraception (% of married women ages 15-49)	..	..	*15*	..		
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	108	85	68	49	ND	
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.1	0.1	0.2		
Goal 7: Ensure environmental sustainability						
Forest area (% of land area)	54	50	46	*43*		
Improved sanitation facilities (% of population with access)	42	44	46	*48*	95%	Slow
Improved water source (% of population with access)	70	74	77	*79*	100%	Slow
Goal 8: Develop a global partnership for development						
Aid per capita (current US$)	80	139	110	149		
Internet users (per 100 people)	0.0	0.0	1.0	*2.8*		
Mobile cellular subscriptions (per 100 people)	0	0	2	38		
Other						
GNI per capita, Atlas method (current US$)	310	520	730	990		
Gross capital formation (% of GDP)	19.3	22.0	30.2	31.8		
Life expectancy at birth, total (years)	64	67	70	73		
Literacy rate, adult total (% of people ages 15 and above)	..	..	*77*	*78*		
Source: World Development Indicators database						

Expected Bank's support in priority areas

The Bank's 2008-2012 country strategy with Nicaragua (BCS-NI) is based on support for the government's development priorities in a more targeted manner, with clearer objectives and actions in sectors where the Bank has comparative advantages. The BCS-NI is the result of a continuous dialogue maintained with the government, as well as with international cooperation agencies, private sector and civil society. The BCS-NI was complemented with a set of studies and sector technical notes produced to identify Nicaragua's main challenges. The general objective of 2008-2012 BCS-NI is to provide selective support for the Nicaraguan government in reducing and managing vulnerabilities, which inhibit attainment of the growth and equity goals the country has set. The Bank's contribution is expected to focus on five objectives: (i) Fiscal sustainability and the strengthening of public management; (ii) Reliability of the electric power supply and improvement of the existing road system; (iii) Management and coverage of social services, including the development of a social welfare system; (iv) Productive development; and (v) Institutional management for natural disaster prevention.

Those priorities are reflected in the existing Bank's portfolio in terms of amounts to be disbursed: about 61% of portfolio is targeted to the development of infrastructure (energy, transportation and water and sanitation); around 20% of the portfolio is addressed to reinforce and improve social programs (its main objectives are to reduce infant mortality, malnutrition and poverty prevalence as well as to provide for housing); and around 15% of portfolio aims to support the productive sector.

In terms of ongoing private sector operations, the Bank's portfolio is mainly composed of trade finance facilitation programs that aim to improve competitiveness, support SMEs and develop microfinance opportunities.

The operative program during the next years calls for sustained support for the energy sector, which has been identified by the government as a priority for Bank action, as well as for fiscal sustainability, which apart from boosting the efficiency and effectiveness of spending, will allow for the use of more flexible lending instruments.

In the area of **Social Policy,** the Bank's actions will support the articulation of a social protection policy. The BCS-NI will seek to contribute to an increase in the effectiveness of public spending aimed at poverty reduction through the development of a social welfare system, with emphasis on rural and peripheral urban areas and the design and implementation of actions for the comprehensive development of children as well as improvement in conditions for educational achievement, thereby helping to break the intergenerational transmission of poverty.

Other challenges to overcome in the social area are health coverage and access and quality of housing, particularly for the poor. Bank's intervention in health will support the government's efforts to improve the quality of health care services and extend coverage on a sustainable basis to the most vulnerable population through the creation of integrated health systems, with special emphasis on the provision of maternal and child health services. In the housing sector, given that the subsidies program carried out previously generated good results, this approach to improving the living conditions of low- and moderate-income families will continue.

Both Investment and Policy Based loans are expected to be demanded in the social area. The first type of instrument will focus in building coverage of health services network, social welfare system, and the continuation and development of a low income housing program. Given the importance of the fiscal and social areas for the objective of poverty reduction, a programmatic approach will be adopted in those areas.

In the **Infrastructure sector**, water and sanitation coverage continues to be a major challenge to overcome. The Bank's intervention in this sector will seek to improve the supply and coverage of water and sanitation services to support attainment of the MDGs.

The poor coverage and quality of the basic power and transportation infrastructure has held back growth in Nicaragua. The Bank's actions in energy will support an increase in coverage through investments in transmission, transformation, and rehabilitation of generating plants; promotion of energy integration with Central America; the search for alternative generation sources; and institutional strengthening of the public sector to sustain and improve electricity service conditions in the country. In the transportation sector, the Bank's action will contribute to the expansion of the paved road system giving priority to interventions that integrate the regions into the national economy and link the country to the Mesoamerican region. Given the need of infrastructure of the country, multi-phase investment projects will be used in this area.

Given the **institutional** weaknesses of the country, the BCS-NI will continue to reinforce local capacities. An institutional strengthening component is therefore expected to be included in most of operations as well as actions addressed to continue strengthening national systems. The Bank's actions will also continue supporting fiscal sustainability and the strengthening of public management through operations aimed to support fiscal reforms as well as to modernizing and strengthening of public sector institutions. As mentioned before, a programmatic approach will be used for the fiscal area while the institutional and national systems strengthening will be addressed with investment operations in a sector wide approach.

For the **Competitiveness and Integration** sector, given the low levels of productivity, improvements in it would increase production without necessarily having to expand the agricultural frontier. The Bank's programs will support the productivity of small rural producers, while trying to redress the gender gaps in the rural economy. To this end, comprehensive support programs for the rural sector will be fostered. Given the country's tourism potential, and to complement efforts aimed at diversifying the rural economy, sustainable rural tourism development will also be promoted. This area will be mainly supported with investment loans.

The main focus for **Protecting the Environment and Responding to Climate Change** will be interventions to help strengthen institutional management for natural disaster prevention and management. These actions will be complemented by investments in the productive sectors and infrastructure and by sector work. The Bank's action in this area, which will be mainly addressed with investment loans, will help improve the institutional management of risks in natural disasters and reduce the most significant sources of risk in urban areas.

The **Private sector** operations are expected to increase its share in Nicaragua's Bank portfolio through tapping the synergies between the different Bank windows for private sector development (SCF, MIF, IIC, SEP, and OM) with a view to complementing the actions of those windows and promoting the use of the MIF, SEP, and OM. On the other hand, the Bank will support the country in seeking sources of cofinancing to complement its resources, in particular in the infrastructure area.

Demand for IDB Products

The IDB has a close and very active relationship with Nicaragua. It is the country's primary source of multilateral financing, accounting for 41% of its multilateral debt, 16% of its public external debt, and 12% of total public sector debt at the end of 2008, when calculated according to the legal situation. These data understate the IDB's true importance with respect to public external debt and total public sector debt because many non-Paris Club bilateral creditors have yet to concede debt forgiveness on Highly-Indebted Poor Country Initiative

(HIPC) terms. The full implementation of such debt forgiveness would reduce external debt by approximately US$1.2 billion, and the IDB's share of external debt would be 24% and the share of total public debt 16%.

The importance of the IDB is likely to grow in the 2010-2020 period. As a HIPC, Nicaragua's public sector does not effectively have affordable access to private external credit, while the Nicaraguan private sector's access is limited. Bilateral development finance has over time shifted more towards grants rather than loans, and total bilateral financing over the 2010-2020 period may diminish, although there is considerable uncertainty regarding the size and composition of future Venezuelan assistance. IDB net loan flows will be strongly positive and debt to the IDB will likely grow by 1.5 percentage points of GDP per year on average in the 2010-2020 period.

In the short run, it is expected an increase in demand for IDB's resources to mitigate the impact of the international financial crisis and to finance investments addressed to increase employment. Demand from private sector is expected to grow significantly during the next decade as economic activity and private investment continue to expand, in particular in the areas of infrastructure, social sectors and support to small and medium enterprises.

In these circumstances, the Bank's financial role will face some challenges: (i) be ready to assist the country with appropriate and timely counter-cyclical financing when needed in a context of fiscal and debt sustainability restrictions; and (ii) provide financing to the private sector and other NSG clients enhancing its catalytic role.

