

Inter-American Development Bank

Annual Report 2001



THE INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank, the oldest and largest regional multilateral development institution, was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean.

Efforts to create a development institution to focus on pressing problems in the region date to the First Inter-American Conference in 1890. A specific proposal toward that end by President Juscelino Kubitschek of Brazil in 1958 received support throughout the hemisphere. Shortly thereafter, the Organization of American States drafted the Articles of Agreement establishing the Inter-American Development Bank.

Today, the Bank's membership totals 46 nations, including 26 Latin American and Caribbean countries, the United States, Canada, and 18 nonregional countries.

The Bank has become a major catalyst in mobilizing resources for the region. Its principal functions are to utilize its own capital, funds raised in financial markets, and other available resources to finance the development of its borrowing member countries; to supplement private investment when private capital is not available on reasonable terms and conditions; and to provide technical assistance for the preparation, financing and implementation of development projects.

In carrying out its mission, the Bank has approved \$110 billion for projects that represent a total investment of \$273 billion.

The Bank's operations cover the entire spectrum of economic and social development, with an emphasis on programs that benefit low-income populations. In the past, Bank lending focused on the productive sectors of agriculture and industry, the physical infrastructure sectors of energy and transportation, and the social sectors of environmental and public health, education and urban development. In 1995, the IDB began lending up to 5 percent of its ordinary capital resources directly to the private sector, without

government guarantees. Current lending priorities include poverty reduction and social equity, modernization of the State, competitiveness, and integration.

The IDB group also includes the Inter-American Investment Corporation (IIC), an autonomous affiliate that promotes economic development by financing small and medium-scale private enterprises, and the Multilateral Investment Fund (MIF), which supports investment reforms and private sector development.

The financial resources of the Bank consist of the ordinary capital account—comprised of subscribed capital, reserves and funds raised through borrowings—and Funds in Administration, comprised of contributions made by member countries. The Bank also has a Fund for Special Operations for lending on concessional terms in countries classified as economically less developed.

Member country subscriptions to the Bank's ordinary capital consist of both paid-in and callable capital. Paid-in capital in the form of cash or notes represents 4.3 percent of total subscriptions. The major part of member subscriptions is for callable capital, which may be drawn only to service the Bank's borrowings and guarantees.

The Bank has borrowed funds for its operations from the capital markets of Europe, Japan, Latin America, the Caribbean and the United States. The Bank's debt is AAA rated by the three major rating services in the United States, and is accorded equivalent status in the other major capital markets.

The Bank's highest authority is the Board of Governors, on which each member country is represented. Governors are usually Ministers of Finance, Presidents of Central Banks or officers of comparable rank. The Board of Governors has delegated many of its operational powers to the Board of Executive Directors, which is responsible for the conduct of the Bank's operations.

The Bank, whose headquarters are in Washington, D.C., has Country Offices in each of its borrowing member countries and in Paris and Tokyo.

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MEMBER COUNTRIES

Argentina	Croatia	Israel	Slovenia
Austria	Denmark	Italy	Spain
Bahamas	Dominican Republic	Jamaica	Suriname
Barbados	Ecuador	Japan	Sweden
Belgium	El Salvador	Mexico	Switzerland
Belize	Finland	Netherlands	Trinidad and Tobago
Bolivia	France	Nicaragua	United Kingdom
Brazil	Germany	Norway	United States
Canada	Guatemala	Panama	Uruguay
Chile	Guyana	Paraguay	Venezuela
Colombia	Haiti	Peru	
Costa Rica	Honduras	Portugal	

Inter-American Development Bank
Washington, D.C.

February 4, 2002

Mr. Chairman:

Pursuant to Section 2 of the By-Laws of the Inter-American Development Bank, I transmit to you the Annual Report of the Bank for 2001, which the Board of Executive Directors submits to the Board of Governors.

The Report contains a brief summary of the economic situation of Latin America and the Caribbean and a review of the Bank's operations in 2001.

In addition, the Report contains a description on a country-by-country basis and a regional basis of the Bank's various operations—loans, guarantees, financings for small projects and technical cooperation—on behalf of Latin America's development; a summary statement of the loans approved in 2001; the financial statements of the Bank, and its general appendices.

Complying with Article III, Section 3(a), of the Agreement Establishing the Bank, the Report contains separate audited financial statements for its various sources of funds. For the ordinary capital resources, these are presented pursuant to the provisions of Article VIII, Section 6(a) of the Agreement; for the Fund for Special Operations, in accordance with the provisions of Article IV, Section 8(d), of the Agreement; and for the Intermediate Financing Facility Account, complying with Section 5(d) of Resolution AG-12/83 of the Board of Governors.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'E. Iglesias', written over a horizontal line.

Enrique V. Iglesias

Chairman, Board of Governors
Inter-American Development Bank

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TABLE I.

TEN YEARS OF OPERATIONS, 1992–2001*(In millions of U.S. dollars)*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	54,174	54,198	60,864	66,399	80,895	87,557	94,219	100,881	100,959	100,959
Fund for Special Operations	8,667	8,649	8,675	9,751	9,679	9,572	9,643	9,646	9,559	9,480
Other Funds	1,207	1,256	1,324	1,313	1,352	1,329	1,406	1,468	1,455	1,530
Total	64,048	64,103	70,863	77,463	91,926	98,458	105,268	111,995	111,973	111,969
BORROWINGS¹										
Outstanding (End of Year)	21,390	23,424	25,198	26,338	26,629	27,331	32,511	38,784	41,394	42,186
Gross Annual Borrowings	5,074	3,941	955	2,746	4,250	5,569	5,761	8,865	8,139	7,097
OPERATIONS										
Loans and Guarantees Authorized (Cumulative)²										
Ordinary Capital ³	43,818	49,608	56,242	63,512	66,088	68,739	79,742	88,226	89,959	93,518
Fund for Special Operations	11,381	11,756	12,269	13,011	13,363	13,580	14,273	14,663	14,924	15,328
Other Funds	1,571	1,607	1,621	1,636	1,648	1,722	1,735	1,726	1,724	1,719
Total	56,770	62,971	70,132	78,159	81,099	84,041	95,750	104,615	106,607	110,565
Loans and Guarantees Authorized (Annual)⁴										
Ordinary Capital ³	5,534	5,492	4,698	6,437	6,376	5,680	9,364	9,061	4,969	7,411
Fund for Special Operations	459	423	543	795	374	283	686	417	297	443
Other Funds	30	48	14	16	16	85	13	8	-	-
Total	6,023	5,963	5,255	7,248	6,766	6,048	10,063	9,486	5,266	7,854
Loan Disbursements (Annual)⁴										
Ordinary Capital ³	2,781	3,336	2,626	4,255	3,696	4,958	6,085	7,947	6,683	6,037
Fund for Special Operations	387	381	400	541	600	493	535	430	386	422
Other Funds	27	15	14	23	20	17	15	10	-	-
Total	3,195	3,732	3,040	4,819	4,316	5,468	6,635	8,387	7,069	6,459
Loan Repayments (Annual)⁴										
Ordinary Capital	1,504	1,788	2,099	2,852	2,287	2,244	1,946	1,988	2,312	1,926
Fund for Special Operations	299	270	301	288	289	285	283	289	289	268
Other Funds	70	43	35	38	36	40	29	29	15	14
Total	1,873	2,101	2,435	3,178	2,612	2,569	2,258	2,306	2,616	2,208
Loans Outstanding										
Ordinary Capital	20,098	22,179	24,478	26,581	26,028	27,301	32,635	38,552	41,872	44,951
Fund for Special Operations	5,818	5,932	6,043	6,284	6,547	6,734	6,827	6,955	7,025	6,637
Other Funds	378	337	303	271	241	209	189	164	146	133
Total	26,294	28,448	30,824	33,136	32,816	34,244	39,651	45,671	49,043	51,721
Nonreimbursable Technical Cooperation Authorized (Annual)⁵										
Fund for Special Operations	41	87	77	90	87	88	64	47	36	39
Other Funds	10	17	34	25	26	21	53	44	34	46
Total	51	104	111	115	113	109	117	91	70	85
FINANCIAL HIGHLIGHTS										
Income										
Loans										
Ordinary Capital	1,620	1,864	1,916	1,977	2,012	2,044	2,085	2,582	3,061	3,191
Fund for Special Operations	128	126	138	131	135	135	135	133	137	135
Investments										
Ordinary Capital	547	482	337	654	431	455	520	576	765	541
Fund for Special Operations	59	54	37	49	31	27	27	23	43	41 ⁹
Net Income										
Ordinary Capital	382	395	369	521	364	415	393	568	846	1,009
Fund for Special Operations ⁶	85	88	89	84	82	77	95	103	135	129
Reserves (End of Period)										
Ordinary Capital ⁷	4,360	4,758	5,303	5,969	6,072	6,307	6,867	7,436	8,103	8,913
Fund for Special Operations ⁸	552	534	534	531	628	598	424	445	488	9
ADMINISTRATION										
Administrative Expenses										
Total - All Funds	257	275	295	333	334	348	341	335	342	355

¹ Medium- and long-term borrowings, before swaps, excluding SFAS 133 hedge basis adjustments in 2001 and net premiums or discounts.

² Net of cancellations. Includes currency translation adjustments.

³ Net of Private Sector participations.

⁴ Based on original amounts in U.S. dollar equivalent.

⁵ Includes Small Project financing.

⁶ Income before Technical Cooperation expense and HIPC debt relief.

⁷ Includes accumulated other comprehensive income.

⁸ Includes accumulated translation adjustments.

⁹ Net income before the effects of Financial Accounting Standards No. 133.



Latin America and the Caribbean in 2001

Economic performance in Latin America and the Caribbean since 1997 has undergone three phases defined by external events. The crisis of emerging economies in Asia in mid-1997 marked the beginning of a deceleration phase. The Russian crisis a year later plunged the region into a recession that culminated with the beginning of a recovery phase in mid-1999, driven by the dynamic performance of the United States. The recovery came to an end in mid-2000, and economic activity in Latin America and the Caribbean has stagnated ever since.

As a result of this protracted stagnation and the difficult outlook for 2002, the countries of Latin America and the Caribbean are entering one of their most critical stages in decades. Many economies in the region lack the fiscal or external scope to resist international trends. Government leadership and prompt recovery of world growth will be decisive factors in preventing those trends from turning back the progress made over the past decade in terms of macroeconomic stability and structural reform.

International Scenario

A series of adverse external shocks has battered Latin America since mid-1997. Export prices and the terms of trade deteriorated significantly in the wake of the Asian crisis. Commodity prices (excluding petroleum) have fallen approximately 26 percent since the latter half of 1997. The terms of trade for some nonpetroleum-exporting countries, such as Chile and Peru, have fallen by about 20 percent.

Petroleum-exporting countries benefited from high crude oil prices up until the end of 2000. Since then, however, the petroleum sector

TABLE II.

THE EXTERNAL ENVIRONMENT

(In percent)

	2000	2001e
Output growth		
Developed countries	3.9	1.1
Developing countries	5.8	4.0
Import growth (volume)		
Developed countries	11.8	-1.0
Developing countries	16.4	3.5
Short-term interest rates		
U.S. Dollar	6.0	3.5
Euro	4.6	4.1
Yen	0.2	0.0
Commodity prices		
(% change)		
Petroleum	56.9	-14.0
Food*	-0.5	2.9
Beverages*	-16.6	-18.3
Metals*	12.1	-8.2

e = estimates

* Estimates based on data as of October 2001.

Source: IMF, *World Economic Outlook*, December 2001.

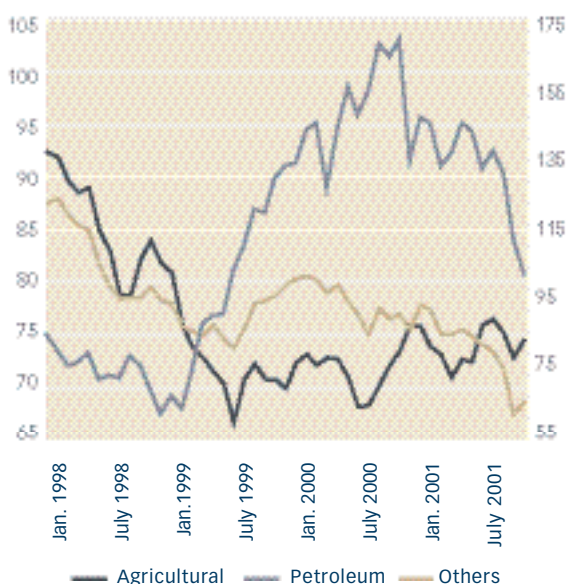
has also joined this downward trend, which has worsened since the events of September 11.

Economic activity in the United States, Europe and Japan has faltered since mid-2000. Growth in the seven largest advanced economies fell from 3.8 percent in 2000 to around 1 percent in 2001, and will only recover to an estimated 2 percent in 2002. As a result, demand for Latin American exports has dropped off and is expected to remain sluggish.

While the terms of trade have deteriorated and the world has entered a recession, access to financing has also been sharply restricted. The problems in emerging economies since the Russian crisis of mid-1998 led to a substantial and persistent increase in the cost of internation-

PRICES OF BASIC COMMODITIES

(Index: 1997:2=100)



Source: International Monetary Fund.

al financing for developing countries, particularly in Latin America. The margins between this cost and the yield on U.S. Treasury securities rose from 260 basis points during the quarter preceding the Asian crisis to more than 800 basis points during the last quarter of 2001. It is important to point out, however, that, particularly since early 2001, the markets have shown an increasing capacity to differentiate the perception of risk between Latin American countries, judging by the debt margins for each country.

The sharp increase in finance costs has been associated with reduced capital flows to the region. Capital inflows to Latin America's seven largest economies (which represent 90 percent of the region's GDP) fell from \$100 billion during the year-long period that ended in the second quarter of 1998 to \$58 billion during the year that ended in the second quarter of 2001. For all intents and purposes, portfolio flows disappeared, falling during the same period from \$49 billion to \$1 billion. This implies a substantial shift in financing sources. Foreign direct investment is indeed now the only major source of foreign capital in the region. Even that, however, has begun to contract, following a pattern that has been observed in other periods of deceleration in

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the major economies. Foreign direct investment fell from \$72 billion in 1999 to an estimated \$57 billion in 2001. This trend has been particularly pronounced in Brazil, where foreign direct investment declined from \$33 billion in 2000 to less than \$20 billion in 2001.

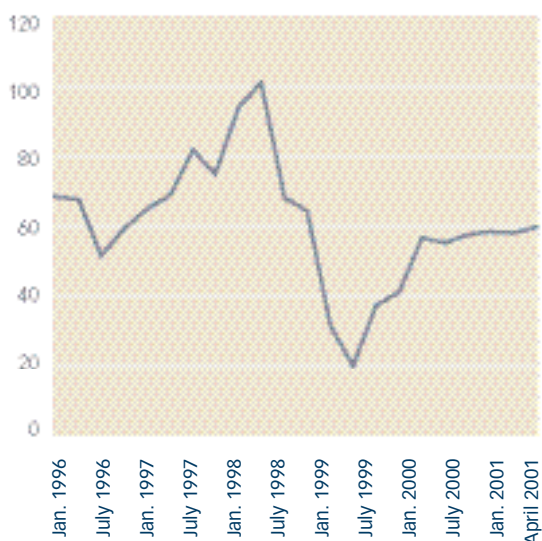
The reduction in capital flows has affected almost the entire region, including countries with solid macroeconomic foundations and a track record of serious structural reform. An example is Chile, where capital flows fell from the equivalent of 7 percent of GDP in mid-1998 to only 1 percent in 2001. The reduction in capital inflows exceeded 6 percent of GDP in Venezuela and Peru, approximately 5 percent in Argentina, and 3.5 percent in Colombia. The only country not to experience a sharp contraction in capital flows was Mexico, although that country was not spared the repercussions of U.S. economic deceleration on its own economy.

The sharp decline in the U.S. federal funds rate during 2001 was insufficient to restore financial flows to the region. Unlike in the past, this reduction in interest rates did not lead to lower external financing costs, since it was only partially reflected in lower long-term interest rates, and since this effect was offset by greater perceived risks. This perception particularly affected countries with higher levels of indebtedness, such as those in Latin America.

In summary, the region is now facing an adverse international scenario: the terms of trade have deteriorated, world trade has lost its impetus, and capital flows to the region have been sharply reduced.

Macroeconomic Performance

Economic growth in Latin America began to lose steam during the Asian crisis in mid-1997, then became negative in the wake of the Russian crisis between the third quarter of 1998 and the second quarter of 1999. A period of sharp albeit short-lived recovery followed, fostered largely by the dynamic performance of the United States.

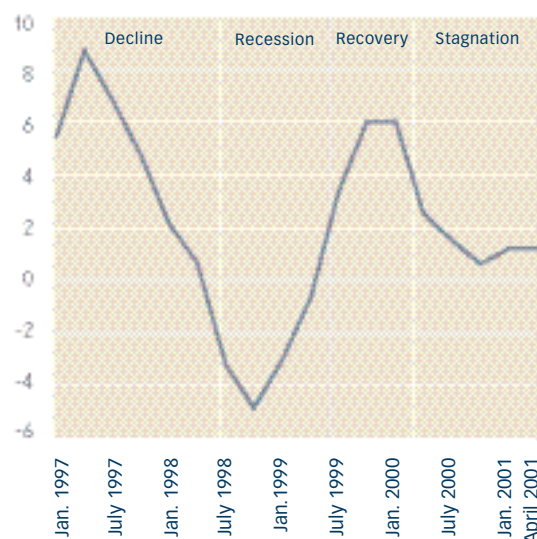
CAPITAL FLOWS*(In billions of U.S. dollars)*

Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Data refer to the cumulative value for the last 12 months.

Source: Central banks.

Declines in the terms of trade, deceleration in world trade, and the deterioration of conditions for international finance put an end to the economic recovery that spanned from mid-1999 to the first quarter of 2000. Since then, modest growth rates have weakened even further as the external scenario worsened. Growth of approximately 1 percent is estimated in 2001 for Latin America and the Caribbean as a whole. Argentina had a decline of no less than 2 percent and Mexico's growth rate was virtually nil. Most other countries had modest but positive rates of growth, including Chile, where growth of under 4 percent is estimated. A number of Central American and Caribbean countries were affected by recent natural disasters and by declines in tourism and in-bond industry. One of the few countries that registered sound growth for the year was Ecuador, which was recovering from the deep recession of 1999. Restored macroeconomic stability and an expansion in petroleum activities have given new life to the country's economy.

Investment has been the aspect of demand most affected by economic fluctuations. Beginning with the 1998-99 recession, investment declined

GDP GROWTH IN LATIN AMERICA AND THE CARIBBEAN*(In percent)*

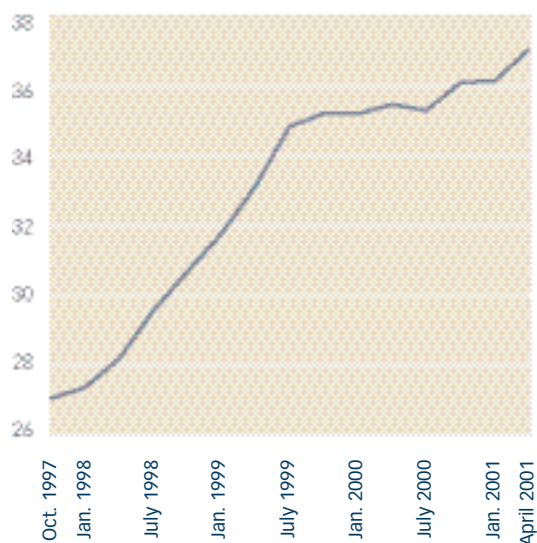
Note: Quarterly growth by year of real GDP (deseasonalized) for Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Sources: Central banks and IDB estimates.

an average of approximately 15 percent. Only a portion of that investment returned during the recovery phase. Since the start of 2000, investment has virtually stagnated. While consumption slipped less severely during the recession, current average per capita consumption for the region as a whole is below levels registered in mid-1998.

During the deceleration and recession that went from mid-1997 to mid-1999, fiscal balances deteriorated in most Latin American economies and, as a result, public debt increased. In six of the region's largest economies (Argentina, Brazil, Colombia, Chile, Peru and Mexico), the average fiscal deficit widened from 0.9 percent of GDP during the second quarter of 1997 to 3.7 percent during the last quarter of 1999. The level of public debt rose from 27 percent to 35 percent of GDP over the same period. Despite stagnation or recession in these six economies, the average fiscal deficit has since been reduced to 2.7 percent of GDP, and public debt has increased to only 37 percent. For all of the region's economies combined, the central government deficit has been reduced from 4.4 percent of GDP in 1999 to 3.2 percent in 2001.

PUBLIC DEBT (Percent of GDP)

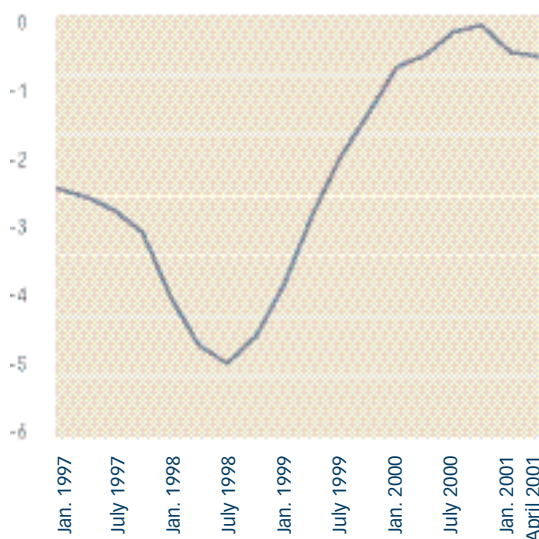


Note: Includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.
Source: Central banks.

In other words, despite substantial deterioration in the external environment and weakening of domestic demand in recent years, governments in the region have maintained austere fiscal policies. Among the major economies, only Brazil in 2001 had a significantly higher deficit than in the previous year, and even there, this was not a result of increased expenditure, but rather of the increased cost of debt service attributable to higher interest rates and devaluation of the real. The region's governments have not resorted to fiscal policy to counteract the decline in productive activity, owing to aggravated financial restrictions and already high indebtedness in a number of countries, particularly when measured against tax revenue.

Restricted access to the international capital markets has also prevented most countries from maintaining higher external deficits, as would be advisable to avoid even further cuts in domestic expenditure in light of declining export revenue. On the contrary, the current account of the balance of payments in the seven largest countries of the region (the above-mentioned six plus Venezuela), which had achieved an average annual deficit equivalent to 5 percent of GDP during the third quarter of 1998, reached virtual equilibrium in the first quarter of 2001. Moreover,

CURRENT ACCOUNT BALANCE (Percent of GDP)



Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
Source: Central banks.

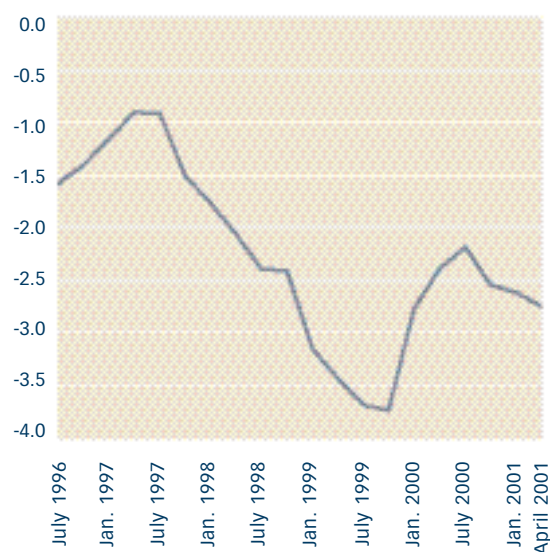
for the full year, these countries registered a deficit of no more than 1 percent of GDP. For all the countries of the region, the average current account deficit narrowed from 4.5 percent of GDP in 1998 to 3.3 percent in 2001.