Panama
Development Challenges and Financial Requirements 2010-2020
As of May 13, 2009

Background

Panama is one of the fastest growing economies in Latin America, with GDP growth averaging almost 9 percent per annum over the 5 years ending in 2008. However, given its high level of openness (both in terms of trade and finance), the global crisis is reducing growth through lower demand for exports, less transit through the Panama Canal, and a stark halt to the expansion of real estate construction and related service sectors. Data through the first quarter of 2009 suggests that consumer credit, trade credit and demand for exports has indeed slowed very dramatically in the last 6 months, in particular re-exports of the Colon Free-Trade Zone. A slowdown of revenues in the first quarter of 2009, in particular non-recurring non-tax revenues contributed to a NFPS deficit of 0.6% of annualized GDP. Nonetheless, fiscal consolidation over the past few years and a strong and conservative banking system have helped to shield Panama from potentially very destabilizing effects of the global crisis. Moreover, the completion of an ambitious public investment program in 2009, and the initiation of the construction of the new Panama Canal locks in early 2010 will act as automatic stabilizers, precisely when the impact of the crisis is expected to hit the region the hardest. Potential growth in the medium term has been estimated at about 7%, according to the IMF.

Panama has made progress over the past few years towards achieving the Millennium Development Goals (MDGs) in reducing poverty as well as achieving universal primary education and gender equality. However, the country's growth and wealth distribution continues to be concentrated in a few, mostly service-based sectors of the economy. Stark differences in terms of income and opportunity prevail, while indicators of mal-nourishment and infectious diseases for the extreme poor are weak given Panama's per-capita income levels (Table 1).

Table 1 - Panama: Millennium Development Goals

Selected objectives	1990	2000	2007	2015 Goal and progress
Goal 1: Eradicate extreme poverty and hunger				
Income share held by lowest 20%	*2.1*	2.4	*2.5*	*problem*
Poverty gap at $1.25 a day (PPP) (%)	*8*	4	*3*	*improved*
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*17*	12	*9*	*9*
Prevalence of undernourishment (% of population)	*18*	..	*17*	*9, problem*
Goal 2: Achieve universal primary education				
Primary completion rate, total (% of relevant age group)	..	94	99	100
Total enrollment, primary (% net)	..	99	99	100
Goal 3: Promote gender equality and empower women				
Ratio of female to male primary enrollment	96	97	97	100
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	73	97	89	*problem*
Mortality rate, under-5 (per 1,000)	34	26	23	17
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	91	83	*problem*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	*130*	
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Prevalence of HIV, total (% of population ages 15-49)	0.4	0.9	1.0	0.3
Tuberculosis cases detected under DOTS (%)	..	32	98	*problem*
Goal 7: Ensure environmental sustainability				
Improved sanitation facilities (% of population with access)	..	69	*74*	
Other				
GNI per capita, Atlas method (current US$)	2,210	3,740	5,500	*improved*
Life expectancy at birth, total (years)	72	74	76	
Literacy rate, adult total (% of people ages 15 and above)	89	92	93	100
Source: World Development Indicators database				

Expected Bank's support in priority areas

The Panama Country Strategy 2005-2009 (EBPN) is the result of a productive dialogue maintained with the country authorities. The dialogue process that culminated to the EBPN was nourished by a set of studies and sector-specific technical notes which identified Panama's main challenges. The EBPN focused on 4 goals: (i) promoting sustained growth while considering diverse options to improve productivity, ii) reducing poverty, iii) ensuring the sustainability of the country's natural and cultural resources, and iv) providing public goods more efficiently.

Those priorities were reflected in the Bank's portfolio. In the past four years, lending has mainly focused on: (i) Increasing electricity service coverage in rural areas; (ii) increasing water and sanitation service coverage to support the achievement of the Millennium Development Goals (MDGs); (iii) improving road infrastructure; and (iv) promoting inter-regional integration with Central America (PPP) and the Andean Community (the electricity interconnection with Colombia was recently inaugurated). Moreover, the Bank has been a partner with the Government in its efforts to deepen financial sector development, in particular by enhancing transparency, promoting the development of capital markets, and strengthening the regulatory framework of the insurance and reinsurance industries. The Bank has also worked with the government in ensuring that natural resources are developed in a sustainable manner, in strengthening the institutional, legal, and regulatory systems, and in encouraging decentralization (the Decentralization Law is currently being debated in the Panamanian Congress).

In terms of ongoing private sector operations (SCF), the Bank's portfolio is composed of both loans to the private sector and trade finance facilities. Among the loans, a large share of which are oriented towards infrastructure projects[13], the most salient is the recently approved US$400 million loan to the Panama Canal Authority. The loan will be used towards the US$5.5 billion expansion of the Panama Canal, arguably the largest infrastructure project in LAC over the past decade. In turn, most trade finance facilities have been directed towards improving competitiveness, providing incentives to SMEs, and developing microfinance opportunities. Including the Canal Expansion loan, Panama's private sector portfolio share has grown substantially over the past decade, representing around a fifth of the total portfolio. Excluding the above mentioned project, SCF share remains at normal levels of about a tenth of the total portfolio.

In the coming years, despite some uncertainty regarding government priorities (as a new administration will take office July 1st of 2009), we expect the country to continue demanding primarily infrastructure projects. In particular, there will be a greater demand for water and Sanitation projects (which represented around 5% of Panama's portfolio over the past 15 years). Moreover, the social and institutional sectors will become increasingly important, and their share in the portfolio will rise commensurately. Over the past 15 years, social sector loans have only represented about 13% of the total portfolio. Given that the reduction of inequality and exclusion is expected to become one of Panama's main development challenges, we expect more **Social Sector** operations to take place.

Both, INV and PBL loans will continue to be needed. The former type of instruments will focus in improving education and sanitation facilities, as well as ameliorating the existing facilities. The latter type of loans will likely focus on supporting Panama's Conditional Cash Transfer Program (Red de Oportunidades), as well as the government's implementation of an education sector reform.

For the **Institutional Sector**, we expect the main focus to be the full implementation of the recently approved framework for improving public finance management, as well as some operations aimed at improving the country's institutions (i.e. education, water and sanitation sectors, etc…)

Moreover, as previously mentioned, the share of the **Infrastructure Sector** in the Bank's portfolio is expected to remain quite important. Large efforts will be made to improve the quality and efficiency in the Water and Sanitation sector, in part through greater private sector participation in the provision of services. We expect to approve a couple more of PBLs in the energy sector as part of the larger reform of the sector in which we are already actively involved. Finally, rural transportation projects should also grow in importance.

The **Competitiveness and Integration Sector** is expected to gain greater relevance, through the promotion of local exports and Foreign Direct Investment. Regional integration will be the key objectives for this sector.

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[13] 50% in terms of number of projects.

To **Protect the Environment and Respond to Climate Change,** we will promote more regional- or sector-focused projects aimed at preserving Panama's natural resources, The Bank will also ensure that economic development takes places in a responsible and sustainable manner.

We have as well to emphasize that we expect an increasing demand for multi-sector projects geographically focused direct to achieve specific regional development of lagging provinces.

Private Sector operations will continue at a similar pace. We expect more TFP operations aimed at increasing international commerce, as well as more private sector infrastructure operations (i.e. mainly in the energy sector) as well as loans aimed at facilitating SMEs access to financial resources.

In terms of **technical assistance** to the country we expect an increasing demand for technical cooperation in the energy and water and sanitation areas. Other field that might demand technical assistance is the institutional sector. This demand might be generated by a diverse set of needs, from assisting technically the Panamanian authorities in developing a Result-Oriented Budget, to reinforcing the Ministry of Education capacities or the IDAAN´s[14].

Demand for IDB Products

The IDB has a very active relationship with Panama. As of end-2008, IDB accounted for 11.7% of Panama's total external public debt in 2008[15], becoming the country's primary source of multilateral financing: IDB debt accounted for 69% of its total multilateral debt. However, the ratio of IDB debt to total external debt is down from 14.1% in 2003, while its share of debt issued in international capital markets has increased. Panama's debt is rated one notch below investment grade, and the aim is to reach investment grade in the next few years. Total public debt to GDP in Panama was reduced to 42% from 60% in 2003.

[14] Instituto de Acueductos y Alcantarillados Nacionales (Institute of National Aqueducts and Sewage).
[15] Exposure will increase in 2009 with the US$500 million liquidity loan, assuming it is used to its full extent. This comes in addition to the bank's private sector loan to the Panama Canal Authority for US$400 million.

Paraguay
Development Challenges and Financial Requirements, 2010-2020

Background

Paraguay has posted a strong recovery from the 2003 crisis, thanks to its decisive macroeconomic adjustment and a favorable international environment. In this period, Paraguay achieved fiscal surpluses consistently and managed to reduce the debt to GDP level significantly, aided also by the strengthening of the *guaraní*. The government restored confidence and stability in the banking system and resolved the insolvent institutions. International reserves increased markedly, and were reinforced by a precautionary Stand-By Agreement with the IMF that concluded in 2008. From a long-term perspective, however, this recovery comes after two decades of economic stagnation, where per capita income has in fact declined in real terms. Indeed, only in 2008 per capita GDP in Paraguay surpassed its previous peak of 1981. Several studies of the Paraguayan economy have identified two broad areas of weakness that may be responsible for this performance: shortcomings in the institutional framework necessary to create a favorable business environment, and deficits in infrastructure, especially roads.

Notwithstanding an average annual growth of 2.5% from 2000 through 2007, Paraguay's GNI per capita in PPP terms remains one of the lowest in the region, being estimated at US$ 4.5 thousand for 2007. Progress has been substantial on the indicators for infant mortality, adolescent fertility, primary education, and access to water, while somehow lesser for the access to sanitation facilities. Other indicators, including some key health related ones, are lagging behind and deserve a special concerted effort, if they are to be met by 2015.

Table 1 – Paraguay Millennium Development Goals

Millennium Development Goals	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	6	13	*14*	6
Prevalence of undernourishment (% of population)	*16*	*11*	..	*11*
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	*95*	..	..	99
Primary completion rate, total (% of relevant age group)	65	77	92	*95*
Goal 3: Promote gender equality and empower women				
Ratio of female to male enrollments in tertiary education	..	..	136	*113*
Ratio of female to male secondary enrollment	*105*	..	103	*103*
Goal 4: Reduce child mortality				
Mortality rate, infant (per 1,000 live births)	34	31	28	24
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*92*	86	72
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	60	60	59	58
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.5	0.8	0.7	*0.7*
Improved sanitation facilities (% of population with access)	60	64	67	*70*
Improved water source (% of population with access)	52	61	69	*77*
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	14	29	15	18
Internet users (per 100 people)	0.0	*0.0*	0.7	8.7
Mobile cellular subscriptions (per 100 people)	0	0	15	77
Other				
GNI per capita, Atlas method (current US$)	*1,270*	1,680	1,350	1,710
GNI per capita, PPP (current international $)	*2,970*	3,520	3,370	4,520
Life expectancy at birth, total (years)	68	69	70	72
Population, total (millions)	4.2	4.8	5.3	*6.0*
Trade (% of GDP)	72.7	130.7	87.2	104.8
Source: World Development Indicators database				

Expected Bank Support in Priority Areas

The Bank's priorities areas in Paraguay are: **i) Strengthening public administration management ii) Enhancing productive development and competitiveness, iii) Expanding opportunities for low-income population**. These areas are in line with government priorities, the existing portfolio, lessons learned and comparative advantages of the Bank Group. Currently, 40% of the undisbursed balances of loans are concentrated in the transport sector, 11% for energy, 12% for education and 10% of state reform.

The Bank has supported efforts to **modernize the state administration** and currently maintains a portfolio of 6 loans totaling $ 38 million, with an undisbursed balance of U.S. $ 37.7 million and 16 technical cooperations in execution. The goal is to assist the government in its efforts to strengthen state institutions to make better public policies and deliver better public services. For this purpose the Bank will complement ongoing projects by adding new operations in the following three specific areas: Efficiency of the Administrative and Fiscal Management, Statistics and Registration Systems and Logistics, and Rule of Law and Public Safety.

Within the second priority area **(Enhancing productive development and competitiveness),** the Bank has focused on reforming the public banks and deepening the financial sector, providing infrastructure and expanding access to markets. According to the Competitiveness Report published by the World Economic Forum (WEF), Paraguay still has an important agenda to undertake in order to improve its competitiveness (it went from 100/104 in 2004 to 124/134 in 2008).

The Bank will continue to work on improving the supply of tradables through a program of export promotion and a program to support the development of science, technology and innovation. It will also remain engaged with the reform of the financial sector, including public banks, and the removal of obstacles to providing adequate financial and credit lines for the private sector, particularly MSMEs. In the **infrastructure sector,** the Bank will continue to support the government in extending and maintaining the road network, as well as, the heavy investments in electric power transmission and distribution required to tap the country's abundant hydroeletric potential and meet growing demand.

The third priority area (**Expanding opportunities for low-income population**) is a critical and main objective of the Bank. In 2007 there was more poverty than nine years before. Paraguay has a high rate of income inequality (Gini coefficient of 0.55, the fourth highest in Latin America) and concentration of land. The IDB is expected to remain engaged in this area through coordinated support to the development of rural communities, expanding coverage of attention to early childhood, improved coverage and quality of basic education and expanding the coverage of population with access to conditional transfers of income.The Bank is supporting the expansion of social safety net-based money transfers which allow higher income and consumption of households in extreme poverty simultaneously with an improvement in their human capital to be contingent upon the use of education and health. For the upcoming years, the Bank will provide, through multiple interventions, comprehensive support to enable rural development with focus on small producers.

Demand for IDB Products

IDB portfolio in Paraguay is comprised by 26 active loans totaling US$700 million and concentrated in infrastructure for competitiveness (2/3 of the total) and social sector (about 1/4), with the remaining being distributed among institutional, environmental and integration projects. While for the near future there has been a substantial increase in the demand for projects to support the reform and modernization of the state (40% of the current pipeline and inventory), it is expected that in the longer term the program should be roughly distributed along similar lines as it currently is, accommodating for the uptick in institutional improvement projects (see Table 3 below). Paraguay has an overall low level of indebtedness and its outstanding debt with the Bank amounts to US$1 billion, or 6.2% of gross domestic product and 81% of total debt to multilaterals.

Peru
Development Challenges and Financial Requirements 2010-2020
As of May 6, 2009

Background

Peru is one of the fastest growing economies in Latin America. Recent economic performance has been encouraging and provides grounds for optimism. In 2008, gross domestic product (GDP) rose by 9.8%, following 26 consecutive quarters of economic expansion, one of the longest periods of sustained growth in the last five decades. Although the financial crisis is affecting the Peruvian economy, it is expected to be one of the few countries in the region with positive growth in 2009. However, the country's sound performance in terms of growth and macroeconomic stability is yet to trickle down to the majority of its population. Over 39% of Peru's population is still living in poverty and social conditions are particularly precarious in rural areas and among indigenous populations.

In terms of other development indicators, Peru has made important progress towards achieving the Millennium Development Goals (MDGs) in eradicating extreme poverty and hunger as well as achieving universal primary education. It is also doing progress in terms of gender equality and access to new technologies. However, it has made slow progress in improving access to water, and health areas such as child mortality.

Table 1: Peru: Millennium Development Goals

Millennium Development Goals	1990/91	1995/96	2000/01	2006/07	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Extreme poverty rate (% of population)	23.0		24.1	13.7	11.5	fast
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	2	9	13	8		
Malnutrition prevalence, weight for age (% of children under 5)	10.8		7.1	5.4	5.4	fast
Goal 2: Achieve universal primary education						
Total enrollment in primary education (% net)			91.5	97	100	fast
Primary completion rate, total (% of relevant age group)	22.1		36.7	62	100	slow
Literacy rate (% age group 15-24)			93.2	95	100	slow
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	8	9	12	29	50	fast
Ratio of female to male primary enrollment	98.5		99.5	99.5	100	maintained
Ratio of female to male secondary enrollment	100.6		97.8	99.1	100	maintained
Goal 4: Reduce child mortality						
Mortality rate, under-5 (per 1,000 live births)		50	43	27	17	slow
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	52.5	56.4	59.3	71.0		
Maternal mortality ratio (per 100,000 live births)		265	185		66	slow
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.4	0.5	0.1	setback
Goal 7: Ensure environmental sustainability						
Improved water source (% of population with access)			68.6	68.3	84	slow
Goal 8: Develop a global partnership for development						
Telephone lines (per 100 people)	3	5	7	10		
Other						
Income share held by lowest 20%	5.6	4.4	3.1	3.9		
GNI per capita, Atlas method (current US$)	770	2,000	2,080	3,410		

Source: INEI and World Development Indicators database.