As a result of the narrower margin for adjustment in external or fiscal balances, countries have had to use some combination of higher exchange rates and higher interest rates to preserve macroeconomic stability. In Brazil and Chile, exchange rates underwent substantial adjustment throughout the year, while in Argentina, the burden of the adjustment was borne by interest rates.

Labor

Trends in unemployment are cause for great concern in the region. According to *Latinobarómetro*, a survey of 17 countries, Latin Americans consistently view the labor market as the region's main problem. Of a list of 20 problems—including corruption, lack of education, poverty and violence—40 percent of respondents considered the most

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CENTRAL GOVERNMENT FISCAL BALANCE*(Percent of GDP)*

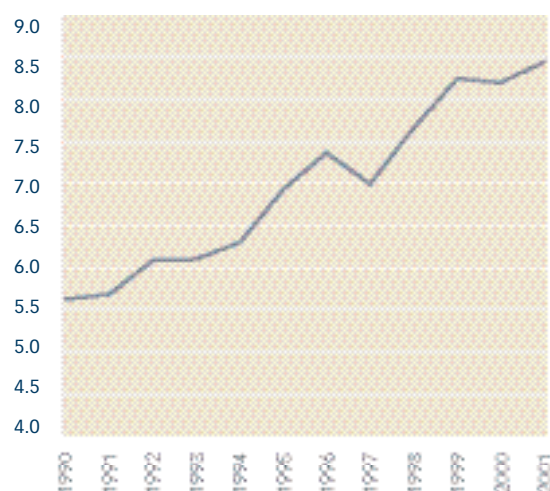
Note: Includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Source: Central banks.

serious problems to be the shortage of jobs, labor instability, and low wages. One of every four Latin Americans considers unemployment to be the number one problem in his or her country.

Taken from surveys conducted at the beginning of 2001, these perceptions are very much rooted in reality. While labor statistics dating to the mid-1990s do not present an encouraging picture, more recently the situation has deteriorated even more. Unemployment rates peaked in 2001 following a slight decline in the previous year. The unemployment rate (weighted to reflect country population) increased from 8.1 percent in 2000 to 8.4 percent in 2001. Unemployment rates are now almost three points higher than they were at the beginning of the 1990s.

Unemployment rates increased dramatically in Argentina, jumping from 14.7 percent in 2000 to 18.3 percent in 2001, owing to the country's economic and financial crisis. The increase in unemployment would have been even greater had participation rates not declined after a decade of rising trends. Unemployment rates also increased in other countries where the situation was already critical. In both Colombia and Uruguay, increased unemployment was attributable primarily to higher participation rates, since, in both countries,

UNEMPLOYMENT*(In percent)*

Sources: International Labour Organization and national statistics.

the rate of job creation in 2001 exceeded the growth rate of the working age population. By contrast, unemployment rates fell slightly in Brazil and Chile, although more as a result of reductions in labor participation than job creation.

Given the deteriorating labor markets in many countries, it comes as no surprise that little progress has been made in reducing poverty and inequality in recent years. The incidence of poverty increased in 2000 for Argentina, Bolivia, Panama, Peru and Uruguay. While statistics are still not available to confirm these trends in 2001, it is quite probable that economic deceleration and higher unemployment rates have severely impacted the living conditions of the poorest sectors of the population.

Policy Challenges and Outlook

The outlook for Latin America and the Caribbean for 2002 is for somewhat higher growth than in 2001, although there is ample scope for further improvement. While recession is not expected in any countries in the region, apart from Argentina, projected growth rates are generally below 4 percent, and the figure for the region as a whole is less than 2 percent.

Within this unattractive scenario, there are many causes for concern. The most pressing case is Argentina. During the first half of 2000, the consensus of the markets was that growth levels of 4 to 5 percent should be expected in 2001. Debt margins were mostly under 600 basis points and the country was enjoying a good risk rating. Eventually, the rate of growth was negative and debt margins climbed to record highs, precipitating the largest debt default in history and the collapse of the government.

In hindsight, the shift in the opinion of the markets toward Argentina came as a surprise. Argentina clearly sustained a series of unfavorable shocks during this period, including the devaluation of the Brazilian real, the decrease in export prices, the strengthening of the dollar, and political events that made the adoption of adjustment measures difficult and undermined international confidence. These shocks prompted concerns regarding fiscal sustainability, considering the high cost of public debt and the substantial public finance requirements. However, Argentina accomplished one of the most dramatic fiscal and macroeconomic adjustments that could be imagined, with profound cuts in public wages and social security programs. The country also introduced creative and courageous measures to improve its debt structure and reduce external trade imbalances, with support twice within one year from the International Monetary Fund.

International confidence was not restored, however, and interest rates remained quite high, trapping Argentina in a vicious cycle in which the fiscal adjustments required to accommodate the debt burden reduced the growth outlook and further undermined confidence. After various rounds of fiscal adjustment, the authorities became convinced that growth and confidence could not be restored without some sort of debt reduction or restructuring to reduce the future fiscal burden. The government attempted to devise such measures with a view toward a voluntary restructuring, which would not endanger the country's future access to external financing.

In order to avoid a run against the banks and the currency, the economic authorities imposed a freeze on deposits, which further

undermined confidence and aggravated the recession.

The protracted crisis in Argentina has not led to widespread contagion in Latin America as might have been expected. Indeed, the markets have been able to effectively discern the different situations in the different countries. Several countries recently have placed securities on the international markets.

Another cause for concern is the future of macroeconomic stability in Latin America. Despite the difficult circumstances that countries have endured over the past decade, governments have consistently maintained their commitment to macroeconomic discipline. And despite difficult circumstances, inflation rates have in fact continued to decline in most countries. Six of the region's seven largest economies have registered inflation rates of under 10 percent, and there is no reason to believe that these trends will change considerably in 2002. It should be borne in mind that, in recent years, inflation has remained under control even in countries where there have been major exchange rate devaluations. Colombia (1998) and Brazil (1999) substantially adjusted their real exchange rates without causing increased inflationary trends in the medium term. Most countries evidence a firm commitment to macroeconomic stability in their management of the current situation.

The third major area of concern for the region regards the future of structural reform. Will there be retrenchment in the process of economic modernization, with a return to the old policies of central government control and intervention? Trends over the past decade indicate that this is unlikely. The times of greatest reform have in fact almost without exception been times of crisis, and the reform process has stayed on course in most countries.

It should be borne in mind, however, that throughout the region there is a climate of discontent with the economic situation and dissatisfaction with the results of some economic reforms. The probability of policy reversal will decrease to the extent that a rapid and sustainable solution can be found for Argentina's problems, and that they are prevented from spreading to other coun-

tries. Slippage will also be less likely if the U.S. economy begins to recover—and this is expected to occur in mid-2002 at the latest—and if new export opportunities become available to Latin American countries to broaden the horizon for investment and rapidly restore growth.

There is no doubt that Latin America and the Caribbean are at a crossroads. Economic conditions will be particularly difficult in 2002. Most governments are now committed to macroeco-

nomic stability and the process of structural reform, although they lack sufficient macroeconomic scope to resist a protracted economic deceleration. In fact, many countries have already resorted to cutting or delaying expenditure programs, despite growing public demands and discontent. Against this backdrop, changes in the international economic environment, along with solid leadership and government credibility, will be the decisive factors in negotiating this crossroads.



Part I: The Bank in 2001

Key Areas

Overview

The Inter-American Development Bank, responding quickly to the increasing financial needs of Latin America and the Caribbean during a time of economic stress, approved \$7.9 billion in loans in 2001. This marked the third highest annual lending total in the Bank's history, and represented a record amount for the institution's regular lending program. For the eighth consecutive year, the IDB remained the region's largest source of multilateral credit, particularly for the smaller and less developed countries.

The lending program reflected the region's broad-based development agenda of poverty reduction and social equity, reform and modernization of the state, and investments in infrastructure and productivity. The Bank's program included loans to finance investment projects, sector loans to support policy reforms, and direct loans to the private sector without a government guarantee.

On a sector basis, \$3 billion supported projects in the social sectors; \$2.4 billion for modernization of the state and reform programs; \$1.7 billion for the productive sectors; and \$695 million for infrastructure.

The Bank's Board of Governors had stipulated in the Eighth General Increase in Resources in 1994 that lending for poverty reduction and social equity should reach 40 percent in terms of volume of resources and 50 percent in terms of number of operations over succeeding years. Investments in poverty reduction and social equity are cross sectoral and include investments in the social sectors as well as other sectors. In 2001, 54 percent of the total loan volume and 59 percent in terms of numbers of operations supported investments in poverty reduction and

social equity, surpassing the goals set in 1994.

On a country group basis, 68 percent of lending went to Group I countries, 31 percent to Group II countries, and 1 percent to regional programs. The Bank's goals are for 65 percent of lending to go to Group I and 35 percent to Group II. Group I include countries whose 1997 per capita GNP was above \$3,200: Argentina, Bahamas, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela. Group II includes countries whose per capita GNP was below \$3,200: Belize, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname.

The Bank provided debt relief of \$66 million under the original and enhanced Heavily Indebted Poor Countries initiative (HIPC) to four eligible countries (in nominal values): Bolivia, \$31 million; Guyana, \$1 million; Honduras, \$23 million; and Nicaragua, \$11 million.

The worldwide economic slowdown in 2001, exacerbated by the September 11 terrorist attacks in the United States, brought increased demand by countries for fast-disbursing sector loans to support stabilization and modernization. The Bank responded by providing \$3.1 billion in financing for policy-based sector loans for reform, modernization of the state, and protection of social spending during times of economic stress.

Policy-based financing supported fiscal reform in Argentina, Colombia, Peru and Uruguay; social reform, safety net protection, human capital investment and poverty reduction in Bolivia, Brazil, the Dominican Republic, Honduras and Jamaica; public management modernization and health sector reform in Uruguay; and pension reform in Nicaragua.

In **education**, \$711 million or 9 percent of the Bank's loans for the year supported basic, secondary and technical education projects in five countries. The emphasis was on modernizing secondary education, supporting vocational and technical education and training, expanding access to technology, and narrowing social inequities by giving children more years of schooling and improving the employability of young people from poor families.

The Bank financed projects for **health** in two countries. A \$35 million loan to Panama will expand basic health coverage of the poor through services delivered by nongovernmental and civic organizations, religious groups and cooperatives. A \$75 million loan to Uruguay will help reform the health sector. The Bank also approved a \$1 million grant to Haiti to launch an HIV/AIDS support program.

To ease the impact of the economic crisis on the poorest segments of the population, a number of countries set up **social support programs** to protect and promote human capital investment and establish social safety nets. The Bank approved \$1.9 billion to fund 14 social protection programs.

In **urban development**, the Bank approved \$169 million for five projects in five countries. A \$9.8 million loan will help Suriname with housing reforms in low-income settlements.

The Bank approved programs to support the culturally appropriate development of **indigenous and Afro-Latin American communities** in Chile and Honduras, in addition to ethno-specific components in a number of other projects.

For the **environment** and natural resources conservation, water and sanitation and natural disasters, the Bank approved investments totaling over \$400 million. A \$25 million loan to Honduras will strengthen natural resource management in watershed areas. A sustainable development program for the Upper Lempa River Basin program encompasses separate loans to El Salvador, Guatemala and Honduras to manage and protect the watersheds of that river system. In water and sanitation, a \$100 million loan to Brazil will improve services in low-income areas of small urban communities. A \$10 million loan will provide coverage in rural areas of Jamaica, and a \$12

million loan will improve sanitation conditions in small communities in Paraguay.

The Bank also approved loans to El Salvador and Peru under the Emergency Reconstruction Facility to help those countries respond to earthquakes during the year.

For **modernization of the state**, the Bank approved \$2.4 billion in financing for public sector reform and decentralization, fiscal reforms, financial sector reforms, and the administration of justice. A strong emphasis was on strengthening state institutions so that they can build or rebuild the institutional capacity necessary to meet the challenges of an increasingly open, competitive global economy.

Sizeable investments were made in **decentralization and public sector reforms**. Four projects totaling \$330 million were approved to support the decentralization necessary to consolidate the fiscal equilibrium and administrative capacity of subnational governments. The Bank also funded programs to modernize governments by boosting the quality and productivity of management and services, and by improving public policy design and macroeconomic and fiscal management capacity.

A number of countries in need of **fiscal reform** experienced slowing economies and a reversal of capital inflows. To help strengthen fiscal management and consolidate economic stability, the Bank approved four sectoral adjustment programs totaling \$1.2 billion to improve public finances in Argentina, Colombia, Peru and Uruguay. The Bank also approved a \$502 million financial sector reform program in Argentina.

The Bank funded five projects during the year for the **administration of justice** in Barbados, Costa Rica, Jamaica, Nicaragua and Venezuela.

In **infrastructure**, the Bank approved \$695 million for projects in transportation and energy. Loans funded public road and highway repairs in Brazil, Guyana, Jamaica and Nicaragua; rural road projects in El Salvador and Peru; and an urban road program in the Bahamas. A private sector project was approved to finance port construction in Chile.

For **energy**, the Bank financed \$304 million for five projects, including private electricity gen-

BOX 1

THE PUEBLA-PANAMA PLAN

At a summit held in San Salvador in June 2001, the heads of state and government officials from Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama called on the IDB to take on a leadership role within an ambitious regional proposal, the Puebla-Panama Plan (PPP).

The goal of the plan is to finance projects aimed at accelerating social and economic development in the region, while consolidating integration efforts among the seven countries of the Central American basin and nine southern states in Mexico. The region spans over a million square kilometers, with a population of almost 65 million inhabitants.

This region, known as Mesoamerica, has enormous potential for development, but faces many challenges as well. Its territory serves as a bridge between important consumer markets and is rich in natural resources. Its population, linked by shared cultural roots, is firmly committed to democracy. Nevertheless, its poverty indices are markedly higher than those of the rest of Latin America. The economies in the region lack adequate infrastructure and suffer from costly inefficiencies, and the geography exposes the region to natural threats such as hurricanes and earthquakes.

The eight participating countries asked the Economic Commission for Latin America and the Caribbean (ECLAC), the Central American Bank for Economic Integration (CBEI), and the IDB to study the common elements between the regional development initiatives of Mexico and Central America. Based on that study, the governments identified eight key areas or "Meso-American initiatives," in

which they could all successfully cooperate. These initiatives include sustainable development, human development, natural disaster prevention, tourism development, road network integration, intra-regional trade facilitation, energy integration, and development of telecommunications.

The governments of the region stipulated a series of criteria to be followed by the PPP projects. First and foremost, they must be region-oriented and practical, safeguard the environment, and respect local and indigenous communities. PPP projects will encourage the involvement of civil society organizations in the different stages of the plan.

In its role as the coordinating entity of the PPP financing commission, the IDB has compiled a portfolio of regional project profiles to be submitted to the international community. Initially, the portfolio included 17 proposals, to which 12 more were added during 2001. In initial consultations with delegates from multilateral institutions and bilateral cooperation agencies, IDB President Enrique V. Iglesias explained the reasons for the Bank's support for these initiatives:

"The Puebla-Panama Plan could be the catalytic force for many long-desired projects by the Meso-American region to become reality. This is an integral plan that will involve the public and private sectors, as well as civil societies of the eight participating countries. The international community not only will have the opportunity to contribute financial resources, but also its technical knowledge and its accumulative experience in various fields such as citizen participation or prevention of natural disasters."

For further information, see
<http://www.iadb.org/goto.pl?Pppeng>

eration, transmission and distribution ventures in Argentina and Brazil (two thermal generating plants), as well as electricity interconnection projects for the Dominican Republic, for a joint Argentina-Brazil initiative, and for Central America.

The Bank provided \$1.7 billion in financing for the **productive sectors of agriculture and microenterprise and small and medium-sized businesses**. Agricultural loans were approved for Belize, Brazil, Ecuador, El Salvador, Mexico, Peru and Venezuela. These seven programs will boost agricultural productivity, expand economically sustainable activities, and, in Belize and Peru, support land titling.

The Bank approved over \$1 billion in **multisectoral credit** programs for Brazil, including a \$900 million global credit program that will make financing rapidly available to microenterprises and small and medium-sized businesses.

The Bank promoted the integration of the Central American isthmus and southern Mexico through the Puebla-Panama Plan by approving \$240 million in financing to support the Central American Electric Interconnection System (SIEPAC). The project will build the first regional transmission network, setting the stage for a wholesale electricity market between Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua and Panama.

The Bank financed 376 technical cooperation operations totaling \$71 million. National technical cooperation accounted for \$59 million and regional technical cooperation totaled \$12 million. Almost 60 percent of the technical cooperation programs were aimed at the social sectors. The balance was for reform and modernization of the state, and for infrastructure and the productive sectors.

In the **private sector**, the Bank approved \$279 million in non-guaranteed loans to the private sector and the equivalent of \$586 million in syndicated cofinancing arrangements with commercial institutions. Another significant development was the initiation of reinsurance of political risk guarantees. The three reinsurance agreements closed in 2001 totaled \$172 million and helped spread the Bank's risk to three separate

private sector insurance companies. The Bank's Board of Governors approved the framework to allow an increase over time of non-guaranteed private sector operations from 5 percent to 10 percent of outstanding loans and guarantees.

The **Multilateral Investment Fund (MIF)** approved 66 projects totaling \$94 million during the year. The MIF, an autonomous fund administered by the Bank, provides technical assistance grants and investments to support market reforms, build workforce skills, and broaden the participation of smaller enterprises.

The **Inter-American Investment Corporation (IIC)** approved 19 transactions totaling \$128 million in 2001. The IIC, an autonomous affiliate of the Bank, promotes the establishment, expansion and modernization of the region's small and medium-sized enterprises.

In the financial area, the Bank's performance showed continued profitability, with strong financial ratios and a fully performing sovereign portfolio, with certain non-guaranteed private sector loans classified as impaired and in non-accrual. The Bank again received an AAA credit rating from the major credit rating agencies, as has been the case since the institution was established. The Bank's borrowing in the world's capital markets totaled \$7.1 billion equivalent.

The Bank took important steps during the year to strengthen the ongoing fight against fraud and corruption. The Board of Executive Directors approved a document entitled "Strengthening a Systematic Framework against Corruption." An independent Oversight Committee on Fraud and Corruption was also created. Composed of four members from senior Bank management, the committee will coordinate existing activities, receive reports of allegations of fraud and corruption, and ensure proper oversight of any investigation that is initiated.

During 2001, there was steady progress in implementing the Institutional Strategy approved by the Board of Executive Directors in 1999. The Institutional Strategy, a joint initiative of the Board of Executive Directors and Management, has become a key instrument in improving the Bank's efforts to achieve its mandates and priorities. The principal recommendations included improving

the Bank's guidance system; reviewing performance, priorities and resources; strengthening country focus and country/regional programming; mobilizing resources for technical cooperation; supporting policy dialogue; diversifying lending instruments; developing a human resources strategy; and improving efficiency and decentralization.

Highlights of implementation of the Institutional Strategy during the year included the following:

- The Bank approved \$963 million for 29 operations using new flexible lending instruments. These new modalities were created to provide a more timely response to borrowing country investment programs that require support beyond the traditional project cycle. They include innovation loans (rapid processing and approval procedures for loans up to \$10 million); multiphase projects (large investment programs for which the Board approves the overall concept and the first phase, while subsequent phases are approved through a simplified process); sector facilities in trade, health and education; and the Project Preparation and Execution Facility.

- The Board of Executive Directors approved new Country Papers for nine countries, including Argentina, the Bahamas, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico and Panama, as well as a new Regional Paper for Central America. Country Papers are the Bank's main tools for evaluating the IDB Group's strategy for cooperation with each country. A special effort was made to define relevant and measurable benchmarks and to monitor and evaluate the results of the proposed strategies and their development impact.

- The Board of Executive Directors approved a human resources strategy designed to promote fairness, transparency and rigor that rewards staff excellence and commitment. Policies were set in motion in such areas as consultant services, compensation, career mobility, employee separation, workforce diversity, leadership assessment, and management development.

- In supporting policy dialogue, a regional policy dialogue has been established and seven area-specific policy groups are meeting regularly to share experience in policy development and

implementation and explore opportunities for regional cooperation.

The Board of Executive Directors approved strategies in 2001 for rural finance and subnational development. The latter articulates a comprehensive approach to municipal, provincial and state projects that expands the scope of these projects and focuses on a system of incentives. The objective of the Bank's rural finance strategy is to promote the provision of efficient, broadly-based and sustainable rural financial services.

The year 2001 was the first full year of operations for the Bank's redesigned Office of Evaluation and Oversight. The office work program included oversight of the Bank's evaluation system, country program evaluation, strategy evaluation, policy and instrument evaluation, and evaluation capacity building.

The Annual Report on Projects in Execution concluded that as of the end of 2000, the Bank's portfolio was performing well—88 percent of projects were classified as being on-track to achieve their development objectives.

The Bank continued to reach out to the trade union movement in the region. The Bank and the Inter-American Regional Organization of Workers (ORIT) held a two-day meeting focusing on the effects of globalization on workers. The Bank financed a technical cooperation operation aimed at reducing child labor. The Bank continued supporting the work of the OAS-sponsored Inter-American Conference of Labor Ministers.

The Bank continued its support of consultative groups that strengthen donor cooperation with countries of the region. In 2001, the Bank helped organize consultative groups for Colombia, Ecuador and Peru. The third meeting of the consultative group to support the peace process in Colombia met in Brussels. Commitments totaling \$304 million were pledged, including funding for a social development and institutional strengthening strategy. The Bank coordinated the consultative group meeting for Ecuador's Social Welfare and Alternative Preventive Development Program, which promotes sustainable economic and social development. Some \$266 million was pledged for social development projects. At a donor meeting organized by the Bank, \$1 billion in financial

assistance was pledged for Peru's Productive Employment Program.

Board of Governors

The Bank's highest authority is the Board of Governors, on which each member country is represented. Governors are usually Ministers of the Economy or Finance, Presidents of Central Banks or individuals in similar positions in their respective countries.

The IDB's 42nd Annual Meeting took place in Santiago, Chile on March 19-21, 2001. During this meeting, the Board of Governors approved the 2000 financial statements for the ordinary capital (OC), the Fund for Special Operations (FSO), and the Intermediate Financing Facility Account (IFF). The Board allocated \$54.5 million equivalent in convertible currencies to the IFF from the FSO.

Throughout its deliberations, the Board of Governors analyzed a wide variety of topics, ranging from issues regarding the new institutional structures that have resulted from the consolidation of democracy in the region in the 1990s and the new international financial architecture; to the fight against poverty and the role of the private sector in the development of Latin America and the Caribbean.

With regard to the IDB's role, the Board pointed out that in encouraging the growth of the region's economies, the Bank must assign priority to investing in human resources, particularly in the health and education sectors. It was also noted that development of microenterprises and small and medium-sized businesses should continue to be considered by the Bank as a fundamental factor in economic growth and poverty alleviation in the region. The Board also requested that the Bank continue strengthening its work on improving the financial, legal and regulatory framework supporting private investment and its catalytic role in the mobilization of private resources. It underscored the institution's leadership in the reconstruction process of countries affected by natural disasters, as well as the need to continue working in the following priority areas: poverty reduction and social reform, moderniza-

tion of the state, competitiveness, integration, the role of the private sector, portfolio management and development effectiveness. (These areas are covered following the sections on the Board of Governors and Board of Executive Directors.)

The Committee of the Board of Governors met on three occasions in 2001: in Santiago, Chile on March 18th; in Washington, D.C. on July 2-3; and again in Washington, D.C. on November 28-29.