Expected Bank's support in priority areas

Approved in April 2008, the Bank's Country Strategy with Peru (CSP) highlighted the importance of maintaining sustainable economic growth, while creating good quality jobs and opportunities to enhance the well-being of the majority of Peruvians. The key goal of the CSP is to support Peru's development agenda around four main objectives: (i) consolidate macroeconomic stability and reduce vulnerability related to terms of trade shocks, financial volatility, and natural disasters; (ii) enhance competitiveness and productive diversification to strengthen Peru's participation in the global economy, promoting an investment climate that fosters private sector's development, productivity, innovation, and job creation; (iii) raise the quantity and quality of investment in human and social capital, particularly to the poor and vulnerable population, and (iv) improve government management at the national and sub-national levels in the delivery of public goods and services, and strengthen government's accountability mechanisms needed for a dynamic, competitive and equitable economic system.

To support the development challenges of Peru, the Bank has identified the following priority areas of collaboration:

a. **Increase Productivity and Competitiveness.** To foster competitiveness and productive diversification in Peru, it is key to expand access to international markets, diversify the economic structure, and promote investment and productivity in the private sector. The Bank will provide support government's action on these areas, particularly in infrastructure (transportation, energy, climate change, water and sanitation, with sub-national entities or concessionaires), and financial markets (capital market, mortgage securitization, financial institutions, and trade finance facilitation program).

b. **Social Development.** The Banks has developed a rich expertise in programs to alleviate extreme poverty, protect the most vulnerable and foster investment in human capital of the poor. Interventions in these areas are particularly important in Peru to contribute not only to economic and social development, but also to political stability. The Bank may provide support to government's agenda to (i) improve the access to basic services, including water and sanitation, education, nutrition, early childhood development, basic health; (ii) promote a better functioning of labor markets to create opportunities for formal employment at good quality wages; and (iii) strengthen the social protection system.

c. Institutional Reform of the State and Public Management. The Bank will support the government in modernizing the State focus on the following key aspects: (i) strengthening the national government's capacities for policy and strategy formulation; (ii) modernizing the civil service to make it more effective and efficient; (iii) consolidating the fiduciary and management systems; (iv) reforming the structure and financing of the executive branch; (v) improving intergovernmental coordination mechanisms; and (vi) establishing modules for serve to the public. In addition, the Bank will support Peru's efforts to enhance government management of public goods and services at the national and subnational levels and to strengthen accountability mechanisms.

d. **Private Sector.** It is expected an increase in demand for Bank's resources from the private sector, in particular project financing, corporates and financials. Bank support for the private sector and non-sovereign public sector would be primarily for infrastructure (transportation, energy, water and sanitation, with subnational entities or concessionaires), financial markets (capital market, mortgage securitization, financial institutions, and trade finance facilitation program), agribusiness, biofuels and health care sectors. The Bank also plans to continue its support to the oil and gas sector, which will require significant funds to complete a comprehensive development of the industry, which might include the increase in gas pipeline capacity related to Camisea, the development of the petrochemical sector (i.e., CFE Industries and Nitratos del Perú), the support in the construction of gas transportation to cover the south of the country (recent concession awarded to Kuntur Transportadora de Gas SA) and the facilitation of the oil development and transportation in the north of the country.

Demand for IDB Products

The IDB has a close and very active relationship with Peru. As of 2008, IDB accounted for 20.7% of Peru's total external public debt in 2008, up from 14.6% in 2002, becoming the country's primary source of multilateral financing, with 50% of its total multilateral debt. For the next decade, Bank's objective is to maintain its role as Peru's development partner of choice in terms of knowledge, design and implementation of public policies, and the financing of projects in the public and private sectors though a combination of programmatic and investment loans, and technical cooperation.

In the short run, it is expected an increase in demand for IDB's resources to mitigate the impact of the international financial crisis and to finance the costs of stimulus fiscal packages. However, in the medium term Peru's external financing needs are expected to moderate. During the last eight years, Peru has been strengthening its public finances, attaining fiscal surpluses and reducing its stock of external public debt. In 2008, Peru achieved investment grade category from the main credit rating agencies which facilitates its access to international capital markets.

Demand from private sector is expected to grow significantly during the next decade as economic activity and private investment continue to expand, in particular in the areas of infrastructure, oil and gas, manufacturing, finance and credit to small and medium enterprises. Similarly, as the process of decentralization continues, business opportunities with subnational governments and other public non sovereign entities are expected to increase over the next decade.

In these circumstances, the Bank's financial role will face a number of complex challenges, namely, i) continue to be relevant when demand for sovereign guaranteed operations decline; ii) be ready to assist the country with appropriate and timely counter-cyclical financing when needed; iii) provide financing to the private sector and other NSG clients enhancing its catalytic role; and, iv) explore efficient mechanisms to work with sub-national governments and other public non-sovereigns.

Suriname

Development Challenges and Financing Requirements 2010-2020

Since 2003, Suriname experienced moderately strong growth, realizing a rate of 6.5 percent in 2008. Over this period, the Government of Suriname (GoS) was able to achieve relatively stable fiscal conditions, despite a reduction in the surplus from 3 percent in 2007 to 0 percent in 2008. However, with decreased global demand, growth is projected at 2.8 and 2.5 percent for 2009 and 2010, respectively.

Suriname's immediate economic outlook highlights longstanding concerns about its narrow economic base (relying mostly on few mineral commodity exports). These challenges will become more significant as depressed global demand for Suriname's export commodities will heighten problems in the external account and create challenges for maintaining previously sound fiscal balances. However, relevant debt indicators remain low, and there are no expected problems regarding sustainability.

High levels of poverty, insufficient access to basic social services, and the economic and physical isolation of significant portions of the population further complicate the development framework. The social realities of the poor and vulnerable are worsened (from a real perspective) by pervasive and high inflation. Exact and recent statistics about poverty and access to social services, particularly for tracking the MDGs, remain largely unavailable. However, quality of life issues have figured more prominently in the national dialogue, even recently within the context of the strikes for increased wages for public sector workers.

Table 1- Suriname: Summary of Millennium Development Goals

Millennium Development Goals	1990	Most Recent	Likelihood of Achieving Goal
Goal 1: Eradicate extreme poverty and hunger			
Poverty headcount ratio at $1.25 a day (PPP) (% of population)		Pending 2009	Possible
Poverty gap at $1.25 a day (PPP) (%)			
Prevalence of undernourishment (% of population)	11%	7 % (2007)	
Goal 2: Achieve universal primary education			
Net enrolment ratio in ' Pre-primary' and primary education	94%	96.5% (2006)	Very likely to be achieved, on track
Proportion of pupils starting grade 1 who reach grade 5		na	
Goal 3: Promote Gender equality and empower women			
Gender parity Index in primary level enrolment (ratio of girls to boys)		1.0 (2006)	Off track
Literacy rates of 15-24 years old (% both sexes)		95.2% (2007)	
Proportion of seats held by women in national parliament	6%	25.5 % (2007)	
Goal 4: Reduce Child Mortality			
Mortality rate of children under 5 years old (per 1,000 live births)	31	27 (2000)	Possible
Proportion of 1yr of children immunized against measles	65%	70.1% (2000)	
Goal 5: Improve Maternal Health			Possible
Maternal mortality ratio (per 1000 life births)	226	153 (2000)	
The proportion of births attended by skilled health personnel	80%	85% (2000)	
Contraceptive prevalence rate	48%	42.1% (2000)	
Goal 6: Combat HIV/AIDS, malaria and other diseases			
People living with HIV, 15-49 yrs old (%)	0.3%	2.4% (2007)	Possible
Prevalence of tuberculosis (per 100,000 people)		96 (2006)	
Goal 7: Ensure Environmental Sustainability			
Land area covered by forest (%)		94.7 % (2005)	Insufficient Information
Carbon dioxide emissions per capita (metric tons)		5 % (2004)	
Access to improved drinking water sources (% of total population)		92% (2006)	
Goal 8: Develop a Global Partnership for Development			Insufficient Information
Internet users (per 100 people)		8.4 (2006)	

Therefore, Suriname's main development challenges are that (i) its narrow economic base is bolstered by few commodities thus making it very vulnerable to global shocks and (ii) many people remain without access to critical basic services and are not productive contributors to the formal economy.

IDB Areas of Strategic Focus

To transcend its economic vulnerability to terms-of-trade fluctuations and improve the quality of life of its population, the GoS seeks to broaden its productive economic base and improve the delivery and quality of health, education, and housing services to equip its population to make a meaningful contribution to the proposed development effort. These goals are articulated in the Multi-Annual Development Plan (MOP). The required interventions call for significant investments that result in greater demand for external financing. GoS is therefore expected to follow through on its plan to seek increased IDB resources for narrowing its external financing gap.