During these meetings, the additional main topics under consideration were the Report to the Board of Governors on the Implementation of the Institutional Strategy; the new loan policies; the response to the Report from the External Review Group on Private Sector Operations; the enhanced Heavily Indebted Poor Countries Initiative (HIPC); and the Bank's capability to respond to the needs of the member countries.

With regard to the institutional strategy, it was once again reiterated that the fight against poverty continued to be of paramount concern to the institution, along with issues on governance, competitiveness, integration and the environment. The committee also underscored the relevance of these initiatives in terms of the Bank's ability to respond to the needs of Latin America and the Caribbean. On the issue of loan policies, it was recommended that a working group of the Committee of the Board of Governors be established to ensure that work on this topic continues. As for the third topic, expressions were voiced in support of the recommendations of the External Review Group on private sector operations.

Regarding the Bank's capability to respond to the needs of the member countries, it was agreed to broaden the ways to support the region's development. It was also recognized that diversifying lending tools would increase the capacity to mobilize the Bank's financial capability in support of regional development.

A proposal for three lending modalities including emergency, investment, and policy-based lending has been forwarded to the Governors for their approval. The proposal was an important contribution to the discussions on this issue, and was generally received with interest by the Governors. They generally reacted favorably to the idea of creating an emergency modality. The

Governors also received with interest a proposal for greater flexibility regarding the limits of the foreign exchange matrix.

The committee requested that the Board of Executive Directors and Management, on the basis of all of these proposals, analyze options to increase rapid-disbursement lending, with special attention to maintaining the financial soundness of the Bank. The Board of Executive Directors and Management will prepare a paper for discussion by the Governors at the committee's next meeting.

The Governors agreed that it is crucial to ensure that development objectives are properly safeguarded in all of the Bank's operations. In this respect, the committee instructed the Board of Executive Directors to prepare a report with Management on enhancing the development effectiveness of all the Bank's lending operations.

Board of Executive Directors

The 14-member Board of Executive Directors performs its duties on a full-time basis at IDB headquarters in Washington, D.C. Executive Directors serve for terms of three years. Each Executive Director appoints an Alternate Executive Director who has full authority when the principal is absent.

The traditional institutional foundation of the Bank consists of three main elements: (i) the Agreement Establishing the Inter-American Development Bank, which sets out the institution's ongoing objectives; (ii) the agreements on periodic increases in the resources of the Bank negotiated with member countries, which stipulate the Bank's priorities for a given multiyear period; and (iii) decisions by the Board of Executive Directors.

The Board of Executive Directors approved a number of operations during the year, based on recommendations made by the Bank's respective committees. The following were approved:

- (i) The Emergency Reconstruction Facility to provide support to the borrowing countries in the region affected by unexpected natural disasters;
- (ii) Human Resource Strategy;
- (iii) Training Program Strategy for C and D countries;

(iv) Systemic Strengthening against Corruption;

(v) Flexible lending tools. Proposal for the creation of the Sectoral Facility for Disaster Prevention;

(vi) Amendment to policy on disclosure of information;

(vii) Sub-national development strategy;

(viii) Rural finance strategy;

(ix) Partial setting of the Registry of Independent Investigators of the Bank's Independent Investigation Mechanism.

As for the program-related topics, the Board of Executive Directors approved the following:

- 2001 Multi-Annual Working Plan and Budget for the Evaluation Office;
- Lending program for 2001;
- Non-reimbursable Technical Cooperation Program;
- Framework for future increase in Bank operations for the private sector without government guarantee;
- Allocation of available resources from the Fund for Special Operations (FSO);
- Country papers for Argentina, Bahamas, Chile, Ecuador, El Salvador, Guatemala, Mexico, Panama and the Dominican Republic;
- The Bank's Annual Report for 2000;
- EVO Annual Report for 2000.

With regard to financial and budget issues, the following were approved:

- Review of financial charges on ordinary capital lending and guarantees, and IFF subsidy levels for the first and second semesters of 2001;
- Borrowing program for 2001;
- Authorization to invest Bank resources;
- New procedures applicable to budget for capital improvements;
- Administration and Budget Report for the 2002-2004 period;
- The Bank's financial statements for 2000.

Among the agreements signed by the Bank with other organizations, and other matters considered by the Board of Executive Directors, were the following:

- Protocol of Understanding and Agreement for the creation of a General Cooperation Fund between Spain and the Bank;
- Authorization for the participation of the Instituto de Crédito Oficial (ICO) of Spain in three private sector projects.

Committees of the Board of Executive Directors

The Steering Committee of the Board of Executive Directors was created at the beginning of 1997. Its main responsibilities are to coordinate and follow up the work programs of the Board committees, review and oversee the drafting of the guidelines and strategic plan for the institution, and review and confer with Management on all aspects related to the drafting and follow-up of the working program of the Board of Executive Directors and other areas of interest.

The Board approved a series of reforms during 2001 to improve the management and effectiveness of its committees, and to codify some existing practices. Membership in standing committees was broadened to include all chairs. A new position of vice dean was created. Criteria for selection of committee chairs and vice chairs were also developed.

In addition to the four standing committees described below, the Steering Committee continued to serve as the focal point for coordinating the overall Board work program.

The functions and basic activities of the permanent committees, and the relations among them, are described below.

Organization, Human Resources and Board Matters Committee

Among the basic duties of this committee are to study proposals and formulate recommendations to the Board of Executive Directors on matters related to the organization of the Bank (including operational procedures, delegation of functions, decentralization, and institutional agreements between the Bank's executive bodies), human resources (including the Bank strategy on human resources, and corresponding policies), and Board

matters (including overseeing the efficient application of measures by Management directly affecting the Board).

Early in the year, the committee reviewed the Human Resources Strategy, which was subsequently approved by the Board. Policy documents, studies and action plans required by the strategy formed the basis for most of the committee's work program during the year.

During the course of the year, the committee discussed compensation policy, an action plan on diversity, use of the long-term consultant contingency reserve, the Bank's policy on terminating employment, and the process of converting fixed-term contracts to open-ended ones.

The committee will continue to focus on human resource issues next year when it will examine the Bank's staffing plan and the head-count assessment to ensure that the Bank has the staff, in terms of numbers and skill mix, to respond to the member countries' demands. The committee will also monitor other actions related to the Human Resources Strategy.

Budget, Financial Policies and Audit Committee

This committee reviews and recommends the approval of the Bank's administrative and capital budgets for the year. It also reviews the guidelines regarding budget policies from a mid-range perspective. In this context, it carefully analyzes the budget projections for the following year, and assesses budget execution reports of the current year. In addition, it reviews loan pricing and fees, and updates financial policies, such as the policies on liquidity, debt capacity, and the authorizations for borrowing and investing, and their pertinence regarding the current and future financial situation of the Bank. With regard to auditing, it reviews internal and external auditing, and the recommendations formulated by external auditors regarding internal and financial controls, as well as internal auditing policies. Throughout 2001, the committee focused considerable attention on consolidating the improvements in the process through which the Board considers and oversees the implementation of the Bank's budget. At the

BOX 2

ANTI-CORRUPTION INITIATIVES

The Bank took important steps in 2001 to strengthen the ongoing fight against fraud and corruption. The Board of Executive Directors approved a document entitled "Strengthening a Systemic Framework against Corruption," which spelled out three broad areas of activities for the institution. First, the Bank must continue to ensure that its staff always act in accordance with the highest standards of integrity and that internal policies and procedures reflect this institutional commitment. Second, the Bank must have in place the internal management controls to ensure that lending programs are properly designed and executed, that funds are used as intended, and that funds are spent in line with the institution's policies and procedures. Third, the Bank must continue to support financial and non-financial activities in its borrowing member countries that combat corruption.

Because it is essential to ensure that funds disbursed by the Bank are used for the development purposes for which they are intended, and in accordance with established guidelines and procedures, great stress has always been placed on avoiding illegal and unethical behavior in connection with all Bank activities. Thus, in addition to the existing mechanisms for the investigation of illegal and improper behavior, an independent Oversight Committee on Fraud and Corruption was created in March 2001. The committee is composed of four members of senior management of the Bank and reports directly to the President. It is chaired by the Executive Vice President, and includes the Vice President for Planning and Administration, the General Counsel and the Auditor General.

The goal in launching the committee was to establish a mechanism to coordinate already existing activities, create a central point for the reporting of any allegation of fraud and corruption, and ensure proper oversight of any investigation that is initiated. Such investigations must be carried out adequately and promptly, and any recommendations or follow-up actions required must be fully implemented. The committee will be supported by a secretariat housed in the Office of the Auditor General. The secretariat will receive any allegation of fraud or corruption with respect to staff members or in connection with any Bank activity or operation, and those allegations will be reviewed by the committee to determine appropriate action.

To ensure that there are clear guidelines for the conduct of staff and transparent procedures to be followed to address allegations of unethical behavior, an inter-departmental working group has started a review of the Bank's Code of Ethics. It is expected that a new code will become effective in early 2002.

The descriptions in this Report of operations approved during the year for each borrowing member country makes it clear that the Bank continues to support operations to ensure transparency in public functions, reform of the state, and good governance. In addition, one of the Regional Policy Dialogues established by the Board of Executive Directors is dedicated to public policy management and transparency. The dialogue had a successful first meeting with representatives from the Bank's borrowing member countries and is expecting to convene for a second time in April 2002.

For further information, see

<http://www.iadb.org/goto.pl?anticorrupt>

beginning of 2001, the committee discussed the first multi-year capital expenditure plan, identifying the major projects expected for improvements to the Bank's facilities and information technology. Each major project will also be examined individually in reports setting out their estimated costs and benefits.

As regards administrative expenditures, the discussion of the 2002 budget was the first to benefit from the alignment of the budget cycle and the salary increase cycle. This allowed Directors to establish ground rules on how personnel costs and budget increases should be handled. The committee agreed that procedures for

Board consideration of the Budget needed further strengthening, and Management was requested to submit a proposal to the Board during the first quarter of 2002.

The committee was also concerned about strengthening the linkages between the execution of Department budgets and the implementation of their business plans. As a result, starting in 2002, Management will provide information on progress in meeting business plan targets in the quarterly reports on budget execution. The committee encouraged Management to set out priorities and coordinate efforts between central and operational departments.

At the beginning of the year, additional security arrangements were discussed for country offices. After September 11, security at headquarters as well as in country offices had to be strengthened, and Directors approved additional resources for this purpose.

Programming Committee

The main functions of the Programming Committee include considering proposals, project execution reports and initiatives regarding regional and country programming; overseeing outcomes and products of the loan portfolio and related matters that fall within the operational mandates established by the Board of Governors; and recommending programming-related measures to the Board of Executive Directors.

In 2001, the committee reviewed nine country papers (Argentina, Bahamas, Chile, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama and the Central America Regional Paper.) In their deliberations, the Executive Directors highlighted the importance of establishing clear benchmarks, the assessment of country papers, and the importance of linking lending programs to strategies. Discussion of new country paper guidelines were initiated and it is anticipated that new guidelines will be approved by the Board early in 2002.

The committee held a one-day seminar with the Private Sector Department, the Multilateral Investment Fund and the Inter-American Investment Corporation to discuss their action plans for C and D countries.

In the area of reporting, the Directors discussed non-lending products and the 2001 lending program.

Finally, the committee discussed a new methodology for allocating resources from the Fund for Special Operations. The methodology includes country performance as one of the criteria for allocating these scarce resources. The new methodology will be discussed further by the committee and approved by the Board in 2002.

Policy and Evaluation Committee

This committee's main functions include advising the Board of Executive Directors on the drafting, updating and reviewing of operational policies and strategies of the Bank, as well as overseeing the institution's evaluation activities.

The work of the Policy and Evaluation Committee benefited from the full implementation of the reorganization of the Bank's monitoring and evaluation arrangements. Concrete results included enhanced quality of documentation produced by the Office of Evaluation and a parallel enhancement of Management's own self-evaluation activities.

In the committee, Directors highlighted issues related to development impact and portfolio performance. The committee undertook a useful review of the scope for Bank support of evaluation capacity building in the region. Its review of the 2000 portfolio led to an agreement that Management would present a plan setting out actions to improve the portfolio. To learn how comparable organizations tackle these issues, a large number of Directors attended a briefing on the World Bank's Quality Assurance Group.

The committee's annual review of projects aimed at poverty reduction and at enhancing social equity, was wide ranging and comprehensive. Key decisions were made on ways to improve the effectiveness of these projects, and on further enhancement of the quality of the annual review.

An important issue addressed by the committee was the clarification of the framework for a comprehensive review and revamping of the Bank's toolkit of sector policies and strategies, in order to strengthen the Bank's role in reducing

poverty and promoting sustainable growth in the region. Within this framework, the committee will pursue an ambitious program of work in 2002 to revise existing or define new sector policies and strategies.

The further development of private sector lending was an important subject of attention during the year. The committee brought discussion of this matter to the point where the Executive Board reached agreement on a resolution establishing the framework for an increase in private sector lending for submission to the Board of Governors.

The committee pursued initiatives to promote disaster management and the mainstreaming of programs and institutional procedures to deal with natural disasters as an endemic feature of the region's environment.

Poverty Reduction and Social Equity

Reducing poverty and enhancing social equity in Latin America and the Caribbean is one of the overarching objectives of the Bank. During 2001, the Bank undertook numerous lending and non-lending activities in pursuit of this objective.

The lending activities of the Bank addressed a number of key areas essential for effective and sustainable poverty reduction. One is the formulation and implementation of comprehensive national strategies for reducing poverty. In Honduras, the Bank approved a \$30 million loan to help implement the national poverty reduction strategy. The operation will also establish a Poverty Reduction Fund and an Advisory Council to facilitate the participation of civil society organizations in monitoring and implementing the strategy. A \$40 million loan to Bolivia will also support implementation of a national poverty reduction strategy, design indicators to monitor its progress, and protect social expenditures. Technical assistance is being provided in other countries to develop similar poverty reduction strategies.

The Bank continued its support for targeted human development programs for poor and vulnerable groups in the region. In Brazil, a \$500 million loan will help the federal government target its main social policies for education, nutri-

For further information, see
<http://www.iadb.org/goto.pl?Povertyred>

tion, and the eradication of child labor. The emphasis will be on helping children and adolescents (0-18 years of age).

Social protection is an important element of a national strategy for poverty reduction. A \$60 million sector loan and a \$1.1 million grant to Jamaica aim to protect education, health and social safety net spending during a period of intensive fiscal adjustment, and to improve the targeting of the country's social safety net program.

The poor are particularly vulnerable to natural disasters. The Bank approved loans totaling \$130 million to help El Salvador and Peru rebuild infrastructure in poor communities damaged by earthquakes in 2001.

A number of loans approved during the year will assist countries in providing basic infrastructure and services to poor communities. A \$34 million loan to the state of São Paulo, Brazil will help finance the first phase of an innovative program to finance home purchases and repairs by low-income residents of urban tenements. Another loan to Brazil for \$100 million will finance improvements in water and sanitation systems in poor areas of cities and towns with fewer than 50,000 residents.

In addition, a \$20 million loan to Guyana will finance small-scale social and economic infrastructure in poor communities, with a special focus on the indigenous and maroon populations of the interior. The project will build schools, health posts, day care and community centers, water supply and sanitation facilities, farm-to-market roads, bridges and markets. A \$25 million loan to Nicaragua will broaden and improve comprehensive health care for children under six years of age from low-income families.

The Bank's program for policy analysis and research on poverty and social equity produced a number of publications in this area, including a book entitled *Shielding the Poor: Social Protection for the Developing World*, and various technical studies related to key aspects of poverty reduction.

An important development in the regional policy dialogue on poverty was implementation of a new Poverty Reduction and Social Protection Network. This initiative by the Bank's Board of Executive Directors brings together key policy-makers entrusted with poverty reduction and social protection programs from countries throughout the region. The network held its first two meetings during the year.

The Social Equity Forum, a Bank initiative made possible through the financial support of the Norwegian and Swedish governments, held two meetings during the year. The meetings focused on the role of political leaders and legislative processes in the promotion of policies to reduce poverty and enhance social equity, and on issues of transparency and accountability as they relate to social equity. The Bank also co-sponsored an international conference entitled "Crises and Disasters and Mitigation of their Human Costs."

Obtaining broader and more reliable information on the nature and extent of poverty and other social indicators is of vital importance to the region. The Program for the Improvement of the Surveys and Measurement of Living Conditions in Latin America and the Caribbean (MECOVI) continued providing extensive technical assistance to national statistical offices in the region to help them improve and expand the coverage and quality of household surveys. The MECOVI provided assistance during the year to Argentina, Bolivia, El Salvador, Guatemala, Nicaragua, Paraguay and Peru.

Following recommendations in the IDB's Institutional Strategy, work started during the year on a comprehensive Social Development Strategy to update and review the institution's strategic guidance on social sector reform. The preparation of the strategy involves diagnostic work, reviews of health and education reforms and best practices in integration and social inclusion, and consultative meetings with Bank stakeholders.

The Board of Executive Directors also endorsed a Subnational Development Strategy designed to help guide Bank lending to municipalities, provinces and states. The strategy emphasizes the need to promote sound intergovernmental relations, democratic oversight, and public involvement in local affairs.

Given the expanded role of settlement upgrading projects in poverty reduction strategies, a best practice paper was developed based on lessons from Bank-sponsored projects. The results of this study will be published in the book *Cities for All*. The Bank's activities in support of efforts to value and preserve the region's urban heritage were outlined in the publication *Una Obra en Marcha*.

The Bank led efforts to increase cost-effective investments by member countries in long-term prevention of diseases. Actions included a "healthy people" initiative in the Southern Cone countries, and the incorporation of an HIV/AIDS component in the Puebla Panama Plan as well as in health sector loans.

Violence prevention guidelines were produced during the year to help guide Bank operations, and meetings were held on community policing and prison reform. The Bank continues to participate in the Inter-American Coalition for Violence Prevention and house the coalition's Secretariat.

Under the leadership of former Chilean President Patricio Aylwin, the Bank's Social Policy Dialogue Project made possible by the financial support of the government of Denmark, supported meetings in Nicaragua to find common ground in the design of social policies. The project carried out preparatory work along these lines in Paraguay and has continued supporting dialogue in Honduras, both with the media and with the country's presidential candidates.

A Bank-wide effort was also mobilized to promote social inclusion policies and projects that benefit ethnic and racial minorities, including people of African descent and indigenous peoples, as well as women, the disabled, and those who have HIV/AIDS.

Throughout 2001, the Bank paid special attention to the issues of gender equality in the region. A workshop on "Women at Work: Challenges for Development" was held during the IDB's Annual Meeting in Santiago, Chile. The event served to urge public policymakers to expand economic opportunities for women and other disadvantaged groups.

The Women's Leadership and Representation Program (PROLEAD) continued supporting the

BOX 3

ACTION PLAN FOR COMBATING SOCIAL EXCLUSION

The Bank promotes socially inclusive policies and projects that benefit disadvantaged women, Afro-Latin groups, indigenous populations, the disabled, and persons living with AIDS or who are HIV positive. An IDB workshop was held in January 2001 to reach consensus on how to promote social inclusion of ethnic and racial groups through the Bank's agenda. Discussions led to the promotion of social inclusion as a tool for achieving development, evident in the institution's agenda, and explicitly included in its Eighth Replenishment.

The recommendations made by Bank staff throughout the workshop were included in the IDB Action Plan to Combat Social Exclusion by Ethnicity and/or Race in Latin America and the Caribbean. The Action Plan includes the institutional procedures and incentives needed to incorporate social inclusion into the daily activities of the Bank, as well as specific recommendations on expected outcomes within 18 months following its approval. The plan includes the following:

- \$250 million to foster the development of loan projects to broaden opportunities for Afro-Latin and indigenous populations.
- A stronger emphasis on gathering and disseminating statistical data from new research on the causes and consequences of social exclusion.
- Better training opportunities for representatives from civil society organizations as well as from groups that have traditionally been excluded from the societal mainstream.

The Bank approved several projects to support the culturally appropriate development of indigenous and Afro-Latin American communities. In Chile, a \$34.8 million loan will improve living conditions of indigenous people. A \$2 million program in Honduras will support indigenous and black communities. A \$40 million Social Investment Fund in Ecuador targets indigenous groups and Afro-Ecuadorian communities.

The Action Plan also calls for internal initiatives to create a more diverse Bank staff and to make staff more aware of the implications of eth-

nic and racial exclusion in the region.

As part of the Action Plan, the Bank held a High Level Dialogue on Race, Ethnicity, and Inclusion on June 18, 2001. More than 250 persons participated. The Bank has worked jointly with the statistics departments of the borrowing countries to gather data on ethnic groups that will help formulate inclusive economic and social projects. A Bank delegation headed by the Executive Vice President attended the U.N. World Meeting against Racism in Durban, South Africa. A book scheduled for publication in 2002 will present studies on ethnic groups prepared by the High Level Dialogue, as well as statistical information gathered through household surveys.

The Bank held a seminar in Chile on how to broaden opportunities for the disabled and commissioned studies with statistical data on the economic and social causes, costs and consequences of excluding this segment of the population. A video on the topic includes an interview with the winner of the Nobel Prize for Economics, Amartya Sen. The Bank is now committed to include the topic of disabilities in its loan portfolio in such areas as infrastructure, transportation and education. The goal is to expand opportunities to those with disabilities.

In terms of efforts to combat HIV/AIDS, the Bank, in coordination with PAHO, invited governments in the region to collaborate in meeting this grave challenge. The Bank will focus particularly on discrimination against AIDS victims. A technical cooperation financing for Haiti formed part of an international initiative to support development in that country of a comprehensive HIV/AIDS strategy.

To complement initiatives to promote social inclusion in the region, the Bank has made particular efforts to incorporate traditionally disadvantaged groups such as women, youth and minorities into labor markets. The IDB organized a consultative meeting in Panama to discuss issues such as youth employment, training, the informal sector, intermediary mechanisms, and barriers and opportunities for access to labor markets.

For further information, see

<http://www.iadb.org/goto.pl?socialexcl>

efforts of institutions try to increase the number and effectiveness of women in leadership positions. Contributions by the Dutch government and the Fund for Special Operations contributed to support for projects in Central America and the Andean region.

Important strides and challenges in women's health were documented in publications such as *Women's Health in Latin America and the Caribbean*, and *Sexual and Reproductive Health and Health Sector Reform: Challenges and Opportunities*, published in conjunction with the World Bank and PAHO. Nevertheless, there is still a wide gap in well-being between women and men, as well as a growing gap between women of different socioeconomic groups.

Several loans approved in 2001 focused on the sustainable community development of land owned by indigenous communities. Examples include the Program for the Integral Development of Indigenous Communities in Chile and a Honduran program to support infrastructure in indigenous and garifuna communities using an ethnoengineering approach. Other programs contain significant components for the titling and demarcation of indigenous lands, or for the strengthening of local management of indigenous areas.

Several loans were also approved to support development of excluded groups, including a program in Paraguay for water and sanitation, which has a pilot component for indigenous areas; the third stage of the Guyana Social Investment Program which targets indigenous and maroon communities; and the Ecuadorian Social Investment Fund, which will target Afro-Ecuadorian and indigenous communities. A technical study entitled *Land Titling and Indigenous Peoples* highlighted the Bank's knowledge and experience in this area. A comparative database, accessible electronically, was also completed. This database contains information on primary legislation regarding the indigenous populations of all the countries in the region.

Operational guides for a socio-cultural analysis were prepared, as well as two best practice studies, one on social investment funding and indigenous peoples, and the other on an innova-

tive methodology for consultation with and participation by people of African, indigenous and mixed origins. The latter study addressed a program for integral development in the Province of Darien in Panama. In addition, a four-week Inter-American Institute for Social Development (INDES) course was held for training indigenous professionals in social management.