In this context and maintaining adequate consistency with its previous interventions, the IDB and GoS envisage a strategic program that focuses on improving the competitiveness of the private sector for maximizing its economic contribution and improves access to essential services for enhancing the quality of life for vulnerable people. A fundamental and complementary focus will be to design social interventions that will transform the vulnerable into productive economic agents. Therefore, throughout the period, the Bank will support activities centered around the following two indicators:

Improving Private Sector Competitiveness

The IDB will focus on infrastructure interventions that will improve the competitiveness of the private sector by reducing transportation and production costs. Specifically, the IDB will collaborate with the GoS to invest in air and road transport, in addition to the electricity sector.

Expanding Access to Essential Services

In addition to supporting investments in education, health care, housing, and social security, there will be interventions that focus on decentralization and the strengthening of local government. A critical component of initiatives under this pillar will be the Integrated Development of Rural Communities, which utilizes a holistic development model: a set of complementary, sustainable, innovative, and simultaneous interventions from across various sectors. The communities in which this initiative is implemented will be ones that are economically and socially isolated from the majority of the population.

Non-sovereign guaranteed (NSG) lending to private sector over the projected period will be low because of the current size of the private sector. Currently, areas for intervention include infrastructure in housing, and transport. Demand for private sector lending should grow as the competitiveness improves.

Trinidad and Tobago

Development Challenges and Financing Requirements 2010-2020

Trinidad and Tobago (T&T) is one of the fastest growing economies of Latin America and the Caribbean, having recorded average annual real GDP growth of 9% between 2002 and 2007. As a result of rising oil/gas prices, public expenditures increased 20% annually; total gross international reserves reached US$9.4B in December 2008 (11.7 months of import cover); the Heritage and Stabilization Fund accumulated US$2.9B; and public debt declined by nearly half to 25% of GDP. However, the economy experienced a major setback resulting from the global financial crisis and the decline of oil/gas prices late in 2008. While real GDP is still set to increase 2.9% in 2009, the GORTT intervened in the foreign exchange markets and the operations of the Caribbean's largest financial conglomerate, CLICO, at a cost of about US$1B.

T&T also made significant strides toward achieving its Millennium Development Goal (MDGs) indicators: the eradication of extreme poverty and hunger, universal primary education, reduction of child mortality and access to new technologies. However, it made relatively slow progress in promoting gender equality, reducing maternal mortality, combating HIV/AIDS, malaria and other diseases, and ensuring environmental sustainability, particularly reliable access to water and the treatment of wastewater.

Table 1 - Trinidad and Tobago: Summary of Millenium Development Goals

Table 1: Summary of Millenium Development Goals

Millennium Development Goals	1990	1995	2000	2005	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Poverty headcount ratio at US$1 a day (% of Population)		21%		16.70%	10.50%	Fast
Purchasing Power Parity national currency per 1993 international dollar	3.209	3.874	4.13	4.614		
Prevalence of underweight children under - five years	2.90%		2.40%		1.45%	Fast
Goal 2: Achieve universal primary education						
Net enrolment ratio in Primay School			92.50%	92%	100%	Fast
Literacy rate 15-24 years	99.30%				100%	Fast
Goal 3: Promote Gender equality and empower women						
Seats held by women in national parliament	6	4	4	7		
Seats held by men in national parliament	30	32	32	29		Slow
Goal 4: Reduce Child Mortality						
Infant Mortality Rate per 1000 live births	30	29	30	17	10	Fast
Goal 5: Improve Maternal Health						
Maternal mortality ratio ratio per 100,000 live births	54	67	55	45	13	Slow
Goal 6: Combat HIV/AIDS, malaria and other diseases						
HIV Prevalance among population (% of Total Population)			1.40%	1.55%	0.07%	Slow
Goal 7: Ensure Environmental sustainability						
Proportion of Urban Population with access to an improved drinking water source	92%	94%	95%	97%	100%	Slow
Goal 8: Develop a Global Partnership for Development						
Telephone lines	164931	203817	278876	322338		Fast

Other	1992	2005
Poverty Rate		
Poverty Gap Ratio		4.60%
Poorest quintile's share in national income or consumption, percentage	5.50%	

Although not captured in the MDG indicators, T&T also faces formidable development challenges in order to avoid a renewed cycle of "boom and bust"; diversify its economic base (oil/gas accounted for 45% of GDP, 60% of government revenues, and 90% of exports in 2008); and maintain sound macroeconomic and sector policies to weather the global crisis, sustain growth and recent gains in poverty reduction and social conditions.

While the public sector's financing demand is small compared to GDP and countercyclical relative to oil/gas prices, the IDB remains T&T's most important development partner. Total outstanding IDB debt represented only 1.5% of GDP and 10% of total public sector debt, and 73% of MDB debt. For the next decade, the Bank will seek to strengthen its lead role as T&T's development partner of choice, and seek to increase its contribution toward the financing of both public and private sector projects. A significant increase in demand for IDB financing is expected from GORTT to support the achievement of the development objectives in the National Development Plan – Vision 2020 – as the year 2020 approaches, and for new, large scale infrastructure projects of the private sector resulting from the Bank's intensified marketing efforts and identification of opportunities.

Regarding the **social sectors**, the Bank will continue its long standing commitment to enhance policies and investments in education, health and housing and work in new areas of citizen security and the social safety net. The key challenges are to: (a) broaden coverage and targeting of the low income population; (b) sustain benefits to the most vulnerable groups; and (c) break the intergenerational transmission of poverty. In 2008 and 2009, the Bank approved loans which reaffirmed its commitment to citizen security and early childhood education. In the health sector, the Bank plans to address capacity (human resources, skills development and availability) and consolidate gains in financing, service delivery and governance. For low income housing, the Bank will continue support the squatter upgrading model with enhanced delivery of deeds and the transfer of infrastructure maintenance responsibilities. Finally, the dearth of data makes it difficult to evaluate the contribution of social safety net programs to the national objective of reducing poverty by 1% per year. In this respect, the Bank will emphasize the greater use of data and capacity for project evaluation.

Regarding **infrastructure**, T&T's infrastructure is poor relative to countries with a similar income level, and a considerable backlog exists for new infrastructure, rehabilitation and financing, particularly transportation systems (roads, ports and airports). The Bank will emphasize TA and the rehabilitation of existing public infrastructure with SG lending, new infrastructure development in a Public Private Partnership framework with TA and sovereign guarantees, and new infrastructure or public service delivery projects of the private sector with NSG lending. The Bank will support institutional strengthening for wastewater management and emergency rehabilitation of infrastructure, and, following its long term involvement in the sector, the Bank will also provide TA/KCP to enhance traffic management and road safety outcomes.

Regarding **public sector institutions**, the Bank expects to assist on a demand basis to: (i) provide cross-cutting support to enhance the use of data for policy and investment decision making at the national, sector or project level; and (ii) help strengthen country fiduciary systems such as budgeting, financial management and procurement systems, including use of ICT, review of legislation and institutional reforms. In addition, KCP will support: (i) strengthening of macroeconomic planning function and statistical/ modeling capabilities and (ii) continuing the results-based management model in agencies associated with the Bank's strategy. SG lending will emphasize the provision of TA to enhance public service delivery and modernization.

Regarding **competitiveness and integration**, Vision 2020 points to T&T's steady decline in the World Economic Forum's global competitiveness rankings, while the World Bank's latest Doing Business report ranks the country only 9th out of the 13 CARICOM countries covered. T&T's level of business sophistication and innovation are low. The Bank will on a demand basis support: the improvement of the business environment and competitiveness; the development, competitiveness and growth of strategic sectors and micro, small and medium sized enterprises, in particular non-energy SMEs (clusters, value chain integration, business development services, technology upgrading and innovation, access to financing); and the introduction of a legislative and institutional framework for PPPs and pilot PPP demonstration projects.

Regarding the **environment and climate change**, the Bank has recently engaged GORTT on various TA/KCP initiatives geared to: (i) develop a sustainable energy program and the promotion of climate change adaptation and mitigation (including the identification of opportunities for the reduction of T&T's high per capita rate of greenhouse gas emissions) and (ii) strengthen the national disaster risk management system through the preparation of a country risk evaluation, possibly leading to a broader prevention and mitigation program.