As part of the implementation of the recent Institutional Strategy for the Bank, the Board of Executive Directors mandated the preparation of a new Environment and Natural Resources Management Strategy. This strategy should be completed by mid-2002 and will also lay the groundwork for revision of the Bank's Environment Policy. In 2001, management completed a number of steps for developing this new strategy. A staff survey was conducted on the need for and potential scope of the strategy, followed by the preparation of a work plan. In parallel, several technical studies were commissioned to provide key elements for the strategy. These include a report on methodologies for analyzing environmental management; a study on innovative management practices in the region; a briefing report on environmental indicators; and a review of environmental management in small and medium-size cities. Four special seminars added to the contributions made by these reports. The seminars covered macroeconomic perspectives on the environment and growth; poverty, health and the environment; urban environmental management; and a special study and seminar on environmentally sustainable growth that will also bear on the development of the Bank's strategy in this area.

The Bank also reviewed its internal environmental due diligence procedures, focusing on improving the efficacy and efficiency of the Committee on Environment and Social Impact (CESI). In addition, a review was undertaken of the application of Environmental Impact Assessment (EIA) systems throughout the region, with support from the Japan Special Fund. This review served as a basis for several environmental training courses for specialists in the region, particularly in Group II countries.

Modernization of the State

In 2001, 22 loans totaling \$2.4 billion were approved by the Bank for modernization of the state. The projects encompass a broad range of categories, including reform of the judicial system, public management, decentralization and fiscal reform.

Particularly in a year of troubled economies as a result of world recession, it is imperative for governments to focus on creating more effective, efficient and transparent government systems. The reforms of recent decades have shown that the efficient functioning of the market and the consolidation of democracy break with the traditional structure of weak state institutions, weak state management, inadequate public policies, obsolete legal structures, and the lack of participation of civil society. It is clear that sustainable and equally distributed development requires a modern and efficient state that promotes economic growth, as well as an appropriate legal and regulatory framework for the well-functioning of markets. This requires the adoption of economic and social policies that reduce poverty and inequality, and which implement this in an efficient and transparent manner.

The Bank is supporting the countries' commitment to modernization and reform of the state and the strengthening of institutions. A strong emphasis in 2001 was placed on strengthening state institutions so that they can build or rebuild the institutional capacity necessary to meet the challenges of an increasingly open, competitive global economy.

Several modernization of the state projects during the past year addressed the issues of accountability and transparency in the fiscal and financial sectors. In particular, there was an effort to use new technologies to improve the efficiency of public administration.

Sizeable investments were made in **decentralization and public sector reforms**. Four projects totaling \$330 million were approved to support the decentralization necessary to solidify the fiscal equilibrium and administrative capacity of subnational governments. The Bank also funded programs to modernize governments by boosting

For further information, see
<http://www.iadb.org/goto.pl?Modstate>

the quality and productivity of management and services, and by improving public policy design and macroeconomic and fiscal management capacity.

A number of countries in need of **fiscal reform** experienced slowing economies and a reversal of capital inflows. To help strengthen fiscal management and consolidate economic stability, the Bank approved four sectoral adjustment programs totaling \$1.2 billion to improve public finances in Argentina, Bolivia, Colombia and Peru.

One focus of concern for the Bank as a vulnerable area when crises befall the region is the soundness of financial systems. The Bank approved a \$502 million operation for **finance system reform** in Argentina to help make financial services more competitive and equitable by supporting major reforms of the nation's pension, insurance and capital markets.

The Bank funded five projects during the year for the **administration of justice** in Barbados, Costa Rica, Jamaica, Nicaragua and Venezuela. One example is an innovative \$16 million project called Justice and Citizen Safety in Jamaica, which responds to a growing demand from the countries in their efforts to reduce violence. One aspect of the Jamaican project is the crucial involvement of civil society in public safety issues.

Modernization of the judicial system is crucial to consolidating the rule of law in many countries of the region. The Bank approved a \$12 million project for the modernization of the judicial system in Nicaragua. This project aims at improving the legal framework and creating a more merit-based selection system for magistrates and judges.

As part of the effort to modernize public management, the Bank financed a \$57 million project to modernize pension management in Brazil. This program will implement new technology and management models in pension systems to ensure better quality, transparency, and control in managing information. It exemplifies the application of new technologies to better manage the

PERU: SUPPORTING TRANSPARENCY AND ACCOUNTABILITY

The transitional administration that governed Peru from November 2000 to July 2001 was faced with a set of unique challenges. Public trust in government institutions had dropped significantly since the early 1990s and civil society was demanding an overhaul of the country's democratic institutions. Concrete actions were needed in several critical areas to restore the public's confidence in their leaders and to facilitate an orderly transition to the newly elected government.

In collaboration with the IDB, the government identified three high-impact areas in terms of the relationship between civil society and the public sector where concrete actions could be taken in the short term. As a result, the Bank approved an innovative single tranche sector loan to support the transitional government in its efforts to enhance fiscal transparency and accountability, protect social expenditure, and improve social policy and the administration of justice.

Approved in May 2001, the \$250 million loan was disbursed immediately, since disbursement

conditions were met prior to Board approval of the loan. The measures included a decree mandating public access to virtually all information on public finances, explicit budgetary protection of priority social and justice programs, and the creation of a high-profile anti-corruption committee. The government also established a special fund to finance technical studies to support reforms by the future administration.

This program proved that under certain conditions, transitional governments can undertake significant policy actions, and that the Bank can play an important role in the process. The design of the operation—single tranche, multi-sector and governance-focused—was highly specific to the characteristics of a transitional government. Furthermore, a policy-based loan emphasizing transparency and accountability was an innovative addition to the Bank's portfolio.

For further information, see

<http://www.iadb.org/goto.pl?Perutrans>

government's services and resources, and to yield significant improvement in the services rendered.

The Bank also approved 48 technical cooperation projects for state modernization. These operations address such issues as citizen safety, civil society participation, computerization and decentralization. Technical cooperation projects financed workshops, seminars, training sessions, publications, and other efforts to build consensus among all relevant stakeholders in society. Several international conferences were held on the issue of political reform and the development process. In recognition of the increasing importance of democratic governance, the conference "Good Government and Development" was held in conjunction with the Bank's 42nd Annual Meeting in Santiago, Chile in March 2001.

Another conference took place in Lima, Peru on the topic of "Political Reform and Sustainable Development." It examined the democratic transition in Peru and neighboring countries.

In order to help to formulate an effective reaction of the Bank in support of the countries of the region after the September 11th attacks, the Bank organized a joint conference with the Organization of American States (OAS) to examine the implications of the new emerging safety issues and new safety measures on the development agenda.

There was also progress in developing the Bank's strategy on modernization of the state. The goal of the strategy will be to review the Bank's experience and comparative advantages, provide clear guidance to the institution and its borrowing

member countries on the scope and priorities of state reform, and examine state-of-the-art knowledge in this field.

In addition, the Bank focused on developing the Strategic Framework on Citizen Participation in IDB activities. The aim is to expand and strengthen current participation mechanisms by building upon successful but isolated experiences to achieve more systematic, transparent and efficient participatory practices. The framework will also guide the Bank in its support of initiatives by governments and citizens of the region to increase participation by deepening the relationship between democratic governance and economic and social development.

Competitiveness

Latin America and the Caribbean have placed significant emphasis in recent years on macroeconomic stabilization and trade liberalization, which were key factors in overcoming the crisis of the 1980s. But those efforts have not boosted productivity and economic growth enough to significantly reduce poverty. In the 1990s, the region had annual growth of 3.3 percent, well behind Southeast Asia (5.1 percent), the Middle East (4 percent), or the rest of Asia (5.2 percent). Factoring in population growth, the average income of Latin Americans grew 1.5 percent annually over the past decade, trailing other regions of the developing world and the developed countries.

According to the Bank's 2001 report on *Economic and Social Progress*, entitled *Competitiveness: The Business of Growth*, low growth rates in many countries are indicative of stagnant or declining levels of productivity. Per-worker output grew at a rate of 0.7 percent in Latin America in the 1990s, but this indicator does not fully reflect the region's productivity problem. Allowing for the increase in all factors of production (not just labor), productivity actually dropped at an annual rate of 0.6 percent. By way of comparison, total factor productivity in the developed countries grew in the 1990s at an annual rate of 0.6 percent.

In this context, there has been considerable interest among governments and the private sec-

For further information, see

<http://www.iadb.org/goto.pl?Competitiveness>

tor in identifying policies to improve competitiveness. The term "competitiveness" refers to the quality of the environment for investment and for increasing productivity, in a context of macroeconomic stability and integration into the international economy. Economic growth and competitiveness are influenced by a number of factors, including education, financial development, infrastructure, capacity for technological innovation, and the quality of public institutions.

Average educational levels of Latin America's workforce grew only 1.5 percent per annum in the 1990s, compared with a 2.5 percent increase in Southeast Asia. In terms of labor competitiveness, Latin America is no longer a region of abundant unskilled labor, nor is it yet a region characterized by highly skilled workers. To be competitive in this intermediate position requires job training that goes beyond what is currently provided in the region, where training systems are overly centralized and lack proper incentives for efficiency and innovation.

In the financial sphere, the region's competitive position is especially weak, inasmuch as financial systems lack depth, and access to credit is both limited and unreliable. In the view of the business community, the shortage of long-term credit at reasonable interest rates is the main obstacle to business development. The region's financial depth is only one-third that of the developed countries or Southeast Asia, despite increases brought about by macroeconomic stabilization, financial deregulation, and enhanced oversight. The main obstacle to competitiveness on this front stems from legal and regulatory issues. Legal frameworks do not provide adequate protection for the rights of bank creditors in that they constrain the use of guarantees, place excessive risk on creditors in the event of borrower bankruptcy, and allow for too much interference by economic authorities in financial contracts.

The lack of access to credit is especially serious for small business and microenterprise. The development of credit information centers and microcredit systems has helped alleviate

COMPETITIVENESS IN URUGUAY

The Uruguayan government has embarked on a dialogue with the private sector on how to strengthen their relationship. As part of this process, the Bank was asked to support the rationalization of the central government's procedures and actions affecting private sector competitiveness, particularly those related to foreign trade, enterprise development and investment. The government also asked the Bank to assist in reducing regulation costs and improving competitiveness conditions for official procurement.

In response to these requests, the Bank approved a \$150 million loan for public management modernization, a technical cooperation loan for \$3.6 million, and a grant from the Multilateral Investment Fund for \$1.3 million.

The Public Management Modernization Program includes sector adjustment measures to reform public management and improve relations between the government and the private sector. This sector loan is complemented by a technical cooperation program to rationalize government procedures and improve fiscal management. The MIF project supports measures to incorporate private sector interests into the public management reform process. It also promotes technical measures needed to reduce central government costs for entrepreneurs.

The overall objective of these operations is to reduce the impact of the central government on the private sector in terms of costs, thus guaranteeing savings in time and economic resources. The specific goals are to (i) improve access by entrepreneurs to central government services and procedures by rationalizing and simplifying key procedures; (ii) review and modify those regulations that are not based on an adequate cost/effectiveness relationship; (iii) adjust public

pricing and rates to their costs; (iv) consolidate the regulatory and institutional frameworks for regulations, pricing and rates; (v) simplify procedures and requirements related to public procurement, thus facilitating easier access by the private sector; (vi) implement a state information and dissemination system for procurement with private sector participation; and (vii) initiate a pilot project on e-commerce for public procurement.

The above-mentioned measures are intended to benefit the private sector, the individual consumer, and the state itself. The Uruguayan private sector will benefit through reduced transaction costs from rationalizing regulations, costs and rates; less time-consuming procedures and processes; simplified private sector procedures such as the sole window for foreign trade, enterprise development and investment; and a more transparent and competitive framework for public bidding that incorporates direct participation by the private sector in management of the new system. Individual users of government services will also see their costs reduced and will gain wider access to bidding and public procurement information. Finally, the state itself will reduce the cost of its administrative and financial processes, and purchasing and procurement procedures.

At least \$30 million in annual savings is expected through the program as a result of the rationalization of regulations, pricing, rates and procedures. Also anticipated is more efficient and transparent management of the regulatory framework, as well as of pricing and rates expected. Controls to improve the quality of the central government's regulatory administration and reduce the fiscal burden to public services users will be supported by a foreign currency purchase tax.

For further information, see

<http://www.iadb.org/goto.pl?Urucompet>

problems of asymmetrical information and monitoring of credit, consequently reducing credit rationing. Such successful experiences in several countries point to the need for these institutions to operate under market rules with specialized oversight systems.

Deficient infrastructure poses yet another barrier to competitiveness and growth in many Latin American and Caribbean countries. The region has been a global leader in privatizing its infrastructure sectors, thus easing fiscal pressure and making for more efficient delivery of services to large-scale users. Still, fresh investments in several countries have been very modest, expansion of coverage has been limited to the larger markets, and a number of sectors continue to face serious regulatory problems that jeopardize the long-term stability and efficiency of reforms.

Among the world's developing regions, Latin America stands out as being the quickest to assimilate new information technologies. In part, this is because the region is considerably open to international trade. But it is also due to its discerning business leaders and the modernization of telecommunications in many countries of the region. The challenge is to extend these achievements by supporting smaller businesses and producers. This can be done by improving their access to credit, providing job training programs with cutting-edge technology, and promoting government policies that clear obstacles to creating new businesses.

Institutions have a profound influence on the supply, quality and utilization of productive factors. The quality of institutions is one of the principal reasons why productivity gaps among countries are widening. In Latin America, the quality of regulations and the functional norms of factor markets have improved substantially in the past decade, particularly in the infrastructure sector. Even though regulations have improved, however, their implementation and efficacy in many countries are still affected by other deficiencies in the institutional environment, such as the weak rule of law, corruption, and ineffective government entities. Addressing these issues is fundamental to promoting innovation and increasing productivity.

The IDB Group is moving ahead in identifying and reviewing strategic areas that can enhance the competitiveness of its borrowing member countries. The IIC, for example, has set out to identify promising regional investment opportunities for goods and services produced in 161 subsectors in three production sectors whose performance is essential for the region's development.

Competitiveness has been highlighted in the Bank's Institutional Strategy as one of the IDB's four main areas of activity. Since the region's competitiveness and economic growth depend on the quality of the business environment and institutions, the Bank is using its resources and technical capacity through both its public and private sector facilities to foster new approaches to strengthening these areas. Key activities include identifying and eliminating barriers to the growth of business activity, encouraging competition within markets and greater competitiveness of firms, and creating conditions that encourage technological innovation. To meet these objectives, the Bank is assisting governments, civil society organizations and the private sector through a variety of grant, lending and technical assistance instruments.

Competitiveness is also improved by supporting the development of microenterprise and small and medium-sized business. This includes extending credit through financial intermediaries, providing technical support to firms, and promoting business cluster development.

In 2001, the Multilateral Investment Fund (MIF) provided policy, training and Web-based dissemination tools to a newly-created entity that supports small business in Panama. A loan for \$10 million to Paraguay is promoting new and privately-provided business services to improve the productivity and efficiency of smaller firms. To improve product quality and productive efficiency, MIF grants to Guatemala and Jamaica are financing improvements in business and environmental management, such as ISO 9001 and ISO 14001.

In Costa Rica, technical support is being provided to design and implement a "one-stop shop" for small enterprises to lower business registration costs and make it more feasible for informal firms to enter the formal economy. At the regional level,

a \$2.3 million MIF grant is strengthening the capacity, competitiveness and transparency of a food safety management system.

The Bank also approved a \$300 million loan to Mexico in 2001 to develop a labor policy system that can boost human capital investment and create a more dynamic labor market.

Integration

The Latin American and Caribbean countries made strides in strengthening the regional integration process in 2001 through negotiations within and between the different subgroups in the region, with nonregional blocs, and at the hemispheric level.

Hopes are high for advancing regional and subregional integration agreements, particularly because of the encouraging results of the Doha Development Agenda, which confirmed the steady advancement of the multilateral system in keeping world economies open in spite of the overall economic slowdown. The Doha agenda is of vital importance for the Latin American and Caribbean countries. It reduces distortions in agricultural trade, strengthens mechanisms for trade dispute settlement (thus helping those countries with less resources), monitors the use of antidumping measures, improves conditions for implementing the Uruguay Round agreements, and keeps economies open and the private sector involved in the recovery of the world economy. Multilateral agreements are the foundation for continuing regional integration efforts.

The **Free Trade Area of the Americas (FTAA)** is scheduled to finish negotiations by the end of 2004. Doha will help in the advancement of FTAA negotiations, but the reverse is true as well. That is, there are significant synergies between FTAA negotiations and the Doha Agenda: both have a parallel calendar, and the FTAA's objectives include those of the World Trade Organization (WTO). Nevertheless, the FTAA opens possibilities for better and safer access to

the North American market and improved trade opportunities among the subregions of the continent.

Throughout 2001, the **Andean Community** continued making progress towards open regionalism, as shown by the countries' political will to strengthen the regional integration process and foster greater participation in the international sphere. The presidents of the Andean countries reaffirmed their commitment to work towards the creation of a Common Market in 2005. After committing to approve a new Common External Tariff (CET) by 2002, the countries began work on preparation of a new common tax structure. Macroeconomic harmonization has moved forward, and throughout the year there was a modest convergence towards a common goal to reduce inflation to single digits, and keep fiscal deficits below 3 percent. Visa requirements were eliminated for citizens of four of the member countries traveling within the subregion, starting in January 2002. (Venezuela will join in January 2004.) An Andean Cooperation Plan for Fighting Illicit Drugs and Related Crimes was also approved in 2001. The plan will help countries form a common bloc to combat drug trafficking.

The regional integration process of the **Caribbean Community (CARICOM)** made steady progress during the year, backed by the strong political will of all 14 member countries. One of the current CARICOM priorities is to finish reviewing the Chaguaramas Treaty, under which CARICOM was established. This will involve developing new protocols that take into account the free transportation of goods, capital and skilled labor among member countries. The revised treaty will offer the institutional and legal foundations for the creation of the Caribbean Single Market and Economy (CSME), which will include a common trade policy and increased harmonization of monetary and fiscal policies. The revisions also contemplate the future inclusion of protocols in new areas such as electronic commerce, governmental procurement, and free trade zones.

One of the main challenges for the bloc concerns ongoing and prospective changes in trade relations with its main partners in Europe and

For further information, see

<http://www.iadb.org/goto.pl?Integrate>

BOX 6

INITIATIVE FOR THE INTEGRATION OF REGIONAL INFRASTRUCTURE IN SOUTH AMERICA (IIRSA)

The Initiative for the Integration of Regional Infrastructure in South America (IIRSA) was launched by the heads of state of the 12 countries of South America at the Brasilia summit of September 2000 in order to promote regional integration in infrastructure and help improve the competitiveness of their economies. The initiative includes the identification of investment projects, and potential sources of public and private financing, as well as the harmonization of regulatory frameworks, all within a regional framework for cooperation and collaboration. Significant progress was achieved in 2001 in setting in motion a series of actions to implement the initiative.

The national leaders entrusted IIRSA's strategic guidance to an executive steering committee made up of ministers of the three sectors involved (transport, energy and telecommunications). This committee met two times in 2001, in April in Santa Cruz, Bolivia, and in December in Buenos Aires. The heads of state also called upon the IDB, the Andean Development Corporation, and the Financial Fund for Development of the River Plate Basin (FONPLATA) to set up a technical coordination committee to support countries in undertaking the initiative. These institutions have set up a secretariat at the Bank's INTAL offices in Buenos Aires, and are actively engaged in providing financial,

technical, and logistical support to the IIRSA process.

IIRSA defines 12 high-priority integration and development hubs, and six key integration processes, such as border crossings, innovative forms of infrastructure financing, and multi-modal and air transport. For each of these hubs and integration processes, a technical working group will be formed, with technical representatives from the three sectors in the countries involved. These groups will define a regional vision and action plan, addressing both future investments and regulatory frameworks and ways to achieve greater efficiencies by coordinating them. Special emphasis is placed on seeking private financing for infrastructure projects as well as public-private partnerships.

The IDB, CAF, and FONPLATA are providing extensive support to these technical working groups, including financing consultants to serve as coordinators and facilitators. Four such technical working groups have been established: for the Andean Hub, the Mercosur-Chile Hub, the Inter-oceanic Hub (Brazil-Bolivia-Peru-Chile), and for Regional Energy Market Regulation. Several more will come on stream in 2002, with the support of a prospective IDB-financed regional technical cooperation project.

For further information, see

<http://www.iadb.org/goto.pl?iirsaeng>

North America. The heads of state therefore reiterated the importance of the Caribbean Regional Negotiating Machinery (RNM) for external trade negotiations, and requested bilateral and multilateral support for negotiations of the FTAA and with the EU.

The **Central American Common Market (CACM)** made significant progress towards the creation of a Customs Union. Free circulation of goods and a CET are already in place. Most sub-regional trade is tax exempt, and only some agricultural products are still subject to tariffs.

Four countries of the bloc decided to strengthen integration by better harmonizing technical standards for phytosanitary measures and customs administration. There was particular progress in these areas in Guatemala, El Salvador and Honduras, where common customs infrastructure has been built at the borders, and procedures have been harmonized.

After substantial and steady strides in the integration process increased intra-regional trade over many years, progress stagnated in 2001 for **Mercosur**. For the first time since its creation, its

two largest members simultaneously face unfavorable economic scenarios. This situation is exacerbated by the world economic slowdown, and by growing skepticism of international investors to channel funds towards emerging economies. Mercosur countries nevertheless recognize the benefits of integration and the potential for attracting investment as a bloc. Therefore, a number of alternatives are being discussed to move these processes forward.

Bank support to the subregional integration process of Latin America and the Caribbean continued throughout 2001.

IDB support to CARICOM continued during the year on different fronts. One program initiated in 2001 supports the implementation of WTO commitments. The program will assess the status of recommendations related to the Uruguay Round agreements for Caribbean countries, and examine challenges that may lie ahead. Some of the financing will be used to support regional agreements for such efforts as institutional strengthening and the drafting of legal documentation. A MIF operation was also approved during the year to design a framework for regional investment. The program will provide bloc members with recommendations on how to transform their respective national framework into one regional and harmonized plan. The Bank is also supporting the establishment of a Caribbean Court of Justice.

Support to Mercosur involves implementing several regional technical cooperation operations (RTCs), including: (a) support for harmonization of Consolidated Global Supervision Mechanisms, which aim to deepen financial systems in each member country; (b) support for the application of bylaws against unfair trade practices, which will strengthen integration by giving technical support to improve and apply the tools used to combat such practices; (c) creation of a database of non-metal mining investment projects to support development of the mining sector; (d) publication of a book containing assessment studies and proposals on the status of Mercosur on the occasion of its tenth anniversary; and (e) support for a forum to discuss relations between Mercosur and the EU, with participation by various academic centers, regional as well as national authorities,

the private sector, and other civil society groups.

In addition, an RTC was approved to support the creation of a fund to finance regional initiatives in the area of education.

Progress was achieved in the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), which the IDB is supporting in conjunction with the Andean Development Corporation (CAF) and Financial Fund for the Development of the River Plate Basin (FONPLATA). This support was a response to a request by the heads of state of South America at the Brasilia Summit in 2000 where the IIRSA initiative was launched to promote regional integration in the transport, energy and telecommunications sectors.

The Bank continues providing technical, financial and logistical support to the process of constructing an FTAA, within the framework of the Tripartite Committee (IDB, OAS and the Economic Commission for Latin America and the Caribbean). Support consists of three programs: (a) technical assistance to the negotiating groups on market access, agriculture and public sector procurement, as well as to the Vice Ministers' Trade Negotiations Committee, and other groups related to investment, civil society and small economies; (b) financial and technical support to the Administrative Secretariat of the FTAA; and (c) a regional technical cooperation program financed by MIF, in response to a request by the Trade Ministers, to support implementation of eight business facilitation measures in connection with customs procedures in the region. This project will simplify customs procedures and make them more transparent, facilitating trade transactions between these countries and with the rest of the world.

Strengthening of customs administration was an ongoing part of the Bank's efforts in support of regional integration. Several national and regional programs funded by the IDB are underway, and the Bank in 2001 signed an agreement with the World Customs Organization to strengthen collaboration between the two institutions in this area.

In 2001, the Institute for the Integration of Latin America and the Caribbean (INTAL) centered its efforts on support for negotiation and

BOX 7

REGIONAL INTEGRATION IN CENTRAL AMERICA

In support of the regional integration process in Central America, the two IDB-financed projects described below were approved in 2001 and are consistent with the parameters of the Puebla-Panama Plan.

- **The Electric Interconnection System for the Central American Countries (SIEPAC)**, a \$240 million project supporting the development of the first regional power grid and establishing a regional wholesale electricity market. The project will strengthen integration and bolster efforts by these countries to improve their national power systems. In turn, the creation of a regional market with clear and uniform rules is expected to offer incentives to private investors to build larger and more efficient power plants, sparking investments that will reduce the cost of electricity in the region and strengthen the reliability of power systems.

- **Program for the Sustainable Development of the Upper Lempa Basin.** This regional program is comprised of separate loans to El Salvador, Guatemala and Honduras, all of which share portions of the Upper Lempa River Basin. The project represents an important advance in the overall integration of the three countries, as it supports a new approach to meet a common objective. The program will improve the environment and promote economic and social progress through investments in the management and protection of natural resources, local infrastructure and basic sanitation. Economic diversification will be expanded through training and promotion of business activities, including the certification and marketing of organic coffee and ecotourism. An early warning and monitoring system will also be established to help prevent or mitigate natural disasters, particularly landslides and floods.

For further information, see

<http://www.iadb.org/goto.pl?Integrate>

decision-making procedures for Latin American and Caribbean governments involved in the different integration scenarios at the bilateral, sub-regional, hemispheric, intra-regional and multilateral levels. The INTAL Network of Research and Integration Centers began studies on the impact of regional integration in inter- and intra-regional investment in order to contribute empirically to the identification and implementation of strategic actions by governments and private sectors of the region. As for institutional strengthening in the trade negotiation arena, training activities for trade negotiators gave special consideration to topics within the multilateral sphere of the WTO. Other activities during the year included the dissemination of information through several publications, databases and services of the INTAL Document Center. This facilitated more informed involvement by broad sectors of civil society at the regional and international levels in the integration process in Latin America and the Caribbean.

In 2001, the Inter-American Institute for Social Development (INDES) continued to train staff from governments and institutions operating in the social sectors in the region. Four basic INDES courses were held in Washington, D.C., with a total attendance of 118 individuals, all of whom were responsible for conducting social programs in their respective countries. One of these courses addressed indigenous leaders from the region.

In addition to the regional activities, INDES organized two national programs in Nicaragua and the Dominican Republic; supported training of the Program of Support to Social Management for the Government of Bolivia; cooperated in the design of the national program in Honduras, which will begin activities in January 2002; held a pilot course and began design and negotiations for a national program in Guatemala; and participated in the design and negotiations for the national program in Venezuela. About 803 individuals received training through all national programs.

Private Sector

Private sector development is essential for economic growth and is a priority of governments throughout Latin America and the Caribbean. Intensified market reforms and liberalization in the region, particularly in infrastructure sectors, have made economies stronger. As a consequence, the private sector, particularly in the larger countries, is proving more resistant to adverse macroeconomic events. It is the strength of private businesses that is crucial for increased productivity and hence for sustained development.

Within the Bank Group, the entities that work with the private sector include the Private Sector Department, the Sustainable Development and Regional Operations Departments, the Multilateral Investment Fund (MIF) and the Inter-American Investment Corporation (IIC). Bank support of the private sector in Latin America and the Caribbean is particularly important in the lesser developed countries, where the level and size of the economies—and consequently their private sectors—puts these nations at a disadvantage vis-à-vis the region and the rest of the world. Developing the private sector in these countries is clearly a high priority if poverty is to be combated effectively in the region.

In order to increase competitiveness in these countries, the private sector group is actively promoting and financing the participation of the private sector in many aspects of economic activity. The Bank supports efforts that range from designing and supporting a reform that allows private sector participation, to establishing the appropriate regulatory frameworks, identifying large infrastructure projects that would upgrade key infrastructure and supporting microenterprise and small and medium-sized businesses.

While each of the four “legs” of the IDB Group working with the private sector has its own specific objectives and tools and serves a distinct aspect or segment of private sector development, there is close coordination and interaction among them. The Private Sector, Regional and Sustainable Development Departments, the IIC and the MIF provide support to countries in preparing the appropriate environment for pri-

For further information, see

<http://www.iadb.org/goto.pl?Privatesect>

vate sector participation. The Sustainable Development Department concentrates on designing appropriate strategies and policies to promote infrastructure, financial and capital markets development and private sector participation. The Regional Departments prepare specific operations for promoting reforms enabling private sector participation and the facilitation of downstream initiatives. For example, a Bank sector loan initiated by a Regional Department is used to reform a sector by supporting structural reforms, preparing the corresponding laws and establishing the regulatory framework. Then a MIF operation such as a Line of Activity for Concessions is used to pave the way for the privatization of a state-owned enterprise. Finally, the Private Sector Department is involved in financing the investment program proposed by the concessionaire. The small and medium-sized businesses served by IIC credit and equity programs often benefit from MIF projects to improve the business environment.

The Bank's support for small and medium-size enterprise is another good example of the complementarity of the Bank's private sector activities. The Social Entrepreneurship Program develops and strengthens productive activities of low-income microentrepreneurs, including indigenous groups, women, youth and other marginalized groups, and has been crucial in developing local financial institutions. In 2001, the Bank approved \$6.2 million for 18 microenterprise projects. The MIF approved 22 projects for a total of \$18.4 million that support a wide range of institutions serving the microenterprise sector and microfinance institutions.

In addition to direct support for infrastructure and business, the private sector group increasingly supports the development of local securities and financial markets, since a vibrant capital market helps a country create a more conducive investment environment. More depth in the financial sector encourages savings, as investors are offered new instruments to diversify their investment portfolios and thus reduce their risk. Against this background, the Bank has creat-

ed a group that is actively supporting capital markets development and promoting new financial instruments, such as partial currency credit risk guarantees, primarily for use with local currency domestic bond issues.

The fundamental objective of these guarantees, which constitute a credit enhancement, is to bridge the gap between the demands of investors and the needs of issuers of long-term debt instruments and promote the development of domestic private sector bond markets. By enhancing domestic issuers' debt, the Bank hopes to enable local borrowers to achieve credit risk profiles acceptable to domestic long-term institutional investors, such as pension funds, and thereby foster local capital markets.

The Multilateral Investment Fund (MIF) supports private sector development throughout the region. MIF's focus is on small business and microenterprise, and on providing the needed technical assistance to improve the functioning of markets. Using both technical assistance grants and investment mechanisms (loans, equity and quasi-equity), MIF tests new development approaches and acts as a catalyst for larger reforms.

Unlike larger scale programs, MIF can afford to experiment, with a focus on piloting new and flexible ideas that are responsive to development needs as seen from the local level. MIF's ability to directly partner with NGOs, business groups and government entities has made it a central instrument in reaching out to involve a

approved \$94 million for 66 projects. MIF's portfolio is distributed as follows:

- Improving the environment for private sector development: \$180 million (24 percent);
- Human resource development: \$192 million (25 percent);
- Small business and microenterprise development: \$176 million (23 percent);
- Small Enterprise Investment Fund (SEIF): \$207 million (28 percent).

The Inter-American Investment Corporation (IIC), which began operations in 1989, is designed to support and foster the development of small and medium-size private enterprises that lack access to other suitable sources of equity capital or long-term loans. An affiliate of the IDB, the IIC lends to and invests in these companies directly or

For further information, see
<http://www.iadb.org/goto.pl?lic>

provides financing indirectly through financial intermediaries or private equity funds. It does not require sovereign guarantees. To be eligible for IIC funding, projects must further sustainable development by creating jobs, broadening capital ownership, generating net foreign currency income, facilitating the transfer of resources and technology, utilizing local resources in an environmentally responsible manner, fostering local savings, or promoting economic integration of the region.

In 2001, the IIC approved \$128 million in direct loan and equity for 19 transactions. Many of the operations—such as the project to strengthen Brazil's expanding mortgage securitization market—broke new ground for the IIC and the region as a whole. The year's approvals included six transactions with financial institutions and one private equity fund that will allow the IIC to channel more than \$425 million to even smaller companies throughout the Region.

The IDB's Private Sector Department (PRI) prepares loans and guarantees designed to mobilize private sector financing for larger infrastructure projects in the region and to improve the capacity of local capital markets to develop long-term financing instruments. PRI works in part-

For further information, see
<http://www.iadb.org/goto.pl?Mif>

broader cross-section of society in the development process. Over 75 percent of MIF projects are with partners new to the IDB.

In its eight years of operations, MIF has approved \$748 million¹ for projects throughout the region to improve the business environment, enhance the functioning of commercial, financial and labor markets, and promote small and microenterprise development. In 2001, the MIF

¹ Excluding cancellations.

nership with commercial banks, institutional investors and other co-lenders to provide private sector companies with the financing needed to undertake major projects for energy, transportation, communications, and water and sanitation infrastructure.

During its seven years of private sector operations, the Bank has extended financing for 56 projects in 13 countries, including more than \$2.1 billion in direct loans, and support for third party lenders with guarantees totaling another \$531 million. This financing commitment by the IDB has been complemented by \$3.7 billion financed through the Bank's "B" loan participation program, with funds from 52 commercial banks and 15 institutional investors. The total cost of these projects is approximately \$16 billion.

In 2001, the Bank approved five operations totaling \$279 million in direct financing and mobilized an additional \$586 million from commercial lenders. The Bank also concluded its first reinsurance agreement, thus enabling it to enhance its catalytic role in the private financial markets through risk sharing with international insurance companies. The Bank intends to re-insure up to 50 percent of all its political risk guarantees, and counts on the support of important re-insurance companies in this regard.

PRI transactions in 2001 included support for an electricity distribution company in the Dominican Republic to reduce electricity system losses; financing for power plants and a transmission line to Brazil from Argentina to meet growing demand for electricity and to diversify energy sources by moving from hydroelectric to thermal power; and support for Chile's shipping industry through construction of a multipurpose port terminal to improve cargo capacity.

The Board of Governors in 2001 approved an increase in the level of private sector loans and guarantees from 5 percent to 10 percent of the total amount of Bank loans and guarantees outstanding subject to developing even more comprehensive collaboration among the several Bank group activities aimed at the private sector (PRI, MIF and IIC), and to implementing significantly enhanced risk management procedures. This decision underscores the Bank's commitment to

continue its role as a timely and innovative provider of financial instruments that support the development of dynamic private sectors in the region by supporting infrastructure as well as local capital markets operations and initiatives.

Portfolio Management

The Bank made substantial progress in 2001 in responding to the dynamic challenges of the region. External factors brought about by macro-economic, political and environmental situations forced the Bank and its borrowers to rethink priorities, maximize available human and financial resources, and enhance sustained portfolio management practices. The IDB stepped up activities to respond to new priorities or growing needs of governments, the private sector and civil society, and worked diligently to enhance the achievement of development objectives. Additional tools, lending instruments and monitoring and evaluation mechanisms were developed, and partnerships with borrowers and clients were strengthened through pro-active loan administration, mid-term project reviews, close policy and programming dialogue, and training initiatives.

The Bank's Annual Report on Projects in Execution (ARPE) summarizes the experiences in portfolio management, and provides information on the status and performance of the portfolio, ongoing and emerging challenges, and the actions carried out to respond to those challenges. As of December 31, 2000, the Bank's active portfolio included 538 projects representing a total commitment of \$44.7 billion. In terms of commitment values, investment loans represented 81 percent of the active portfolio, while policy-based loans and private sector operations accounted for 16 percent and 3 percent, respectively.

In terms of the sector composition of the portfolio, the report indicates that 43 percent of commitments were dedicated to the social sectors, in response to Eighth Replenishment mandates, followed by projects for infrastructure, reforms

For further information, see

<http://www.iadb.org/goto.pl?portfoliomngt>

BOX 8

BARBADOS: PILOT PROJECT FOR PRODUCTIVITY IMPROVEMENT

Barbados currently enjoys a stable macroeconomic framework, and its economic program has increasingly focused on developing and implementing initiatives to consolidate savings and investment performance. There has also been an emphasis on increasing the competitiveness of the economy, particularly in terms of addressing the far-reaching implications of trade liberalization for the productive sector.

As part of efforts to improve economic performance, the government, the private sector and the trade union movement entered into a tripartite consultative process, which was formalized by the passage of the National Productivity Act in 1993. The National Productivity Council (BNPC) was then

established as an institutional component of economic management structure with the goal of increasing competitiveness by improving productivity.

The objective of this MIF project approved in 2001 is to provide technical support to the private sector to develop productivity measures, technologies, international benchmarks and best practices to improve productivity and profitability. This in turn contributes to better overall economic performance. The project involves implementing productivity enhancement initiatives and strengthening the capacity of the BNPC to provide guidance and technical support to the private sector.

For further information, see

<http://www.iadb.org/goto.pl?Mif>

and modernization of the state, and the productive sectors. Lending to the private sector is becoming an increasingly meaningful element of the IDB portfolio due to the decreased public sector role in infrastructure spending brought about by the privatization of state enterprises. Reform projects increased to around 21 percent of commitments and projects. Group II countries continued to account for the largest share of projects in the portfolio (61 percent), representing more than a quarter of commitments.

The performance of the portfolio is based on project ratings assigned by each Country Office and reported in the ARPE according to two primary classifications: the extent to which projects are showing progress in their implementation, and the likelihood that they will achieve their development objectives in the future. Despite a difficult year for the region, the report points out that 88 percent of the reporting portfolio and 87.5 percent of commitments were judged to be on track to achieve their development objectives. Twelve percent of reported projects were classified as problem projects, or those judged unlikely to achieve their development objectives. Overall, 76 percent of the projects in the

portfolio were ranked as making satisfactory progress in implementation, similar to the levels reported in 1999.

Project implementation has become increasingly complex, particularly in the social sector and reform areas, where consensus building and legislative changes are often necessary. The report points out that many structural issues related to macro, fiscal or ingrained legal, regulatory or institutional constraints beyond the control of the Bank continuously undermine gains in portfolio performance and the attainment of desired developmental impacts. All country groups have witnessed difficulties in the past few years; however, the problem in 2001 was more pronounced in Group I countries, especially in the social and reform sectors.

The ARPE also reports on specific actions taken by Management and borrowers to proactively monitor and address bottlenecks in those projects experiencing implementation difficulties. A new on-line Project Alert Identification System was instituted during the year to alert staff to take corrective measures for projects that may not yet exhibit serious difficulties, but which

have certain characteristics that increase the likelihood of becoming problematic in the future. The Bank intensified efforts to form close partnerships with clients to protect advances in portfolio management, and stave off declines in portfolio quality. In this regard, diverse strategies to revitalize country portfolios were highlighted in the report. These include actions taken in Colombia to review the portfolio, reformulate or cancel operations no longer considered top priority or no longer meeting objectives, and redimension the portfolio within the fiscal cap imposed for 2001. In Paraguay, the Bank worked jointly with the government to tackle bottlenecks, such as those stemming from procurement issues, that affect the entire portfolio.

The report also highlights initiatives underway to streamline performance monitoring and reporting practices to ensure greater consistency across-the-board and across sectors within the entire Bank portfolio. Management reported a number of actions carried out during the year to further fine-tune performance indicators, beginning with improving how projects are evaluated to ensure better performance monitoring. For the first time, Management also prepared a Work Plan on Operational Evaluation and Performance Reporting, in response to the new concept of “shared responsibility” between Management and the Office of Evaluation and Oversight. Advances were made in clarifying respective roles, and coordinating tasks in order to produce synergy and complementarity, and avoid duplication of efforts.

The Bank has been working diligently to promote a more holistic approach to performance monitoring. A number of initiatives under way will contribute to a better understanding of the entire project monitoring and evaluation cycle and its relevance for lessons learned, and the establishment of improved monitoring and evaluation systems to track progress. In this regard, the ARPE notes that a new Help Desk facility is being established to provide relevant information and just-in-time support on logical frameworks and sector indicators. Developing Help Desk support through the training of staff has begun on a more systematic basis, and an on-line support system will be launched in 2002. Extensive efforts were

also carried out to revise the existing Project Performance Monitoring Report (PPMR) and Project Completion Report (PCR) formats and guidelines, along with the alignment of borrower progress reports to streamline the reporting process. In addition, a prototype of an on-line database of lessons learned has been developed and will eventually have links to PPMRs, PCRs and other pertinent sources such as mid-term reviews, inspection visits and portfolio reviews. These types of portfolio management initiatives will continue to be developed and tested in the coming year as part of the integrated approach to enhance portfolio quality.

The report also noted continuous improvements in rationalizing work procedures and workloads in Country Offices, particularly with respect to administrative and operational processes in loan administration, project monitoring and procurement. This can free up specialists to engage in more pro-active problem solving and to give more attention to development impact issues. Because the topic of institutional weaknesses in executing agencies was highlighted by the Country Offices as the primary factor affecting project implementation, the Bank worked on developing additional tools to assist specialists in performing a more thorough institutional analysis at the project design phase, and to enhance emphasis on financial management and sustainability issues.

In terms of key operational lessons learned, the ARPE provides insight into some of the elements that should be taken into consideration in the design or programming of new operations. Among the lessons highlighted, the report points out the need for keeping project design simple and realistic, and for limiting the number of conditionalities. In addition, projects should have identifiable progress indicators to assist monitoring, and they should be dimensioned within the fiscal, budgetary and institutional capacity of the respective national counterpart and executing agency. The involvement of key stakeholders in all aspects of project design, implementation and evaluation is also critical to building strong national ownership for operations financed by the Bank. Training and technical assistance for borrowers, financed with resources from the C and D

Action Plan or other resources, has also been extremely beneficial in ensuring continuity in the application of Bank policies and procedures during project implementation. Finally, the report highlights the common interest of the Bank, borrowers and executing agencies to have access to a centralized database with lessons learned to capitalize on the range of operational lessons emerging from Bank projects.

Development Effectiveness

In today's world, institutions are judged on what they accomplish, not merely on what they do. Assessing the effectiveness of a development institution therefore requires close attention to the concrete results produced through its interventions.

Results of IDB programs that are developmentally meaningful are always the product of two actors: the Bank and the borrowing member countries. Recognizing this, the Bank's Institutional Strategy has articulated the following commitment for the institution:

"The IDB will be ready to assume responsibility for the quality of its work, and to share with the borrowing countries the responsibility for producing concrete development results."

Delivering on this shared commitment requires renewed efforts at every step of the project cycle. Country programming must be strengthened, with increased attention to performance objectives as a means of focusing Bank interventions on results. Strategy work at the sectoral or thematic level must give more attention to performance measures and benchmarks to help the Bank and the countries establish meaningful goals and targets for their interventions. Project design has to assign greater weight to issues of "evaluability" by identifying the targets and milestones along the path toward achieving results. To improve portfolio quality, project execution must focus more on pursuing results than on managing disbursements.

Progress was made on all of these fronts in 2001. Management developed new guidelines for the preparation of Country Papers, while the Bank's Office of Evaluation and Oversight (OVE) produced a paper outlining ways to improve the evalu-

ability of country programs. Management launched a comprehensive review and updating of the entire set of sector strategies, a process driven by the goal to ensure that strategies can be implemented and that they have adequate provisions for monitoring and evaluation. OVE conducted evaluability assessments of all projects sent to the Loan Committee in order to improve the development effectiveness of individual operations. Ongoing work on portfolio monitoring by both Management and OVE will contribute to a Portfolio Improvement Action Plan to be completed in 2002.

Significant progress is already under way to improve the quality of operations prepared by Management for presentation to the Board of Executive Directors. This "quality at entry" is a necessary, though not itself sufficient, condition for development effectiveness. The Bank strives to enhance quality at entry by:

- Making operations consistent with Country Papers.
- Strengthening the design of operations by ensuring that project teams take into account the lessons learned from the Bank's wealth of experience. Those lessons come from a number of sources, including real-time self-evaluation carried out by Management and through OVE ex-post evaluation exercises. They are available to staff through personal contacts, informal thematic/sector "networks" and written reports. Access for project teams will be even easier once the online database of lessons learned is fully implemented.
- Examining the internal review process for projects, a Management initiative now under way that is expected to lead to a fine tuning of that process.
- Improving the evaluability of operations that are sent to the Board of Executive Directors for approval. Management is committed to this effort. It means, more specifically, that operations will be have more clearly spelled out objectives, components that visibly support those objectives, monitoring indicators that point toward those objectives, and tools for data collection and processing that make possible an unambiguous assessment of per-

For further information, see
<http://www.iadb.org/goto.pl?Effect>

formance during execution. Operations are also expected to contain more specific provisions for ex-post evaluation based on Bank-wide guidelines currently being prepared by Management.

- Promoting greater Country Office staff involvement in project implementability, which brings to bear execution-related experience on design and conditionality. As a result, the operations Management sends to the Board are increasingly more “implementable,” i.e., their complexity is more consistent with the execution capacity of the borrower, and their conditionality (including conditions prior to first disbursement) is more limited to that which is truly necessary and enforceable.

There has also been significant progress in improving the quality of execution of operations approved by the Board. Quality of execution is crucial because, without it, even the best-designed operation will fail to reach its intended development effect. The Bank strives to enhance the quality of implementation in a number of ways:

- As recently requested by the Board, Management is preparing a Portfolio Improvement Action Plan for delivery in 2002. It will be based on reliable indicators of quality (to be identified in consultation with OVE) and will contain quantitative targets for portfolio quality improvement.

- The Bank will continue to help borrowers strengthen their capacity to implement opera-

tions. Borrowers will continue to carry out their obligations under loan contracts that are essential for satisfactory implementation, including providing counterpart funding in a timely manner, ensuring adequate managerial and technical skills in executing agencies, and establishing sound financial management systems for the implementation of operations.

- Quality of execution depends critically on the availability of adequate skills in Country Offices to help borrowers implement increasingly complex and new kinds of operations. In this regard, Management will continue to support efforts to strengthen managerial and technical skills in Country Offices so as to enable them to efficiently carry out their portfolio management responsibilities.

Improving the developmental effectiveness of Bank operations will be a long-term and ongoing process, involving both internal changes and improved cooperation with authorities in borrowing member countries. The commitment in the Institutional Strategy to focus more on results will require considerable enhancement of budgetary, monitoring and evaluation institutions in borrowing countries. The Bank is supporting this effort through individual loan and technical cooperation activities, as well as through OVE's program to build evaluation capacity.

The Year's Lending

Summary

This chapter includes summaries by country with brief descriptions of loans, technical cooperation (TC) operations (\$1 million and above), small projects, and Multilateral Investment Fund (MIF) operations (\$1 million and above) authorized by the Bank in 2001. The introductory paragraph for each country includes the number of TCs and MIF operations approved by the Bank in 2001 for \$500,000 and above, but only those operations over \$1 million are subsequently described. The chapter concludes with information related to the Bank's lending and technical cooperation program and the Statement of Approved Loans and Guarantees.

The loans and guarantees authorized by the Bank in 2001 came from the following sources:

- **Ordinary capital (OC):** 76 loans for \$7,411 million brought the cumulative total of loans, less cancellations, to 1,533 for \$92,987 mil-

lion; and guarantees for six operations totaling \$531 million as of December 31, 2001.