Regarding the **private sector**, NSG lending will support new project financing in the same sectors: social inclusion (health, education, housing, food, base of the pyramid and job creation); infrastructure (power, transportation, telecom, water and tourism); institutions and access to finance (MFIs, SMEs, capital markets, as well as advisory services); integration (trade, natural resources, cross border investments); and climate change (renewable energy, energy efficiency, recycling industries and biofuels). In these areas, the Bank will promote infrastructure and the provision of public goods and services in a PPP framework.

Uruguay
Development Challenges and Financial Requirements, 2010-2020

Background

Uruguay emerged from the 2002 crisis through strong fiscal and exchange rate policy adjustments which, together with favorable international conditions, created conditions for average annual growth rates of almost 6 percent between 2003 and 2008, accelerating to approximately 9 percent in 2008. However, from a longer term perspective, Uruguay's growth performance had not been encouraging up to 2004; with per capita GDP growing by only 1.3 percent per year over the past three decades. High monetary and financial instability and recurrent fiscal sustainability problems account for this disappointing long-term performance, which was reflected in low investment rates (at 14 percent of GDP on average during the past 25 years). Investment has risen to almost 19 percent of GDP in 2008, reflecting the opening up of the economy to foreign direct investment, and an expansionary bias in fiscal policy.

Uruguay enjoys relatively high levels of achievement in terms of broad development indicators, including those associated with the Millennium Development Goals (MDGs). With an estimated per capita GNI of just over US$11,000 in PPP terms, among the highest in Latin America, Uruguay has a well educated work force and strong comparative advantages in the agriculture and service sectors. Among the areas in which Uruguay has made good progress toward the MDGs, child mortality, maternal health, and gender equality should be highlighted.

Table 1 – Uruguay: Millennium Development Goals

Millennium Development Goals	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*2*	*2*	2	*2*
Prevalence of undernourishment (% of population)	*5*	*5*	..	*5*
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	*99*	..	99
Primary completion rate, total (% of relevant age group)	95	94	97	*99*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	6	*7*	12	11
Goal 4: Reduce child mortality				
Mortality rate, infant (per 1,000 live births)	21	18	15	12
Goal 5: Improve maternal health				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*20*
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	28	26	24	22
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	1.3	1.4	1.5	*1.7*
Improved sanitation facilities (% of population with access)	100	100	100	*100*
Improved water source (% of population with access)	100	100	100	*100*
Goal 8: Develop a global partnership for development				
Internet users (per 100 people)	0.0	0.3	10.6	29.1
Mobile cellular subscriptions (per 100 people)	0	1	12	90
Other				
GNI per capita, Atlas method (current US$)	2,870	5,230	6,220	6,390
GNI per capita, PPP (current international $)	4,870	6,570	7,730	11,020
Life expectancy at birth, total (years)	73	73	75	76
Population, total (millions)	3.1	3.2	3.3	3.3
Trade (% of GDP)	41.6	38.1	40.3	59.1
Source: World Development Indicators database				

Expected Bank Support in Priority Areas

The focus of the Bank's strategy with Uruguay has been to help the country sustain economic growth rates robust enough to reverse the decline in social indicators that took place in the aftermath of the 2002 crisis, while creating conditions for lasting improvements in living standards.

In the foreseeable future, the Bank is expected to concentrate its technical and financial support on four strategic areas, which address the main Uruguayan development challenges, namely: strengthening competitiveness, improving public management and fiscal soundness, achieving poverty reduction and protecting the environment and responding to climate change.

The bank has identified **strengthening competitiveness** and further integrating Uruguay into the global economy in order to sustain growth as a key priority. The Bank has focused on efforts to remove bottlenecks in key sectors, particularly infrastructure and the financial system, along with policies and reforms to nurture private enterprise generally. Going forward, the priorities include fostering export-oriented production by promoting technological innovation, and a broad range of investments in the infrastructure area. The latter group encompasses traditional areas such as investment in ports and increasing the efficiency of the road system in priority corridors as well as innovative projects to diversify energy sources. The Bank could assist the government to chart a long-range energy strategy which would bring the private sector into power generation projects and help deepen intraregional energy trade. In the financial sector, the Bank could support private banks in facilitating foreign trade through the Trade Finance Facilitation Program.

To **improve public management and sustain fiscal soundness** the Bank will support the efforts to improve central government administration and public spending efficiency, including through building up the financial and results-based management capacity. Uruguay needs to implement pro-investment tax reforms and modernize and strengthen the tax administration system to prepare it for the changes in order to sustain the growth in private investment, and this is another area where Bank support could rove fruitful. Finally, the unfavorable demographic trends make imperative to revamp the social security system and to increase the administrative efficiency of the Social Security Fund.

The Bank will pursue a close collaboration in the area of **poverty reduction and social inclusion** as a pillar of sustainable growth. For that purpose, it will assist in the pursuit of the government's social policy of alleviating hardships of people living below the poverty line, investing in human capital, and improving social sector institutions. Student achievement has been declining in Uruguay and the Bank has identified a number of policies that could help reverse the trend. The prospective lines of action are to strengthen preschool education, to introduce after-school support for primary school students who are struggling, to emphasize technical education at the secondary and postsecondary levels and to upgrade teacher training. The Bank will continue to support investments to improve access to safe water and sanitation services, with an emphasis on expanding the reach of sanitary sewer systems, as part of the efforts to meet the Millennium Development Goals.

In the **Environmental Sector**, the country's foremost challenge is to strengthen the national environmental agency, so it can perform its mandate more efficiently, spanning policy planning and coordination, project evaluation, and impact monitoring. At the local level, municipal governments are in need of capacity building in environmental management, and introducing compliance policies and instruments. Given the importance of agriculture for the Uruguayan economy, challenges related to climate change have gained greater relevance in the development agenda to be supported by the IDB in the country. In that regard, the Bank is expected to finance private sector investment in renewable energy.

Demand for IDB Products

The current portfolio of US$1.4 billion reflects an average lending level of US$208 million in the past 5 years (excluding emergency) and the recent pick up in demand in 2008-09. In the foreseeable future, it is reasonable to assume that demand would be kept at a level significantly higher than the past average and closer to what has been seen for the 2008-10 period.

Uruguay has set a ceiling for public sector indebtedness which has affected the level of its borrowing from the IDB in the past few years. In the context of the current crisis, there is an ongoing discussion in the country to lift that restriction to provide the public sector with greater leeway to promote countercyclical measures. Debt with the IDB, at just above US$2 billion, represents 15% of the total public debt and about 2/3 of the debt with multilateral institutions, a ratio that might be affected in the next few years by the likely increase in borrowing from CAF.

The sector composition of the portfolio is broadly aligned with the priorities set by the country strategy: 48% in infrastructure and competitiveness; 19% for social projects; and 29% for institutional development. For the next decade, one can expect that infrastructure and social issues will continue to account for the largest shares of the total portfolio, while environmental projects are expected to increase gradually.

Venezuela
Development Challenges and Financial Requirements 2010-2020
As of May 9, 2009

Background

During the last five years Venezuela has experienced a significant expansion in economic activity. That expansion has been longer and larger than any other in at least the last 30 years. Annual GDP growth has averaged 10.3% during the last five years fueled by the exogenous increase in oil income. However growth has slowed down in recent quarters (annual growth reached 4.8% during 2008) and the fall in export prices associated with the global financial crises is likely to affect economic activity in the medium term. This extended period of growth has been possible initially taking advantage of a significant excess of installed capacity and later as a result of an increase in investment rates (30.0% of GDP on average between 2005 and 2008 versus 22.3% between 1999 and 2004). However, the financing of high investment rates might be sensitive to volatility in oil income. In that context, stable borrowing from international financial organizations might become significantly more relevant for the country.

Sustained growth will be a necessary condition to achieve the Millennium Development Goals (MDGs). Amid the boom in oil income, Venezuela has made important progress towards achieving the MDGs. In particular the country has been able to significantly reduce extreme poverty, increase coverage of primary education and improve environmental sustainability, however, there has been slow progress regarding the reduction of child mortality and a setback in terms of maternal health improvement. It is important to notice that improvements in general are vulnerable to the volatility in oil prices and the associated real exchange rate dynamics. Therefore a stable macroeconomic environment and a successful process of economic diversification that generates high quality employment on one hand and a social development policy targeted towards the poor and vulnerable on the other would be important to guarantee continuity towards the achievement of the MDGs.