- **Fund for Special Operations (FSO):** 24 loans totaling \$443 million brought the cumulative total of loans, less cancellations, to 1,086 for \$15,328 million as of December 31, 2001.

- **Intermediate Financing Facility (IFF):** The Bank agreed to partially defray up to 5 percentage points of the interest on 14 loans for \$260 million, approved in 2001 from the ordinary capital, with funds from the Intermediate Financing Facility created under the Sixth Replenishment.

- **Other Funds:** There were no loans approved in 2001. Cumulative total loans, less cancellations, were 209 for \$1,719 million as of December 31, 2001.

- **Export Financing:** Increases in previously approved export financing credits for \$11 million brought the cumulative total to \$1,142 million as of December 31, 2001.

TABLE III.

DISTRIBUTION OF LOANS

(In millions of U.S. dollars)

Sector	2001	%	1961-01	%
Productive				
Agriculture and Fisheries	\$ 683.2	8.7	\$ 12,278.1	11.1
Industry, Mining and Tourism	1,060.2	13.5	11,367.7	10.3
Science and Technology	6.8	0.1	1,616.7	1.5
Physical Infrastructure				
Energy	303.7	3.9	16,022.2	14.5
Transportation and Communications	391.7	5.0	12,870.1	11.6
Social				
Sanitation	123.0	1.6	8,803.5	8.0
Urban Development	168.8	2.1	6,622.3	6.0
Education	711.5	9.1	4,911.7	4.4
Social Investment	1,784.8	22.7	8,910.7	8.1
Health	110.3	1.4	2,107.7	1.9
Environment	79.5	1.0	1,541.8	1.4
Microenterprise	0.0	0.0	381.2	0.3
Others				
Reform and Modernization of the State	2,419.1	30.8	19,309.0	17.4
Export Financing	11.0	0.1	1,536.7	1.4
Others	0.0	0.0	2,285.4	2.1
TOTAL	\$7,853.5		\$110,564.8	

TABLE IV.

YEARLY (2001) AND CUMULATIVE LOANS AND GUARANTEES (1961–2001)¹*(In millions of U.S. dollars)*

Country	Detail by Funds							
	Total Amount		Ordinary Capital ²		Fund for Special Operations		Funds in Administration	
	2001	1961–01	2001	1961–01	2001	1961–01	2001	1961–01
Argentina	\$1,655.9	\$ 16,757.2	\$ 1,655.9	\$ 16,063.3	\$ -	\$ 644.9	-	\$ 49.0
Bahamas	46.2	334.6	46.2	332.6	-	-	-	2.0
Barbados	8.8	377.5	8.8	315.7	-	42.8	-	19.0
Belize	7.0	92.2	7.0	92.2	-	-	-	-
Bolivia	113.2	2,832.8	-	970.5	113.2	1,791.1	-	71.2
Brazil	2,055.5	23,651.5	2,055.5	21,963.8	-	1,558.5	-	129.2
Chile	60.4	4,602.3	60.4	4,357.2	-	203.3	-	41.8
Colombia	800.0	8,471.0	800.0	7,651.5	-	759.3	-	60.2
Costa Rica	22.4	2,088.6	22.4	1,598.8	-	351.8	-	138.0
Dominican Republic	275.0	2,234.7	275.0	1,450.5	-	699.0	-	85.2
Ecuador	65.1	3,615.0	65.1	2,596.6	-	931.1	-	87.3
El Salvador	277.0	2,792.6	277.0	1,902.7	-	745.8	-	144.1
Guatemala	32.2	2,212.0	32.2	1,514.4	-	627.5	-	70.1
Guyana	53.3	747.6	-	102.3	53.3	638.4	-	6.9
Haiti	-	752.8	-	-	-	746.5	-	6.3
Honduras	96.4	2,175.5	-	484.3	96.4	1,625.8	-	65.4
Jamaica	112.0	1,618.6	112.0	1,255.8	-	163.8	-	199.0
Mexico	1,102.0	14,401.5	1,102.0	13,791.2	-	559.0	-	51.3
Nicaragua	180.0	1,841.4	-	243.0	180.0	1,533.5	-	64.9
Panama	35.7	1,866.0	35.7	1,543.4	-	280.0	-	42.6
Paraguay	22.2	1,699.7	22.2	1,116.2	-	571.7	-	11.8
Peru	343.3	5,408.0	343.3	4,768.9	-	418.1	-	221.0
Suriname	14.7	72.6	14.7	70.3	-	2.3	-	-
Trinidad and Tobago	-	951.1	-	895.3	-	30.6	-	25.2
Uruguay	303.9	2,576.8	303.9	2,430.9	-	104.1	-	41.8
Venezuela	97.5	3,730.3	97.5	3,556.0	-	101.4	-	72.9
Regional	74.0	2,660.6	74.0	2,450.3	-	197.2	-	13.1
TOTAL	\$7,853.5	\$110,564.8	\$7,410.8	\$93,518.0	\$442.7	\$15,327.5	-	\$1,719.3

¹ After cancellations and exchange adjustments. Totals may not add up due to rounding.² Detail includes private sector loans, net of participations.**Total Cost of Projects**

The \$7.9 billion in Bank loans and guarantees help to finance projects involving a total investment of more than \$13 billion. The Bank's loans cover only a part of the total cost of the projects being carried out by the borrowing countries. The balance over and above the Bank's contributions comes principally from the Latin American and Caribbean countries.

Disbursements

The Bank's disbursements on authorized loans amounted to \$6,459 million in 2001, compared with \$7,069 million in 2000. As of December 31, 2001, cumulative disbursements, including exchange adjustments, totaled \$87,611 million, or 79 percent of the loans authorized by the Bank. The 2001 disbursements and cumulative totals by funds include:

TABLE V.

YEARLY (2001) AND CUMULATIVE DISBURSEMENTS (1961-2001)¹

(In millions of U.S. dollars)

Country	Detail by Funds							
	Total Amount		Ordinary Capital ²		Fund for Special Operations		Funds in Administration	
	2001	1961-01	2001	1961-01	2001	1961-01	2001	1961-01
Argentina	\$1,544.6	\$12,828.6	\$1,535.7	\$12,151.0	\$ 8.9	\$ 628.6	-	\$ 49.0
Bahamas	21.1	250.7	21.1	248.7	-	-	-	2.0
Barbados	24.2	256.0	24.2	194.2	-	42.8	-	19.0
Belize	18.3	34.3	18.3	34.3	-	-	-	-
Bolivia	84.6	2,352.2	6.6	958.9	78.0	1,322.1	-	71.2
Brazil	1,148.2	17,720.1	1,134.8	16,069.1	13.4	1,521.8	-	129.2
Chile	69.3	4,026.5	69.3	3,781.4	-	203.3	-	41.8
Colombia	790.3	7,393.3	785.3	6,602.1	5.0	731.0	-	60.2
Costa Rica	31.5	1,676.8	31.5	1,196.9	-	351.8	-	128.1
Dominican Republic	142.4	1,474.0	136.9	689.8	5.4	699.0	-	85.2
Ecuador	184.3	3,333.0	160.5	2,326.6	23.8	919.1	-	87.3
El Salvador	169.4	2,173.9	168.8	1,295.2	0.6	744.6	-	134.1
Guatemala	98.5	1,748.1	87.6	1,071.6	10.9	616.4	-	60.1
Guyana	50.4	546.3	-	102.3	50.4	437.1	-	6.9
Haiti	8.1	540.2	-	-	8.1	533.9	-	6.3
Honduras	104.1	1,769.7	0.6	483.9	103.5	1,235.3	-	50.5
Jamaica	21.4	1,261.3	21.4	898.5	-	163.8	-	199.0
Mexico	762.8	11,578.2	762.4	10,970.7	-	559.0	\$0.4	48.5
Nicaragua	110.0	1,361.9	-	243.0	110.0	1,069.0	-	49.9
Panama	82.2	1,383.8	82.2	1,071.2	-	280.0	-	32.6
Paraguay	61.9	1,265.0	61.8	681.5	0.1	571.7	-	11.8
Peru	378.0	4,741.8	378.0	4,102.7	-	418.1	-	221.0
Suriname	0.2	35.5	0.2	33.5	-	2.0	-	-
Trinidad and Tobago	28.7	643.4	28.7	587.6	-	30.6	-	25.2
Uruguay	214.2	2,071.5	214.2	1,925.6	-	104.1	-	41.8
Venezuela	222.5	3,093.6	222.5	2,919.3	-	101.4	-	72.9
Regional	88.5	2,050.7	84.6	1,840.7	3.9	196.9	-	13.1
TOTAL	\$6,459.7	\$87,610.6	\$6,037.2	\$72,480.4	\$422.0	\$13,483.6	\$0.4	\$1,646.6

¹ After cancellations and exchange adjustments. Totals may not add up due to rounding.² Detail includes private sector loans, net of participations.

■ **Ordinary capital:** \$6,037 million, bringing the cumulative total to \$72,480 million as of December 31, 2001.

■ **Fund for Special Operations:** \$422 million, bringing the cumulative total to \$13,484 million as of December 31, 2001.

■ **Other funds:** \$400,000, bringing the cumulative total from funds administered by the Bank to \$1,647 million as of December 31, 2001.

Repayments

Loan repayments amounted to \$2,208 million in 2001. Cumulative payments as of December 31, 2001, were \$35,093 million. Repayments received by the Bank during the year, and cumulative as of December 31, 2001 were:

■ **Ordinary capital:** \$1,926 million, bringing the cumulative total, before repayments to participants, to \$27,519 million as of December 31, 2001.

TABLE VI.

YEARLY (2001) AND CUMULATIVE (1961–2001)¹ TOTAL COST OF PROJECTS*(In millions of U.S. dollars)*

Country	Total Cost		Bank Loans and Guarantees ²		Latin America's Contributions	
	2001	1961–01	2001	1961–01	2001	1961–01
Argentina	\$ 2,287.7	\$ 40,479.0	\$1,655.9	\$ 16,757.2	\$ 631.8	\$ 23,721.8
Bahamas	66.0	555.7	46.2	334.6	19.8	221.1
Barbados	12.5	693.4	8.8	377.5	3.7	315.8
Belize	8.9	139.9	7.0	92.2	1.9	47.7
Bolivia	131.3	4,700.9	113.2	2,832.8	18.1	1,868.1
Brazil	4,025.8	69,511.8	2,055.5	23,651.5	1,970.3	45,860.2
Chile	159.6	11,429.2	60.4	4,602.3	99.2	6,826.8
Colombia	806.7	20,267.0	800.0	8,471.0	6.7	11,796.2
Costa Rica	32.0	3,692.1	22.4	2,088.6	9.6	1,603.4
Dominican Republic	388.2	2,799.2	275.0	2,234.7	113.2	564.4
Ecuador	74.3	6,876.5	65.1	3,615.0	9.2	3,261.5
El Salvador	345.8	4,277.6	277.0	2,792.6	68.8	1,485.0
Guatemala	38.4	3,832.5	32.2	2,212.0	6.2	1,620.5
Guyana	62.5	943.8	53.3	747.6	9.3	196.2
Haiti	0.0	1,055.7	0.0	752.8	0.0	302.9
Honduras	114.9	3,965.9	96.4	2,175.5	18.6	1,790.4
Jamaica	130.0	2,452.6	112.0	1,618.6	18.0	834.0
Mexico	2,683.4	42,070.5	1,102.0	14,401.5	1,581.4	27,669.1
Nicaragua	209.5	2,991.7	180.0	1,841.4	29.5	1,150.3
Panama	50.7	3,738.8	35.7	1,866.0	15.0	1,872.8
Paraguay	29.8	2,557.4	22.2	1,699.7	7.6	857.8
Peru	476.7	10,067.4	343.3	5,408.0	133.4	4,659.4
Suriname	19.3	92.9	14.7	72.6	4.6	20.3
Trinidad and Tobago	0.0	1,551.8	0.0	951.1	0.0	600.7
Uruguay	338.3	4,240.6	303.9	2,576.8	34.4	1,663.8
Venezuela	177.0	13,312.0	97.5	3,730.3	79.5	9,581.7
Regional	394.5	14,499.4	74.0	2,660.6	320.5	11,838.7
TOTAL	\$13,063.8	\$272,795.3	\$7,853.5	\$110,564.8	\$5,210.3	\$162,230.6

¹ Cumulative loans after cancellations and exchange adjustments. Totals may not add up due to rounding.² Excludes private sector participations.

■ **Fund for Special Operations:** \$268 million, for a cumulative total of \$6,002 million as of December 31, 2001.

■ **Other funds:** \$14 million, bringing the cumulative total to \$1,572 million as of December 31, 2001.

Project Descriptions

For further information on the projects approved by the Bank in 2001, please refer to the Bank's Internet site at www.iadb.org/goto.pl?projects

ARGENTINA

In 2001, the Bank approved five loans and two MIF financings to Argentina. On a cumulative basis, the Bank has made 218 loans and one guarantee totaling \$16,757 million and disbursements have totaled \$12,829 million.

Improvement of the Education System (*\$600 million loan from the OC*)

This comprehensive program will improve the quality, equity and efficiency of education by broadening access to schooling and strengthening educational performance. The operation will increase coverage of secondary education, reduce dropout and repeater rates, and improve academic performance in language, math, and the social and natural sciences. The program will finance renovation and construction of schools; a national scholarship program for junior high students and equipment and materials for the schools they attend; installation of information and communications technologies; training for teachers; establishment of educational adaptation and innovation centers with multimedia resources; and improvements in federal and provincial education expenditures to boost efficiency.

Financial Services Sector Program (*\$500 million loan and \$2 million TC loan from the OC*)

This program will help make financial services more competitive and equitable by supporting major reforms of the nation's pension, insurance and capital markets. Changes to the legal and reg-

ulatory framework will foster greater competition among financial service providers, higher quality and more cost-efficient services, and a wider choice of pension, insurance and other savings and investment instruments. Greater disclosure of information on pension plans and insurance products will make financial markets more transparent, protecting consumers and investors. The reforms are expected to expand the portion of the work force covered by retirement plans and insurance policies, and increase the transaction volume in security markets.

Support for the Federal Commitment to Growth and Fiscal Discipline (*\$500 million loan from the OC*)

This fast-disbursing sector loan will support structural reforms that modernize and standardize fiscal administration at both the national and provincial government levels. Loan resources will be disbursed in tranches based on implementation of more transparent and programmatic policies for financial, budgetary and tax management, particularly to enhance the efficiency of social expenditure and fiscal discipline in the provinces. Considering the importance of national-provincial relations to sustaining fiscal balance in Argentina, the program will establish mechanisms to streamline the distribution of federal revenue-sharing transfers, reform provincial tax systems, eliminate tax-induced market distortions, and enhance competitiveness.

"Rosario Habitat" Program for Unregulated Settlements (*\$43 million loan from the OC*)

Infrastructure investments and social initiatives financed through this program will improve the quality of life in the *villas miserias*, impoverished squatter settlements that are home to an estimat-

ed 100,000 people in Rosario, one of Argentina's largest cities. The program will upgrade basic services such as water, sanitation, roads, electricity, garbage collection and recreational facilities. Technical and legal assistance will help residents obtain property titles. Social services for families and children will include youth training and employment programs.

Private Sector Labor Intermediation
(*\$1.7 million MIF grant*)

This project will help ensure more effective linkage between supply and demand in the labor markets of metropolitan Buenos Aires and four other cities. By providing job placement services, the project will improve the entry and re-entry of workers in the labor force. Services will include provision of computer and management tools, employment counseling, vocational guidance, job placement, and techniques to help job seekers find employment on their own.

Quality Standards and Certification
(*\$1.6 million MIF grant*)

This project will make small and medium-sized enterprises in Argentina more competitive by improving the quality of their management, processes, and products. The program will strengthen the National System of Standards, Quality, and Certification by promoting international recognition of the Argentine Accreditation Board and fostering demand for accreditation services.

BAHAMAS

In 2001, the Bank approved one loan to the Bahamas. On a cumulative basis, the Bank has made 17 loans totaling \$335 million and disbursements have totaled \$251 million.

New Providence Transport Program
(*\$46.2 million loan from the OC*)

New Providence is a 20-mile long island that is the tourist center of this archipelago nation and home

to its capital of Nassau. This operation will relieve traffic congestion on the island by building new roads and repairing and widening others, and by installing traffic management and safety measures. Works will include completion of two north-south corridors in the middle of the island and an east-west corridor in the western sector. Other improvements will include upgrading intersections, signage and traffic signal timing, as well as new sidewalks, pedestrian crossings and bus stops and lay-bys.

BARBADOS

In 2001, the Bank approved one loan to Barbados. On a cumulative basis, the Bank has made 38 loans totaling \$378 million and disbursements have totaled \$256 million.

Administration of Justice
(*\$8.8 million loan from the OC*)

This program will modernize the justice system by strengthening court administration, enhancing access to justice, and reducing the economic and social costs associated with criminal behavior. The loan will finance computerization of court management, modernization of the court reporting system, and installation of a sector-wide information system. Technical assistance will support alternative dispute resolution mechanisms, implementation of modern case management techniques, and a review of the legal aid system. To aid in crime prevention and rehabilitation, the program will upgrade management capacity and training programs in the probation department, reform schools and other offender facilities. Finally, an industrial school will be built to provide vocational training for at-risk adolescents.

BELIZE

In 2001, the Bank approved one loan to Belize. On a cumulative basis, the Bank has made nine loans totaling \$92 million and disbursements have totaled \$34 million.

Land Management*(\$7 million loan from the OC)*

This program will promote sustainable development through its support for property titling and surveying, more efficient land transactions, and better land use planning. Land tenure for over 15,000 parcels will be titled or clarified, and surveying or cadastral mapping will be carried out for thousands more. Technical assistance will help consolidate all land registration records into a single registry, streamline land valuation and taxation processes, expand land administration services to six district offices, and prepare local land use plans to delineate village boundaries.

BOLIVIA

In 2001, the Bank approved four loans and one MIF financing to Bolivia. On a cumulative basis, the Bank has made 150 loans totaling \$2,833 million and disbursements have totaled \$2,352 million.

Local Development and Fiscal Accountability*(\$47 million loan from the FSO)*

This program will improve and expand the quality of services provided by municipal governments by financing local development projects and strengthening the institutional and financial framework of the municipal sector. Based on compliance with goals set forth in institutional adjustment agreements with each municipality, the program will provide credits or transfers for projects in such areas as health, education, transportation, water and sanitation and small business development. Technical assistance and equipment will be provided to improve local tax and financial administration, information and internal management systems, human resources, and service delivery. The program will also create local property registers as well as improve municipal management by strengthening the system of intergovernmental transfers, updating financial database systems, and supporting new financing modalities, particularly from the private sector.

Social Sector Program to Support the Poverty Reduction Strategy*(\$40 million loan from the FSO with cofinancing from the UK Department for International Development)*

As part of its debt relief program under the Heavily Indebted Poor Countries initiative, Bolivia must maintain certain macroeconomic benchmarks and design a socially inclusive poverty reduction strategy. To support these efforts, this loan will be disbursed in tranches based on progress in developing indicators to monitor and evaluate poverty reduction and mechanisms to expand civil society participation in social policy-making. Social spending will be prioritized in order to ensure that basic health and education programs for the poorest and most vulnerable segments of society are protected during the fiscal adjustment period. Finally, the program will support legislation to expand social services to indigenous peoples and ensure their legal rights, as well as to consolidate gender equity as a public policy focus.

Modernization of Municipal Financial Management*(\$20 million loan from the FSO)*

This program will improve the efficiency and control of public funds by installing a management tool called SIGMA in municipalities and connecting it to central government agencies that oversee subnational finances. SIGMA is a package of policies, regulations, procedures and information technology that facilitates more systematic financial management. Implementation of the package in 91 municipalities will strengthen local preparation of financial statements and budgets and foster management accountability. The program will also establish a telecommunications network to link the municipalities involved, and strengthen the technical capacity of the General Accounting Office to support the integrated management system.

Strengthening Technical and Technological Training

(\$6 million loan from the FSO)

This program will design a national training program that provides technical and technological skills that are relevant to the workplace. Projects will field test innovative policies to offer training courses to unemployed school dropouts; establish a delegated management model supervised by the private sector in three public post-secondary technical schools; and provide entrepreneurial training for rural women. Studies and consultancies will look for ways to institutionalize such innovative approaches by reviewing the organizational and legal design, financing modes, staff and curriculum associated with technical training. The program will also develop a public information strategy for training and install the information systems needed to implement it.

Promotion of Savings Mobilization in Microfinance

(\$1.2 million MIF grant)

This project seeks to build on the efforts of the private sector, the state, international cooperation agencies, and other institutions to consolidate a program to improve and expand deposit services provided by microfinance institutions. The project will consist of three components: (i) an increase in the supply of high-quality, demand-driven deposit services; (ii) an increase in the demand for such services, primarily among low-income groups; and (iii) an improved regulatory environment for deposit-taking in microfinance institutions.

BRAZIL

In 2001, the Bank approved ten loans and five MIF financings to Brazil. On a cumulative basis, the Bank has made 289 loans and two guarantees totaling \$23,652 million and disbursements have totaled \$17,720 million.

Support for Microenterprise and Small and Medium-sized Business

(\$900 million loan from the OC)

Microenterprises and small and medium-sized businesses account for 80 percent of employment in Brazil, but their productive potential continues to be constrained by difficulties in accessing credit. This program will provide long-term financing for these firms to expand, modernize and diversify their production and services. Funding will be channeled from the National Bank for Economic and Social Development through a second-tier network of 180 regulated financial institutions with some 15,000 banking branches nationwide. The program will not only strengthen the competitiveness of the small business sector, but also deepen the development of financial markets by generating resources through the commercial banking sector.

Sector Program to Build Human Capital

(\$500 million loan from the OC)

This financing will support implementation of four national income-based transfer programs to help families move out of poverty: Bolsa Escola, Bolsa Alimentação, Agente Jovem, and Programa de Erradicação do Trabalho Infantil. Direct subsidies will be provided to poor families that live below a certain income level in exchange for their participation in health care, nutrition, education or training activities. The loan will be disbursed based on implementation of measures to make the subsidy programs more effective. The measures will develop targeting instruments to expand coverage, strategic plans and policies to enhance management, legal and administrative instruments to make programs more sustainable, and impact evaluation methodologies to ensure that programs reach the intended beneficiaries.

Expanding Markets for Small and Medium-sized Enterprises in the Northeast

(\$150 million loan from the OC)

Credit, training and technical assistance provided through this program will improve the competi-

tiveness of small and medium-sized manufacturing firms in the country's nine northeastern states. Credit provided through financial intermediaries will finance the purchase and installation of equipment, industrial infrastructure and other capital goods. Financing will also support innovative management methods, products and processes, research and development of new technology, and trade promotion activities.

Highway Rehabilitation in the State of São Paulo

(\$120 million loan from the OC)

São Paulo is Brazil's most heavily populated and industrialized state, so its highway network is critical to national commerce. This program will repair 1,000 kms of roads in non-metropolitan areas of the state, upgrade inter-urban bus terminals, and strengthen state transport management and maintenance. Roadwork will include refurbishing pavement, adding lanes, building or repairing shoulders, masonry works and drainage systems, stabilizing embankments, and installing sidewalks, bicycle paths and highway passes. Twenty bus terminals will be built, and expansion of another 40 will include modifications to improve access for people with disabilities. Technical assistance and equipment will be provided to improve road surface management, transport statistics systems, engineering capacity, and environmental analysis.

Social Action Sanitation Plan

(\$100 million loan from the OC)

Many of Brazil's poor reside in urban communities with fewer than 50,000 people, often in precarious living conditions without basic social infrastructure. This program will finance construction and expansion of an estimated 60 potable water supply or basic sanitation systems for some 1.2 million low-income residents in those areas. The new facilities will include water intake, conveyance, treatment, storage and distribution systems, as well as sewerage and waste disposal. Business management services will help municipalities set up independent utilities providers to

ensure that the new services are financially self-sustainable.

Sustainable Development in Pernambuco's Mata Region

(\$90 million loan from the OC)

This program will strengthen municipal services and support economic diversification and sustainable natural resource development in an area hard hit by declines in sugar production, traditionally the region's main industry. Using a planning process based on local decision-making and participation by civil society, the program will finance local projects in health, education and infrastructure such as water and sanitation, local markets and roads. Technical assistance and training will support the development of agribusiness and nonagricultural firms, as well as agricultural research. The program will develop an environmental management action plan and finance forestry and solid waste management projects.

Termobahia Cogeneration Power Project

(\$62.8 million loan from the OC with a "B" loan of \$124.16 million)

This project will finance construction and operation of a 190 MW natural gas-fired power plant in Mataripe in the state of Bahia. The combined-cycle plant will also produce 350 metric tons of steam per hour for industrial use. The project will be developed by a private Brazilian firm, Termobahia Ltda.; a private investment fund, A&A Electricity Investment (Jersey) Limited; and Petrobrás, the national oil company. The project is a key part of Brazil's efforts to address its emergency electricity needs and to diversify energy sources through the use of more efficient and cleaner thermal plants. Under the project's 20-year conversion contract, Petrobrás will be the sole purchaser of the electricity and steam that is generated, and will supply the natural gas, water and other services required for operation of the plant.

Modernization of the Pension System
(*\$57 million loan from the OC*)

Modern information systems and management models implemented through this program will improve the efficiency and transparency of the National Social Security Institute, which serves some 25 million workers and 3 million private companies. The program will lay the groundwork for a modern pension system and is expected to save the system up to 20 percent by reducing errors and fraud. Consulting, training and technical assistance will modernize all aspects of administrative management and implement an information technology master plan for revenue inflows, controls, dispute resolution, and recognition of benefits. Pilot programs will create legal frameworks and subnational pension management models for 200 Brazilian municipalities.

Termopernambuco Power Generation Project
(*\$42.4 million loan from the OC with a “B” loan of \$ 150 million*)

This loan will finance construction and operation of a natural gas-fired combined cycle 520 MW thermal power plant in the Port of Suape in the municipality of Ipojuca. The project also includes construction of a 27 km transmission line, an electricity substation, and gas interconnection and water treatment facilities. The electricity distribution companies for the states of Pernambuco and Bahía have entered into 20-year power purchase agreements with Termopernambuco S.A., the private Brazilian company that will develop the project. The project is part of Brazil’s emergency program to accelerate construction of cleaner and more efficient gas fired power plants to address a nationwide energy shortage. Under the syndicated “B” portion of the loan, financial institutions will provide funding under participation agreements with the IDB.

Multiphase Program for Tenement Action in São Paulo
(*\$34 million loan from the OC*)

The initial phase of this program will finance home renovations or purchases for some 5,000 families living in tenements in downtown São Paulo, while setting in motion a long-term community initiative for more comprehensive urban renewal. The program will provide mortgage loans supplemented by direct subsidies to families living in substandard housing. At the same time, social networks and community ties will be developed in order to mobilize tenement residents to become involved in housing solutions. The program will finance preparation of engineering and architectural designs for housing and provide technical and social assistance to project participants.

Equity Fund for Small and Medium-sized Enterprises in Northeast Brazil
(*\$6 million MIF equity investment and \$750,000 MIF grant*)

This project will promote the growth of innovative small enterprises by providing access to capital financing, strengthening the business skills of entrepreneurs, and modernizing business management practices. The venture capital fund will invest in companies with sales below \$5 million and fewer than 100 employees. It will focus on early-stage businesses in high-growth technology clusters, including software, fine chemicals, micro-electronics, and biotechnology. The grant component will help support the creation of business training services for this growing sector.

Remittance Fund for Entrepreneurs (Dekassegui Fund)
(*\$5 million MIF equity investment*)

This project will promote entrepreneurial activities by Brazilian temporary workers returning from overseas (primarily from Japan) who want to start businesses in Brazil. The fund will provide technical advice and start-up capital to help transform entrepreneurial ideas into viable business plans and operations supported by invest-

ment resources. It will also serve as an investment vehicle for Brazilians who are still living outside of the country.

Investment Fund for Emerging Technology-based Companies

(\$3 million MIF equity investment)

This fund will make venture and expansion investments in small and medium-sized technology enterprises that have high potential growth rates and market size, and which demonstrate technological innovation. The sectors targeted for investment are information technology, communications, logistics, media, and electronic equipment and components.

Technology Transfer and Support for Agricultural Technology-based Enterprises

(\$1.6 million MIF grant)

This program will make new technological services and products available to agricultural producers. Through the implementation of an incubation mechanism for business adaptation, the project will help transfer technologies to the agricultural sector and mitigate start-up risks for new business incentives in a sector where there has traditionally been limited entrepreneurial activity.

Institutional Framework to Stimulate Venture Capital Investment

(\$1.1 million MIF grant)

This project will stimulate development of new technology companies by creating a risk capital market and promoting private sector investment in this sector. The project will bring together a full range of mechanisms for risk capital investment in order to augment the offerings of existing fund managers. Project elements include the formulation of instruments to disseminate information and stimulate high-quality business, the strengthening of institutional mechanisms for technology investment, and training of personnel.

CHILE

In 2001, the Bank approved two loans and two MIF financings to Chile. On a cumulative basis, the Bank has made 124 loans and one guarantee totaling \$4,602 million and disbursements have totaled \$4,027 million.

Integral Development Program for Indigenous Communities

(\$34.8 million loan from the OC)

More than one-third of Chile's indigenous population is poor, a proportion far higher than poverty levels among the general population. This program will improve the living conditions of indigenous peoples by financing productive projects for agricultural development and diversification and for natural resource management; providing technical assistance and training to strengthen community self-management and participatory planning; promoting bilingual educational and cultural initiatives; and designing intercultural health care models that improve access to services. The first of a two-phase operation, the program will benefit an estimated 12,000 families from the Mapuche, Aymara and Atacameño indigenous groups living in 600 targeted rural communities.

Mejillones Terminal 1 Project

(\$25 million loan from the OC with a "B" loan of \$34 million)

This loan will support construction of a large-scale port complex to meet the growing demand for shipping by the copper industry. Chile's current principal northern port in Antofagasta does not have deep enough water to accommodate large modern vessels, and lacks adequate storage areas and space for expansion. This project will finance construction in nearby Mejillones of a multi-purpose terminal with three ship berths capable of moving copper cathodes and handling a variety of container cargo. The terminal will be able to accommodate the largest vessels that can transit the Panama Canal and will have the capacity to handle 2 million metric tons of copper and related cargo. The project

is part of a port complex master plan to be developed through a build-operate-transfer agreement between the borrower, Compañía Portuaria Mejillones S.A., and a subsidiary of Codelco, the world's largest copper company.

Modernization of the Mass Transportation System

(\$1.3 million MIF grant)

This grant will support the 2000-2006 Santiago Urban Transit Plan, which is designed to reduce costs, improve service and curb air pollution. The MIF will provide assistance in designing an improved regulatory and legal structure and a system of technical and routing requirements for bus services and schedules. This will form the basis of a new concession system that encourages greater private investment, organization, and integration with the surface transportation system.

Integrating Microenterprise Production

(\$1.1 million MIF grant)

This program aims to better integrate microenterprise production by enhancing competitiveness in various sectors of the economy and areas of the country where these firms supply production chains. More than 200 microenterprises and small businesses will be strengthened to help establish an effective presence in some five production chains in local development settings.

COLOMBIA

In 2001, the Bank approved three loans to Colombia. On a cumulative basis, the Bank has made 191 loans and one guarantee totaling \$8,471 million and disbursements have totaled \$7,393 million.

Sector Program for Subnational Fiscal Reform

(\$400 million loan from the OC)

This program will support a more viable, coordinated and sustainable system of fiscal management by the country's subnational governments,

which include municipalities, departments and the capital and special districts. The loan will be disbursed in tranches based on implementation of reforms that foster macroeconomic stability, reduce subnational liabilities and introduce hard budget constraints, delineate the division of powers among different government levels, and strengthen the technical capacity of institutions involved in decentralization. Mechanisms will be introduced to reduce excessive subnational debt and spending through legislation, regulation, restructured revenue sharing procedures, and tax reform.

Social Reform Program

(\$390 million loan and a \$10 million TC loan from the OC)

This fast-disbursing sector loan will be used to establish a stabilization fund for the poor during economic crises and to support reforms that ensure that social programs reach those most in need. The crisis fund will set aside up to 1 percent of GDP during periods of growth to supplement public social welfare spending during economic downturns. To better target social spending, the program will reform the beneficiary identification process by adjusting the index mechanism, implementing a quality control system, and strengthening local capacity to administer programs. The operation will also extend health insurance coverage, reorganize teaching staff and the fiscal transfer process for education, and support legislation to create jobs and to transition workers from the informal to the formal sector.

COSTA RICA

In 2001, the Bank approved one loan to Costa Rica. On a cumulative basis, the Bank has made 97 loans totaling \$2,089 million and disbursements have totaled \$1,677 million.

Administration of Justice (Second Phase)

(\$22.4 million loan from the OC)

This program will continue the comprehensive modernization of the justice system in order to

reduce case backlogs, improve prosecutorial capacity, protect the rights of the accused, strengthen crime prevention, and assist crime victims. Facilities in participating judicial circuits will be repaired or expanded, and technical assistance and equipment will be provided to restructure judicial administration and computerize case management. The program will support administrative and management improvements in public prosecutor and public defender offices, develop national crime prevention strategies, and design out-of-court conflict resolution mechanisms. Judicial staff will be trained in such areas as investigative techniques, collection of evidence, and enforcement approaches that preclude discrimination.

DOMINICAN REPUBLIC

In 2001, the Bank approved two loans to the Dominican Republic. On a cumulative basis, the Bank has made 78 loans and one guarantee totaling \$2,235 million and disbursements have totaled \$1,474 million.

Social Sector Institutional Reform

(\$200 million loan from the OC with an IFF interest rate subsidy)

This program will support structural reforms to improve the efficiency and effectiveness of public spending in targeted social sectors such as health and education. The loan will be disbursed in tranches based on implementation of policy reforms that strengthen the institutional framework of the social sectors, improve their budgetary management, and begin the process of decentralizing health and education services. The program will also protect social expenditure during the country's macroeconomic reform process by supporting measures that mandate certain budgetary levels and improve allocation and management tools. Finally, the program will strengthen the capacity of the government's Social Portfolios Council to coordinate and monitor social policy.

EDE Sur/EDE Norte Electricity Distribution Project

(\$75 million loan from the OC with a "B" loan of \$113 million)

This loan will help provide an efficient and reliable energy supply by supporting investments by two private energy distributors to modernize and expand services. The two firms—the Northern and Southern Distribution Companies—were among those awarded the distribution assets of the public electricity utility when it was capitalized in 1999. The program will repair and expand distribution networks; increase the capacity of substations and install mobile substations to prevent breakdowns and forced outages; reduce losses by connecting or repairing some 400,000 meters for residential, industrial and government clients, and by installing telecontrol systems in 17 substations; regularize 316 kms of the distribution network to facilitate reading of meters, increase safety, and protect the network against fraud; and upgrade commercial offices and information services.

ECUADOR

In 2001, the Bank approved four loans and one MIF financing to Ecuador. On a cumulative basis, the Bank has made 164 loans totaling \$3,615 million and disbursements have totaled \$3,333 million.

Social Investment Fund (Third Stage)

(\$40 million loan from the OC with an IFF interest rate subsidy)

Participatory social projects financed by this loan in the poorest regions of the country will strengthen the capacity of impoverished communities to manage their own social development. Training and technical assistance will be provided to approximately 500 communities to design and implement projects best suited to local needs, including construction of primary schools, health centers, daycare and senior centers, potable water and sanitation facilities, and rural roads. At least half of the communities participating in the program will have populations that are majority

indigenous groups or Afro-Ecuadorian. The Emergency Social Investment Fund was established in 1993 to expand coverage of the basic social services network to marginalized groups and regions.

Rural Land Regularization and Administration

(\$15.2 million loan from the OC with an IFF interest rate subsidy)

A modern, reliable and continuously updated system for securing land ownership will be established in nine rural cantons through this program. Aerial photography and mapping will facilitate the cadastre and regularization of ownership of an estimated 110,000 properties. The program will also create a decentralized property information system to help manage the cadastre, titling and registration process. To encourage low-income producers to register land ownership, competitive grants will be available for small-scale rural development and environmental projects such as reforestation. The program will also improve the adjudication of public lands by working with the National Agrarian Development Administration to implement monitoring, control and financial management systems, and to reduce delays in the titling process.

Institutional Strengthening of the Ministry of Economic Affairs and Finance

(\$5.1 million loan from the OC with an IFF interest rate subsidy)

This operation will support efforts to achieve sustainable macroeconomic stability by implementing fiscal policy reforms and strengthening key areas of the Ministry of Economic Affairs and Finance. Technical assistance, training, equipment and support for information systems will be provided to help formulate and analyze economic policy; modernize the administration of public debt; improve monitoring of subnational finances; better define and implement public investment policies; and strengthen management of human resources. With its strengthened institutional capacity, the Ministry is expected to play

a leading role in the country's fiscal reform process.

Support for Decentralization

(\$4.8 million loan from the OC with an IFF interest rate subsidy)

A series of constitutional amendments and laws passed since the mid-1990s have cleared the way to decentralize a number of government services to provinces and municipalities. But that process has been slowed by the lack of an appropriate framework for governance and clear procedures for transferring powers. Technical assistance and training through this program will move that process forward by addressing key legislative and institutional issues, making the distribution of public funds to subnational governments more efficient, transparent and equitable, and strengthening local decision-making and service delivery capacity. The program will implement annual decentralization plans, consolidate subnational regulatory, financing and taxation arrangements into a single system, and install information systems to monitor local financial performance.

Program to Support Microenterprises and Ecuadorian Migrants

(\$2 million line of credit and \$200,000 MIF grant)

This program consists of a revolving line of credit of up to \$2 million, with an additional 10 percent (up to \$200,000) for technical assistance. The project's goals are to extend the coverage of the formal financial system to the microenterprise sector, especially in rural areas, and to further the consolidation of a regulated, private financial intermediary that is part of the formal financial system. The program will allow Banco Solidario to process at lower costs remittances from Ecuadorians living out of the country.

EL SALVADOR

In 2001, the Bank approved six loans and three MIF financings to El Salvador. On a cumulative basis, the Bank has made 103 loans totaling \$2,793 million and disbursements have totaled \$2,174 million.

Housing Program

(\$70 million loan from the OC with an IFF interest rate subsidy)

This program will finance improvements in basic services in poor urban neighborhoods and provide subsidies for housing construction and repairs. An estimated 50,000 families are expected to benefit from the program, including 8,000 families who will receive subsidies to rebuild homes destroyed or damaged during the earthquakes in January and February 2001. Technical assistance will help develop financial instruments to meet long-term demand for housing by strengthening the mortgage market, titling properties, implementing regulations for subdivisions, and modernizing housing and urban development agencies. The program will assist in drafting risk maps of participating municipalities in order to mitigate the effects of natural hazards such as landslides and floods.

Local Development Program

(\$70 million loan from the OC)

This program will support earthquake reconstruction efforts within the framework of an ongoing local development process that gives stricken communities a voice in setting priorities and allocating resources. Earthquakes in El Salvador in January and February of 2001 killed more than 1,100 people and left 200,000 families homeless. The program will finance repairs of schools, health centers, water and sanitation systems, community facilities, and electrical systems. Resources will be allocated to an estimated 238 municipalities through competitive bidding or by using a sliding scale based on the extent of damage. Eligible communities—either those stricken by the earthquake

or otherwise impoverished—will be required to prepare a municipal development plan that reflects local participatory planning. The program will also provide training and technical assistance to strengthen the management and administrative capacity of municipalities, and to assist them, as well as community organizations, in project planning and formulation.

Multi-phase Program for Sustainable Roads in Rural Areas

(\$58 million loan from the OC)

Developing the economic potential of impoverished rural areas in El Salvador depends on access to roads in good condition year-round to transport products to markets, travel to work, and obtain social services. The initial phase of this program will finance repairs of 300 kms of tertiary gravel roads that connect municipal seats to the primary road system or other heavily traveled and economically important routes. Repairs will also be made to 100 kms of roads damaged by the earthquake of January 2001, particularly in the eastern area of Berlin-Santiago de María and the Bálsamo mountain range area. The operation will also support a road maintenance program under which microenterprises will be contracted for local work.

Emergency Reconstruction Programs

(Two loans totaling \$40 million from the OC with IFF interest rate subsidies)

In January and February of 2001, El Salvador suffered major earthquakes registering 6.1 and 7.6 on the Richter scale. The quakes left thousands dead, injured or homeless and caused major damage and destruction throughout the country. These emergency operations will repair homes or provide temporary housing for more than 80,000 families, many of them among the population's poorest and most vulnerable. Hillside stabilization projects will help protect areas prone to landslides, and early warning and community organization systems will be established to spearhead future disaster prevention efforts. The program will also finance repairs of 433 kms of roads in

Cuscatlán, La Paz, San Vicente and Cabañas, the departments hardest hit by the February quake.

Agribusiness Reengineering
(\$25 million loan from the OC)

This project will modernize and diversify agricultural production by improving information systems, upgrading plant health and food safety programs, introducing new technologies to raise crops and livestock, and expanding irrigation and drainage infrastructure. Twenty new service centers will help producers hone their business expertise in such areas as marketing and technology transfer. Training and technical assistance will complement investments to expand irrigated areas and repair facilities damaged by earthquakes earlier in the year. Support for research will forge public and private sector alliances to develop agriculture and forestry technology and improve competitiveness.

Recovery Program for Microenterprises Affected by the 2001 Earthquakes
(\$2.6 million MIF loan and \$135,000 MIF grant)

This project will establish a mechanism to guarantee the availability of easily accessible contingency resources to support the recovery of microenterprises affected by the earthquakes in 2001. The project will enable microfinance institutions to gain access to the liquidity necessary to develop mitigation mechanisms for their clients and their own financial and operational sustainability.

Support for Credit Unions and Workers' Banking Systems
(\$2 million MIF grant)

This project will provide microenterprises and small businesses with greater access to financial resources by modernizing and strengthening the system of credit unions and workers' banks. The project includes plans for organizational development, financial management, development of client services, and strengthening of internal control, auditing, communications and information technology.

Labor Intermediation System
(\$1.6 million MIF grant)

The goal of this project is to improve the efficiency of the labor market in El Salvador by piloting a private sector-based labor intermediation service to match workers' skills with employers' needs. The project is expected to serve 5,000 firms and register 39,000 workers. Training institutions will also benefit by having a central resource to better place their trainees and receive referrals from workers requiring training.

GUATEMALA

In 2001, the Bank approved two loans to Guatemala. On a cumulative basis, the Bank has made 105 loans totaling \$2,212 million and disbursements have totaled \$1,748 million.

Education Reform (Stage II)
(\$22 million loan from the OC with an IFF interest rate subsidy)

Improving the quality of early childhood education and access to it are the aims of this phase of a program whose long-term goal is universal primary schooling. Working in nine departments, the program will expand educational coverage to ensure that 40 percent of six-year olds are in school by 2004. An estimated 15,600 primary school teachers will be trained in participatory, multicultural and innovative instructional methods, while another 4,400 teachers will receive bilingual training in Mayan languages. The program will establish libraries, provide books and equipment, and modernize educational management by providing training and investment budgets for decentralized services, and by supporting innovative initiatives such as distance education, curriculum reform and teacher incentives.

Support for Foreign Trade

(\$5 million loan from the OC with an IFF interest rate subsidy)

This loan to improve Guatemala's trade negotiating capacity is the first operation under the IDB's new Trade Sector Facility, a flexible fast-track lending instrument for priority sectors. The program will provide technical assistance and training to the Vice Ministry of Integration and Foreign Trade to enhance its capacity to analyze, design and evaluate trade policy instruments that promote efficiency, competitiveness and access to international markets. Financing will also be used to develop new information technologies and establish an information center on trade issues.

GUYANA

In 2001, the Bank approved two loans and one technical cooperation grant to Guyana. On a cumulative basis, the Bank has made 39 loans totaling \$748 million and disbursements have totaled \$546 million.

Mahaica-Rosignol Road Rehabilitation

(\$33 million loan from the FSO)

This loan will finance repairs of a heavily used road along Guyana's coast and strengthen the capacity of the government to plan and carry out future highway infrastructure and maintenance programs. The 41 km road between Mahaica and Rosignol provides the only access to the country's second-largest city, New Amsterdam, and its most important agricultural area, the Berbice Region. This operation will finance paving and shoulder widening, drainage works, construction of curbs, sidewalks and parking lanes, traffic signage and other safety measures, and road maintenance. Technical assistance, training and computer equipment will support a Work Services Group created by the government to handle planning, design, procurement, quality control and monitoring of all contracts for investment in and maintenance of the country's roads and bridges.

Social Impact Amelioration Program - SIMAP III

(\$20 million loan from the FSO)

Using a demand-driven approach in which communities themselves help design and implement the small-scale infrastructure they need, this operation will improve the living conditions and economic potential of the country's poor. The program will finance construction of community centers, roads and markets as well as health, sanitation, education and childcare facilities. Eligible communities will be identified using poverty maps, with a special focus on Amerindian areas. Technical assistance and training will strengthen local organizational, management and leadership capacity to ensure project quality and sustainability. The program also includes direct financing to help improve access to services for vulnerable groups such as the elderly, the disabled, abused women, single parents, at-risk youth, and AIDS victims.

Environmental Management Program (Phase II)

(\$1.3 million grant from the FSO)

This project will establish a solid foundation for sustained environmental management by strengthening Guyana's Environmental Protection Agency as well as nongovernmental organizations working in the field. Technical assistance will support the EPA's work with hazardous waste management, emergency response planning, and public education campaigns. Training will focus on supervision and project management, permit writing, auditing, impact assessment, monitoring and sampling, laboratory practices, pollution control, geographic information systems, database management, and systems administration. The program will also provide field equipment, information systems, and water quality monitoring kits for field stations.

HAITI

In 2001, the Bank approved one operation to Haiti. On a cumulative basis, the Bank has made 47 loans totaling \$753 million and disbursements have totaled \$540 million.

Basic Health Services and HIV/AIDS

(\$1 million grant from the FSO)

This program supports an initiative by several international agencies to provide assistance in designing and implementing a comprehensive HIV/AIDS program in Haiti, which has the highest prevalence of HIV infection in the hemisphere. Technical assistance and training will help deliver health and social services through contracts with local organizations, and support groups of people living with the infection. The program will also develop a national strategic plan for HIV/AIDS, including a public information campaign, as well as implement improved regulations and procedures for managing the country's blood supply.

HONDURAS

In 2001, the Bank approved five loans and two technical cooperation operations to Honduras. On a cumulative basis, the Bank has made 129 loans totaling \$2,176 million and disbursements have totaled \$1,770 million.

Institutional Reform and Implementation of the Poverty Reduction Strategy

(\$30 million loan from the FSO)

This operation will create the modern financial, monitoring and coordination mechanisms needed to implement the poverty reduction strategy required for Honduras to receive debt relief under the international initiative to assist Highly Indebted Poor Countries (HIPC). Technical support will facilitate intersectoral cooperation among agencies that implement social policies, and the government will establish financial and budgetary measures to ensure transparency in the

use of resources for poverty reduction. An advisory council will be created to promote participation by civil society in determining project priorities and designs.