Table 1- Venezuela: Millennium Development Goals

Millennium Development Goals	1990/91	1995/96	2000/01	2006/07	Target 2015	Progress
Goal 1: Eradicate extreme poverty and hunger						
Extreme poverty rate (% of population)	24.0	42.5	25 (2002)	11.1	12.5	accomplished
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	3	15	14	4		
Malnutrition prevalence, weight for age (% of children under 5)	8	5	4.8 (2002)	4	3.85	slow
Goal 2: Achieve universal primary education						
Literacy rate (% age group 15-24)	96	..	97	99	100	fast
Primary completion rate, total (% of relevant age group)	79	81	83	98	100	fast
Total enrollment, primary (% net)	..	..	89	94	100	fast
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	10	6	12	19	50	slow
Ratio of female to male primary enrollment	99	98	98	97	100	
Ratio of female to male secondary enrollment	124	..	120	112	100	accomplished
Goal 4: Reduce child mortality						
Mortality rate, infant (per 1,000 live births)	27	23	20	17	9	slow
Mortality rate, under-5 (per 1,000)	32	28	24	19	11	slow
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	95	94	95*		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	59	..	60	60.5*	15	setback
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	0.75*		
Incidence of tuberculosis (per 100,000 people)	35	35	34	34	35	accomplished
Goal 7: Ensure environmental sustainability						
Improved sanitation facilities (% of population with access)	52	..	..	82*	76	accomplished
Improved water source (% of population with access)	68	73	85	92*	84	accomplished
Goal 8: Develop a global partnership for development						
Mobile cellular subscriptions (per 100 people)	0	2	22	87		
Telephone lines (per 100 people)	8	11	10	18		
Other						
GNI per capita, Atlas method (current US$)	2,570	2,930	4,100	7,550		
Life expectancy at birth, total (years)	71	72	73	74		
Income share held by lowest 20%	4.8	3.7	2.9	4.9		

Source: World Development Indicators database if not differently specified
figures in red come from " Cumpliendo las metas de milenio. Informe de Venezuela 2004)
Targets 2015, in green, are built on the 1990-1991 data. They could be slightly different from the actual country targets.

* Source: UNDP

Expected Bank's support in priority areas

The previous country strategy that guided the relationship between the Bank and the country had a very ambitious set of objectives based on four main development challenges: (i) maintaining the macroeconomic equilibrium and achieving sustainable growth; (ii) promoting economic diversification and enhance competitiveness; (iii) promoting social development; and (iv) strengthening governability and institutions. However, in recent years, given the prevailing external conditions that made financing relatively easy for the country, lending activity has been limited.

The recent Country Program Evaluation (CPE) proposed a set of recommendation that could constitute a guide of action for the design of the new country strategy with Venezuela. This recommendation aims at the increasing the Bank's effectiveness in contributing with Venezuela's development agenda. In particular the financing strategy could benefit from targeting specific sectors where the Bank has abundant technical expertise, more concretely, financing infrastructure projects with high social impact.

Taking into account these recommendations, in order to support the development challenges of Venezuela, the Bank has identified the following priority areas of collaboration where it has already developed a presence within the country:

1. Increase Productivity through Infrastructure Development. To foster competitiveness and productive diversification in Venezuela, it is key to diversify the economic structure and promote investment. The Bank will provide support to government's action on these areas, particularly in infrastructure (energy and transportation). In particular, there are important energy project in execution and being considered for approval.

2. Social Development. The Banks has developed a rich expertise in programs to alleviate extreme poverty, protect the most vulnerable and foster investment in human capital of the poor. This is an area of great interest both to the Venezuelan government and the Bank. The IADB may provide support to government's agenda to (i) improve the access to basic services, in particular, providing access to vulnerable groups; (ii) improve social safety nets; and (iii) strengthen the education system through the backing of technical schools.

3. Institutional Reform of the State and Public Management. The Bank could support the government on key aspects like: (i) promoting an integral reform of the judiciary system; (ii) modernizing the statistics national system; (iii) promoting e-government; and (iv) supporting the consolidation of tax administration.

Demand for IDB Products

During the last ten years the role of the IADB in Venezuela has been reduced considerably. The Venezuela's share in the bank portfolio went down from 4.4% during the 1990-1998 period to 2.3% during the 1999-2007 period. This has happen in a context where all multilateral financing has become less important for Venezuela. Thanks to targeted operations (like the US$ 750 million loan for the development of Tocoma hydro electrical plant, approved in 2005) the Bank's has been able to keep its presence in the country during recent years, otherwise the portfolio would have been repaid in approximately six years. The challenge remain to continue being relevant in a country that progressively rely less on multilateral borrowing.

However, recent developments suggest opportunities for the Bank in Venezuela are increasing. Funds might be scarcer for Venezuela in the future when compared with the last five years as oil prices are expected to remain below the record levels observed in recent times. Also, access to international financial markets might become more difficult as a consequence of the global financial crises.

Venezuela's share of the bank loan portfolio is considerably below its capital participation among eligible borrowing countries. This suggests there is ample space for an increase of credit to Venezuela. Also, foreign debt is a relatively small fraction of GDP, in consequence there is no immediate worries regarding debt sustainability. As a result Venezuela's portfolio with the bank should be determined the country's demand for credit.

In these circumstances, the Bank's financial role will face a number of complex challenges, namely: i) play an important role on helping the country narrow the infrastructure gap; ii) back the country with the social development agenda in areas and programs where the Bank has identified opportunities, iv) explore efficient mechanisms to work with sub-national governments, other public non-sovereigns and the private sector in the generation of opportunities for the majority.

Annex 5

Demand for IDB Regional Programs

Executive Summary

A bold new strategy is needed if our Region is to compete on an equal footing with advanced economies, with emerging global economic giants such as China or India, or with smaller Asian economies that have developed very effective networks for sharing regional production. In operational terms, supporting regional and global integration can be visualized as a continuum ranging from *hardware* to *software* investments, with the former referring to investments in regional infrastructure, and the latter, to the support of collective policy frameworks. The region has made significant advancements but there is still a need to bridge a "global and regional integration gap".

Increased financial support to regional endeavors is compelling for several reasons: countries need to cooperate to address regional coordination failures and finance common policy solutions; by pooling resources, countries can attain greater developmental gains than through unilateral actions; and regional projects and programs can have positive spillovers when they propel further cross-border integration. The Bank, by virtue of its reach and track record in supporting regional integration, is uniquely positioned to serve as an honest broker, provide innovative regional financial instruments and supply knowledge services to support the creation of regional foundations for global citizenship.

Between 2006 and 2008, the Bank has approved on average US$1,010.5 million per annum in loans with a regional dimension, representing 13.8% of total IDB's Investment Loans. In the next few years, demand for IDB's regional instruments is expected to rise by a significant amount. Estimations under a conservative scenario suggest average approvals of US$1,189.9 million per annum in 2009-2013, increasing to US$1,555.2 million in 2014-2018. Total forecasted approvals for 2009-2018 add-up to US$13,726.1 million. However, given the active support of integration initiatives in our member countries, we can expect demand for IDB's regional financial instruments to increase to US$1,329.7 million per annum immediately (2009-2014), and US$1,986.6 million in 2014-2018. Total forecasted approvals for 2009-2018 amounts to US$16,582.1 million.

The Bank has also supported the development of the *software* dimension of regional integration in beneficiary countries, mainly through Regional Technical Cooperation (RTC) and the Regional Public Goods Initiative (RPGs), among others. The Bank has approved roughly US$41.5 million per annum in RTC during 2006-2008. Forecasted RTC annual approvals range from US$79.7 million to US$106.9 million in the next five years (2009-2014). For 2014-2018, RTC approvals range from US$ 104.2 million to US$159.7 million.

I- Motivation: Creating regional foundations for global citizenship

Integration and cooperation are no longer seen as a strategy to sustain import-substitution policy regimes. In the last two decades, integration policy reforms were widespread and proved to be effective: between 1985 and 2006/7 the openness coefficient of the Region jumped from 28.8% in 1985 to 47.9%; the share of manufactures in total exports grew from 26% to 49%; and intra-regional trade climbed from 10% to 17%. But the Region has yet to reach the frontier of global competitiveness. The Bank has a crucial role to play to bridge the "global and regional integration gap", including harnessing the development potential of regional instruments.

Increased regional financial support is compelling for three principal reasons. First, cooperation is needed to address regional coordination failures and finance common policy solutions; for example, combating cross-border environmental pollution, financial crises and communicable diseases or building region-wide scale economies in production, capital markets or institutions. Second, by pooling resources, countries can attain greater developmental gains than through unilateral actions; for example, integrating the supply and distribution of power regionally can help smaller economies increase their access to lower-cost energy. Third, regional projects and programs can have positive spillovers when they propel further cross-border integration. Regional road networks will surely boost cross-border commerce and the collective adoption of harmonization of financial regulatory standards will attract foreign investors.

The Bank should support an efficient and equitable collective agenda aimed at facilitating regional cooperation and integration into the world economy. However, in line with recent developments in other regional financial institutions in Europe or Asia, the Bank needs to renew its lending, technical assistance and knowledge and capacity building products, in order to support the creation of regional foundations of global citizenship.

II - IDB's current support to the regional integration process

The Bank supports regional integration processes by means of technical cooperation, loans and non-financial products. However, unlike a technical cooperation where specific instruments exist to address regional demands, the Bank lacks a specific regional lending instrument.

Financial support to regional initiatives is currently given by way of national loans. For example, the construction of a transnational highway requires the support and buy-in of a number of countries in the Region. However, financially, each country is responsible and accountable for its a own investment. In the event the entire highway is financed with resources from the Bank, this holistic regional project translates into a succession of national loans. This makes it very difficult to identify how much of the Bank's loan operations are assigned to financing operations with a regional dimension given that in practice they are identified by the Bank as national operations.

Currently, the Bank has two large Regional Integration initiatives that cover much of the continent: the Mesoamerica Project[1] (the former Puebla-Panama Plan) (PM); and the Initiative for South American Regional Infrastructure Integration (IIRSA)[2]. Both initiatives identify and manage loan and project operations with a regional dimension. For a project to form part of the IIRSA or the PM, it must meet a set of requirements that ensures and protects the regional quality.

For the purposes of estimating regional demand, it is assumed that the loan projects for both initiatives constitute the "lower bound" value[3]. As evidenced in Table I, in the last three years, the Bank approved, on average, regional operations totaling US$1.0105 billion, which represents 13.7% of the bank's total loans and 18.2% of the investment loans.

Table I: Regional Loans* IADB, 2000-2008

	00-02	**03-05**	**06-08**
Annual amount approved for Regional loans (in US$ millions)	226.5	124.0	1,010.5
Number of operations per year	7	3	6
Average loan amount	32.3	37.2	168.4
Regional loans as a percentage of IADB Investment** Loans	**6.4%**	**3.5%**	**18.2%**
Regional loans as a percentage of Total IADB Loans	**3.7%**	**2.0%**	**13.7%**
Sectorial distribution (%)			
Energy	*35.3*	*16.8*	*29.6*
Water and Sewage Treatment	-	*2.5*	-
Transportation	*64.7*	*80.7*	*70.4*
Total	100.0	100.0	100.0

* Operations linked to IIRSA or PM. See annex for a full list of regional loans.
** Excludes PBL, Programmatic PBL, Emergency Loans, and Global Credit Loans.

1 The Mesoamerica Project includes Belize, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Mexico and Panama.

2 IIRSA includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela.

3 The group of regional loans would broaden if the Bank's portfolio were studied loan by loan, given that there could be other operations with a regional dimension which do not form part of these initiatives. Without having carried out this exercise, the presumption is that these loans are few in number.

Looking to boost economic development and eliminate the most acute intraregional asymmetries, the Bank has tried to support greater regional cooperation. To be effective, cooperation depends on the appropriate interrelationship between two different levels of action: the *hardware,* which includes physical investments made with an internal return rate that is adequate and easily appropriable; and the *software,* made up of investments having lower appropriation, and less private yield such as trade facilitation, institutional capacity building, etc. The Bank tends to provide these types of integration support by means of technical cooperation.

In the case of technical cooperation, the Bank has a group of initiatives intrinsically linked to actions of a regional character, such as the Regional Public Goods Initiative (RPG) or the Fund for Financing Integration of Regional Infrastructure (FIRII). In addition, it has a series of RTCs that can be financed either by the FSO or by different Trust Funds.

It is important to note that there is a certain degree of interdependence between the support given to the integration *software* and the demand for physical investments associated with integration. On the one hand, the integration *hardware* goes hand in hand with more demand for *software,* e.g., a regional investment in energy matters carries a greater demand for regulatory harmonization, the need for common frameworks as regards the functioning of energy markets, etc. On the other hand, factors belonging to regional integration's *software* dimension, such as those associated with the quality of regional institutions, lead to better coordination between countries, raising the demand and the execution capacity of physical investments having a regional character.

The support that the Bank has given in matters of integration *software* is estimated using RTCs[4], therefore, all TCs of a regional character or those financed with funds that must explicitly be utilized to support regional operations, such as the FIRII, were identified. Table II highlights that in the last three years, the Bank has approved, on average, US$41.5 million per year in RTCs. This represents 4.1% of regional loans, and 0.2% of total investment loan approvals. RTCs are 28.4% of the total number of TCs.

[4] This is a "lower bound" estimation as well, as some loan operation components can be devoted to actions on the integration *software*.

Table II: Regional* Technical Cooperation IADB, 2000-2008

	00-02	03-05	06-08
Average annual amount approved in Regional TC (in US$ millions)	26.9	29.3	41.5
Structure:	100.0%	100.0%	100.0%
FSO	49.9%	39.7%	28.6%
Others	50.1%	60.3%	71.4%
FIRII	-	*0.0%*	*13.5%*
RPG	-	*10.1%*	*23.6%*
Others	*50.1%*	*50.2%*	*34.3%*
Regional TC as a percentage of IADB's Total TC	38.1%	43.9%	28.4%
Regional TC as a percentage of IADB's Regional** Loans	11.9%	23.7%	4.1%
Regional TC as a percentage of IADB's Investment*** Loans	0.4%	0.3%	0.2%

* TC classified as regional (RS y RG), and some National FIRII, associated with PM or IIRSA.
** Loans linked to IIRSA or PM. See annex for a full list of regional loans.
*** IADB's loan approvals excluding PBL, Programmatic PBL, Emergency Loans, and Global Credit Loans.

III - Future demand for regional operations

Future demand for operations of a regional character depends on different factors that make quantification difficult. Nonetheless, three alternative scenarios have been estimated taking into account current regional operations demand, the Bank's participation in different regional initiatives and the future demand identified by different initiatives:

Scenario I: it is assumed that the demand for regional loans will grow based on the average growth of the region's economies, estimated at 3.5% plus 2% of annual inflation.

Scenario II: it is assumed that, in addition to the growth estimated in Scenario I, that the Bank's market share in the financing of the projects identified in IIRSA Initiative and PM will increase by 20%.

Scenario III: in addition to the suppositions in Scenarios I and II, it is assumed that the Bank will assign a greater quantity of resources towards integration *software*, supporting, for example, the creation of the regional institutional framework necessary to drive greater demand for regional operations. It is extremely difficult to estimate the "unsatisfied" demand for regional interventions due to the lack of appropriate regional institutional architecture. This scenario translates into a permanent one percentage point increase in the yearly growth rate in the demand for operations in each one of the first three years of the projection exercise.

Regarding technical cooperation, the calculation of Scenarios I and II preserves the relationship between approvals of regional loans and RTCs (average 2003-2008). However, in Scenario III, the higher spending in RTCs assumes a 20% growth in the relationship between regional loans and RTCs.

Table III presents the average annual requirements of total funds for technical cooperation in each of the scenarios[5].

Table III: Average Annual Approvals and Total Cumulative Approvals of Regional Loans and Regional Technical Cooperation (RTC)
In Millions of US$

	2006-2008		**2009-2013**		**2014-2018**		**Total***	
	Loans	RTC	Loans	RTC	Loans	RTC	Loans	RTC
Scenario I	1,010.5	41.5	1,189.9	79.7	1,555.2	104.2	13,726.1	919.6
Scenario II	1,010.5	41.5	1,279.6	85.7	1,672.4	112.0	14,760.1	988.9
Scenario III	1,010.5	41.5	1,329.7	106.9	1,986.6	159.7	16,582.1	1333.2

*Cumulative Loan and Regional Technical Cooperation approvals during forecast period (2009-2018).

[5] See Birsdall, N., P. Mello, G. Chapman et. al (2006). *A new era at the Inter American Development Bank. Six recommendations for the new president*. Center for Global Development, Washington DC. for an estimate of specific financial needs to implement an integration program in LAC, suggesting the creation of a regional fund that could accumulate between USD1bn and USD2bn in a five-year period.