Management of Natural Resources in Priority Watersheds (Phase I)

(\$25 million loan from the FSO)

This operation will support sustainable rural development and strengthen natural resource management in economically important and environmentally fragile areas. The targeted region will be the Ulúa, Nacaome and Chamelecón river basins, which cover 17,500 square kms and account for a significant portion of national GDP. By helping residents access credit, marketing, land titling and product certification services, the program will promote profitable but sustainable productive processes such as agroforestry, nonagricultural employment, and environmentally-friendly coffee production. Technical assistance will strengthen citizen participation in the program, land use planning, management of protected areas and water and forest resources, and decentralization of management processes.

Expansion of Technical Capacity in Poor Communities

(\$8.5 million loan from the FSO)

Traditional methods of providing social services in remote areas of Honduras are costly because of the distances involved. This innovative program will provide some 100 poor and isolated communities with "technology packages" to improve their access to educational, information and market knowledge services. Local communications centers will be established and equipped with renewable energy sources such as photovoltaic panels, as well as such tools as cell phones, computers, fax machines, magnetic media and satellite connections. Technical assistance will be provided to help the communities apply the technologies productively. The centers will enable students to study software versions of the standard national educational curriculum, and will offer business training for microentrepreneurs.

Population and Housing Census

(\$3 million loan from the FSO with parallel financing from USAID, the Swedish International Development Cooperation Agency, and the Government of Japan)

Technical assistance through this program will help carry out the 2001 census, which encompasses the country's 16th national population census and fifth housing census. The program will finance census fieldwork, processing of the data collected, and publication and dissemination of results. The census provides key information for formulating development policies and programs and is particularly important for subregional governments, for which it is practically the only source of statistical research. The 2001 census will allow for updating the country's statistical maps so that they can serve as the basis for upcoming economic and agricultural censuses. The program will also provide training to the National Statistics Office to carry out future census activities.

Support for Indigenous and Black Communities

(\$1 million loan from the FSO and a \$1 million grant from the Austrian Trust Fund)

This program will promote a better understanding of the issues affecting minority groups and help prepare legislation to standardize their basic cultural and legal rights. Black and indigenous peoples constitute an estimated 12.8 percent of the population of Honduras. Training for public officials who work these groups, as well as workshops for representatives from the communities, will ensure that local concerns are incorporated into the design of economic and social projects. Pilot projects in two communities will use this consultative process to design and carry out community-based infrastructure projects. The operation will also create consultation panels at the local, regional and national levels to draft legislation for a national regulatory framework to promote equity for women and minorities.

Training for Social Policy and Program Design and Management

(\$1.7 million grant from the Department for International Development of the United Kingdom and Northern Ireland)

This project will strengthen social sector agencies by training officials in modern management techniques that can make their policies and programs more effective and equitable. More than 500 representatives from all levels of government, civil society organizations and universities will attend workshops and training courses organized by the Inter-American Institute for Social Development. The goal is to train these professionals, who shape and manage the country's social policies and programs, in the concepts, methods and tools of modern social management. The project will also support creation of a network of trainers who can implement similar training programs at the municipal level.

JAMAICA

In 2001, the Bank approved four loans and two technical cooperation operations to Jamaica. On a cumulative basis, the Bank has made 82 loans totaling \$1,619 million and disbursements have totaled \$1,261 million.

Social Safety Net Reform

(\$60 million loan from the OC with an IFF interest rate subsidy, and a \$1.1 million TC grant from the FSO)

This sector loan will improve the targeting of social safety net programs while protecting basic social services during the country's fiscal adjustment period. A uniform means test will be designed to ensure equitable and timely access to social services. Three transfer programs will be consolidated to better target the poorest of the poor, and subsidies for secondary school and school feeding programs will be adjusted to best help those most in need. The parallel technical cooperation grant will finance training and pilot programs in support of the reforms. Finally, the

operation will ensure that essential social services continue to be funded as Jamaica undertakes key macroeconomic reforms.

Improving National Road Services
(\$24.5 million loan from the OC)

This program will implement a sustainable system to maintain a safe and reliable national highway network by contracting out routine road maintenance and modernizing public transport agencies. Performance-based and lump-sum procedures will be used to ensure cost-effective performance by private firms, and a computerized planning and management tool will be installed to evaluate and monitor the quality of maintenance work. Training and technical assistance will strengthen the capacity of the Ministry of Transport in planning, finance, information applications, and the development of regulations regarding the environment, safety, social concerns, and traffic management and enforcement. The program will also finance studies for future projects to improve priority segments of the national highway system.

Citizen Security and Justice Program
(\$16 million loan from the OC with an IFF interest rate subsidy and a \$500,000 TC grant from the FSO)

Increased crime and violence in inner-city areas continue to exact an economic and social toll in Jamaica. This comprehensive effort to strengthen the criminal justice system and foster community action will support measures to prevent and reduce violence, improve the crime management capacity of authorities, and modernize judicial services. Through community-based facilities in nine inner-city areas of metropolitan Kingston, civil society organizations will provide such services as alternative dispute resolution, job training, remedial education, and parenting and substance abuse counseling. Community Action Committees will be established to mobilize residents to fight crime and to improve community-police relations. Technical assistance, training and equipment will be provided to help formulate an integrated national strategy for violence prevention, carry

out a social marketing and public education campaign, establish an inter-agency crime and violence information network, and upgrade correctional and rehabilitation programs for young adults.

Rural Water Program
(\$10 million loan from the OC)

This loan will finance construction of potable water and sanitation systems in impoverished rural areas and create legally autonomous community-based water organizations to administer them. Participation by the private sector will be promoted through “builder-operator” contract options under which beneficiary communities can choose to select a private firm to build and operate the system. An estimated 25,000 people will benefit from the program, which will target the country’s poorest rural areas. The operation will also help the Ministry of Water and Housing develop an institutional framework for a nationwide rural water initiative using a similar community-based approach.

Kingston Urban Renewal Project
(\$1.2 million grant from the FSO)

This grant will support a community-based initiative to undertake small-scale social and economic improvements in low-income areas in the Southside and Tel Aviv sections of Kingston. An umbrella of community organizations will be established to design and implement projects to improve street signage, upgrade solid waste management, install community sanitary facilities, and convert vacant lots into recreation areas. A business development center will be set up to provide technical assistance to small firms. Finally, the program will support efforts to reduce neighborhood and domestic violence, and studies and surveys will help to regularize properties and design affordable housing solutions.

MEXICO

In 2001, the Bank approved three loans and one MIF financing to Mexico. On a cumulative basis, the Bank has made 173 loans totaling \$14,401 million and disbursements have totaled \$11,578 million.

Support for Small Farmers through PROCAMPO

(\$500 million loan from the OC)

Established to compensate farmers for reforms that phased out crop support prices, PROCAMPO provides annual payments per hectare to some 3.3 million small producers, many of them subsistence farmers. This loan will enable PROCAMPO to pay out support allowances before crops are planted, a critical change in timing that will improve farmers' cash flow, reduce their need for high-cost financing for the planting season, and boost productivity and net income. Loan resources will finance up to 50 percent of the advance on PROCAMPO allowances. Technical assistance will strengthen a geographic information system used to monitor support payments, analyze the program's environmental impact, and develop procedures for PROCAMPO to be able to sustain such advances on its own in the future.

Training and Employment Support Program (Phase I)

(\$300 million loan from the OC)

A growing economically active population coupled with low productivity pose an ongoing challenge for Mexico to respond to the demands of an open economy. Worker training and job placement programs supported by this operation aim to make the workforce more competitive. The financing will enable the National Employment Service to serve about 1.2 million unemployed and underemployed workers annually, nearly double its current capacity, and to better link training and placements with job offers. Training for workers in microenterprises and small and medium-sized firms is expected to help some 100,000 compa-

nies annually to improve productivity. The program will broaden the reach of job training and placement services by delegating responsibilities to states and municipalities, and through social marketing and distance learning programs.

Investment Program and Financial and Institutional Strengthening for States and Municipalities

(\$300 million loan from the OC)

This program will support decentralization in Mexico by strengthening the financial and administrative capacity of state and municipal governments and by financing subnational investment projects with high social returns. Loan resources will be disbursed in tranches based on progress by subnational governments in adapting national and international best practices in such areas as investment planning, human resources management, accounting, audit procedures, programming and budgeting, environmental management and information disclosure. Participating state and municipal governments will have access to a credit line that will provide up to 50 percent of financing for projects for infrastructure and financial and social services. A pilot project will support investment plans in 10 municipalities with high levels of poverty.

Capitalization of Remittances for Local Economic Development

(\$1.1 million MIF grant)

This project will help establish or strengthen pilot mechanisms for channeling remittances to productive entrepreneurial projects in the states of Guanajuato, Zacatecas and Puebla, all regions of high migration. With the participation of local government, local private investors, and organizations of Mexican migrants abroad, the project will offer technical assistance to small enterprises in the preparation of business plans and consulting services in the start-up stages of business operations, thus helping strengthen the competitiveness of the local communities.

NICARAGUA

In 2001, the Bank approved seven loans and one MIF financing to Nicaragua. On a cumulative basis, the Bank has made 115 loans totaling \$1,841 million and disbursements have totaled \$1,362 million.

Repairs to the Managua-Rama Highway *(\$35 million loan from the FSO)*

This loan will support repairs of a portion of the main east-west highway that links the country's Atlantic region to the capital. The IDB will finance repairs of 88 kms of the road between San Lorenzo and Muhan, including rehabilitation of six bridges. The World Bank and the Danish International Development Agency are financing repairs of other segments of the highway, which stretches 288 kms from Rama to Managua. The program will also support measures to improve road maintenance, including an up-to-date management system, regulations and hiring procedures, as well as financing to repair equipment.

Socioeconomic and Forestry Development Program (POSAF II) *(\$32.7 million loan from the FSO with parallel financing from the Nordic Development Fund)*

This program will help farmers develop sustainable productive systems that yield higher incomes while protecting natural resources. Technical assistance will introduce agroforestry, silvopasture, forest plantation, soil conservation, pest management and contour plowing and terracing techniques to over 14,000 farmers living in impoverished and environmentally fragile areas. Working with municipalities and rural community organizations, the program will also cofinance construction of public works to prevent and mitigate natural disasters.

Pension System Reform *(\$30 million loan from the FSO)*

Without fundamental reform, Nicaragua's mandatory public pension system is unsustainable

because of structural imbalances between its contribution and benefit profile. This fast-disbursing loan will support adjustments to contain costs of the current pay-as-you-go system while helping the country transition to a fully privatized, defined contribution pension system. Loan tranches will be disbursed based on compliance with agreed-upon legal, regulatory and institutional reforms needed for far-reaching structural reform of the pension system. The reform is designed to ensure the long-term stability of the system by broadening the base of contributors, eliminating distortions and enhancing equity, increasing transparency, and developing domestic financial markets.

Comprehensive Childcare Program - Stage 2 *(\$25 million loan from the FSO)*

An estimated two-thirds of Nicaraguan preschool children live in poverty and lack the health care, nutrition and early stimulation needed to succeed in primary school. To break this poverty cycle, this program will finance comprehensive childcare projects for some 80,000 preschool children in targeted municipalities. Services will include pre-school education, food supplements, growth monitoring, care for pregnant and nursing women, and child rearing instruction for parents. To expand the successes of the program's first stage to the national level, technical assistance will be provided to strengthen institutions responsible for childcare. Civil society organizations will be contracted to provide many of the child and family services through community centers and mobile teams.

Municipal Strengthening and Development *(\$12 million loan from the FSO)*

An incentive arrangement established through this operation will help some 16 municipalities with populations over 20,000 improve local services and infrastructure to meet the growing challenges of urbanization. The program will finance infrastructure for municipalities that reform and modernize their systems of administration, finance, service delivery, environmental manage-

ment and urban development. Technical assistance will help participating municipalities make those improvements. As municipalities reach the agreed-upon targets, they will gain access to resources for investment projects in such areas as transportation, water and sanitation, parks, and protection against natural disasters.

Strengthening the Judiciary and Improving Access to Justice

(\$12 million loan from the FSO)

This operation will support Nicaragua's ongoing judicial reforms by building new judicial facilities, expanding access to legal services, strengthening judicial administration, and upgrading human resources. A Central Judicial Complex will be built in Managua, opening the way to implement new organizational and management methods designed to improve services. Assistance, mediation, information, guidance and victim assistance programs will be established in order to expand services to those most in need. New information technologies will be installed to streamline judicial procedures, and judicial and civil service courses will be offered to improve judicial staff performance.

Technical Innovation Program

(\$6.8 million loan from the FSO)

This operation will provide funding for technology transfer and innovations by small and medium-sized businesses looking to expand their reach to the global economy. Businesses in the science and technology sector that invest in innovative projects can qualify to receive matching grants for consultant services, training, equipment, and export or import promotion activities such as market research. The program will also establish a network of technology facilitation centers to provide training and foster the exchange of information between technology providers and businesses. The aim of the program is to lay the groundwork for a national innovation system to promote and coordinate technological change on a long-term basis.

Development and Implementation of a National Purchasing and Contracting System
(\$1 million MIF grant)

This grant will help develop a more efficient national public procurement system, which will foster greater competitiveness, transparency, and participation by the private sector. The project will establish an electronic procurement information system, update standards, improve internal control of the procurement process, and provide training for the private sector.

PANAMA

In 2001, the Bank approved one loan and one MIF financing to Panama. On a cumulative basis, the Bank has made 114 loans totaling \$1,866 million and disbursements have totaled \$1,384 million.

Institutional Transformation of the Health Sector (Phase I)

(\$35 million loan from the OC)

This operation will expand coverage of quality basic health services and help to deliver them more effectively. The program will provide 450,000 low-income beneficiaries with a comprehensive and cost-effective package of primary health services through contract arrangements with nongovernmental, religious and civic organizations. To improve access to services and allocate health resources more efficiently, new management instruments, information systems and social marketing will be used to decentralize health systems in five regions, reorganize the operations of regional health care facilities, and improve management in five hospitals. Technical assistance will help the Ministry of Health improve administrative and technological processes, human resources, and coordination with other agencies such as the Social Security Institute.

Technology Business Accelerator Model *(\$1.2 million MIF grant)*

This grant will encourage the development and growth of new business ventures in the field of information technology and communications. The project will support an “accelerator model,” which is defined as an early-stage venture capital company investing in Internet infrastructure, software, telecommunications and other technology-based ventures. It provides clients with consulting on strategy and technology, investment banking, and venture capital through internal resources and global partner networks.

PARAGUAY

In 2001, the Bank approved two loans to Paraguay. On a cumulative basis, the Bank has made 108 loans totaling \$1,700 million and disbursements have totaled \$1,265 million.

Potable Water and Sanitation in Small Communities *(\$12 million loan from the OC)*

This operation will benefit some of the country’s poorest populations by installing household connections for drinking water and providing an adequate system for wastewater disposal in 100 communities with an average size of 750 inhabitants each. A pilot program will also construct water systems in 10 indigenous communities in the Chaco region. To ensure rational and efficient water use and proper system maintenance, a community development component will provide technical assistance and training to help organize local sanitation boards.

Business Development for Small and Medium-sized Enterprises *(\$10 million loan from the OC)*

Small and medium-sized businesses account for more than half of all jobs in Paraguay, yet the productive capacity of these firms is constrained by poor management and information networks.

This project will finance technical assistance and training to help these enterprises absorb new production and management techniques and use modern information technologies in their business operations. A cofinancing facility will be established to provide financial incentives to firms to implement business plans. The program will support the transfer of international know-how to domestic providers of business services in order to strengthen and expand their lines of business development products and services.

PERU

In 2001, the Bank approved four loans, one technical cooperation operation and one MIF financing to Peru. On a cumulative basis, the Bank has made 155 loans totaling \$5,408 million and disbursements have totaled \$4,742 million.

Fiscal, Social and Judicial Policy Reform *(\$250 million loan from the OC)*

This operation will strengthen democratic institutions and promote citizen participation in governance by implementing reforms that ensure a more transparent and accountable public sector. At the same time, loan resources will be used to sustain priority anti-poverty and judicial programs from budget cutbacks during the country’s period of macroeconomic adjustment. Public access to government finance data—including that of the Defense and Interior sector—will be improved through measures that ensure the timely release of information on budgeting, human resources and acquisitions; simplify the presentation of tax expenditure and fiscal risk data; and make tax procedures more equitable and transparent. Mechanisms will also be introduced to improve government response to shocks such as economic crises and natural disasters, and to initiate an anticorruption program and other administrative reforms to the justice system.

Rural Transportation Infrastructure Program (Stage Two)

(\$50 million loan from the OC, with \$50 million in parallel financing from the World Bank)

This operation will finance and maintain rural roads in 12 departments in the Sierra region, where more than two-thirds of the population lives in poverty. Better roads will help these remote communities gain access to markets as well as critical health and education services. The program will finance repairs of 3,575 kms of rural and secondary roads and 3,100 kms of nonmotorized routes, as well as provide maintenance for roads repaired during the first stage of this operation. Technical assistance and training will help municipalities plan and manage roads systems within their jurisdictions. Finally, the operation will finance a pilot project for intermodal transport along the Ucayali River.

Land Titling and Registration (Second Phase)

(\$23.3 million loan from the OC)

By securing property rights and strengthening the rural cadastre and registry system, this program will promote efficient and transparent land markets, in turn boosting rural investment and enhancing productivity and access to credit. Funding will be used to finalize the technical, legal and administrative steps to formalize boundaries and legal title, map, record and deliver some 525,000 titles in the Coastal and Sierra regions. Over 500 campesino communal lands as well as indigenous communities will also be legally titled, and definitive demarcation will be made of 15 nature reserves. Finally, equipment, training and other technical assistance will support modernization of the rural cadastre and land registry in order to efficiently expand and update the titling process.

Emergency Earthquake Relief Program

(\$20 million loan from the OC)

The earthquake in southern Peru in June 2001 registered 6.9 on the Richter scale and left many dead, injured or missing. Some 60,000 homes

were destroyed and there was widespread damage to roads and infrastructure. This emergency loan will help restore basic services and support measures to prevent further damage in disaster areas in the departments of Arequipa, Moquegua, Tacna and Ayacucho. Activities will include removal of debris and demolition of unstable buildings; control and stabilization of bridges, landfills, roads, telecommunications facilities and dams; restoration of electricity, water and sanitation services; and construction of temporary housing.

Modernization of the Arequipa Transportation System

(\$1 million grant from the Japan Trust Fund for Consultancy Services)

Studies financed by this grant will lay the groundwork for urban transport that is safer, cleaner, and more accessible and economically sustainable. Peru's second largest city, Arequipa has had difficulty expanding its transportation system to keep up with burgeoning population growth over the past decade. These resources will enable the municipal government to identify and evaluate alternatives to improve the system, design a project implementation plan, and address the relevant technical, institutional, financial and legal issues to carry out the project. Areas to be examined include public transport modes and routes, traffic operations, nonmotorized transport, and road infrastructure, safety and maintenance.

Recovery of Microfinance Institutions in the South

(\$1.6 million MIF grant)

This project will help design a mechanism to guarantee readily accessible contingency resources for use in emergencies. The aim is to support the recovery of microenterprises in areas affected by earthquakes and other natural disasters. The project will support regulated and unregulated small private institutions in the affected zones by ensuring access to resources to develop immediate mitigation mechanisms to bolster the financial and operational sustainability of both the institutions and their clients.

SURINAME

In 2001, the Bank approved two loans to Suriname. On a cumulative basis, the Bank has made 11 loans totaling \$73 million and disbursements have totaled \$36 million.

Low-income Shelter

(\$9.8 million loan from the OC with an IFF interest rate subsidy)

This program will finance construction or repairs of some 4,000 low to moderate-income homes through demand-driven subsidies based on increased involvement by homeowners and the private sector. Traditionally, the government has contracted large companies to build relatively large units that are then sold at deeply subsidized prices, a system that has been ineffective for lower-income households. Under this program, subsidies per household will be reduced significantly to only about one-fourth the unit cost, but homeowners will be free to select their own contractor. These changes will make more subsidies available while improving the program's sustainability. Technical assistance will promote more effective housing finance methods and strengthen public housing policies and institutions.

Decentralization and Local Government Strengthening

(\$4.9 million loan from the OC with an IFF interest rate subsidy)

Although Suriname passed a law in 1989 aimed at decentralizing its central government structure, progress has been slowed by weaknesses in fiscal legislation. This program will enhance decentralization by strengthening local government capacity for fiscal self-management, with a view to delivering basic local services. Technical assistance will help the nation's 10 districts develop systems for basic planning, administration, public works management and citizen participation. The program will also promote core legislative reforms to provide the districts with fiscal authority for budgeting, payments and revenue generation.

TRINIDAD AND TOBAGO

In 2001, the Bank approved one MIF financing operation to Trinidad and Tobago. On a cumulative basis, the Bank has made 32 loans totaling \$951 million and disbursements have totaled \$643 million.

Bond Purchase for the Development of Microfinance, Development Finance Limited Fund

(\$2.8 million bond purchase by the MIF)

This transaction will improve access to credit and financial services for some 2,000 microenterprises in Trinidad and Tobago, Barbados and Guyana. By acquiring these bonds, valued at market price, the MIF is helping Caribbean Microfinance Limited become established as an institution that supplies credit and financial services. The operation is the first MIF bond operation in the Caribbean.

URUGUAY

In 2001, the Bank approved four loans and one MIF financing to Uruguay. On a cumulative basis, the Bank has made 111 loans totaling \$2,577 million and disbursements have totaled \$2,072 million.

Modernization of Public Administration *(\$150 million sector loan and a \$3.6 million TC loan from the OC)*

This fast-disbursing sector loan will boost the quality and productivity of public administration and services by improving revenue collection, streamlining expenditures, limiting government intervention in the private sector, and modernizing human resource management. Resources will be disbursed in tranches based on implementation of policy reforms that make tax collection, public spending and government bidding more efficient and transparent, and that rationalize government procedures, prices and charges, including modification of some 70 regulations affecting competition in markets. Delivery of pub-

lic services with particular social impact will be required to meet targets in terms of time and costs. Finally, the program will modernize the legal framework for government staffing and reform the National Civil Service Office.

Health Sector Reform

(\$75 million loan from the OC)

Policy reforms supported by this project will modernize management of public and private health systems, creating a more competitive setting for service providers in order to reduce costs, improve the quality of care, and ensure more equitable access to services. The loan will be disbursed in tranches based on progress in (i) systematizing the regulatory framework to better sustain supplementary insurance plans and other programs, protect users' rights, and monitor health care institutions; (ii) restructuring institutions in the private health sector to restore solvency, improve efficiency and standardize care; and (iii) streamlining budgeting and management models in the public healthcare system to better meet the needs of users and target low-income groups.

Secondary Education Modernization and Teacher Training

(\$75 million loan from the OC)

This program will finance construction of secondary schools and support educational reforms to keep young people in school and prepare them for the modern job market. The principal goal is to consolidate universal educational coverage for grades 7-9 and then provide those students with technical and academic alternatives as they continue their secondary schooling. The program will finance construction of 16 new high schools and five polytechnical schools, as well as a range of multimedia facilities. Curriculum reform and teacher training will focus on offering high-quality learning opportunities relevant to the entire student population. Class hours will be expanded and shifts reduced in schools that adopt the reforms. A more flexible modular curriculum will be offered to students who have dropped out in order to help them complete their basic education.

Public Sector Cost Reduction

(\$1.3 million MIF grant)

This project will modernize procurement and reduce the cost of regulations and procedures. The impact of central administration costs on the private sector will be reduced by streamlining administrative procedures and improving competitiveness. Access to central government services will be improved by rationalizing key processes and implementing a single window for businesses.

VENEZUELA

In 2001, the Bank approved two loans to Venezuela. On a cumulative basis, the Bank has made 74 loans totaling \$3,730 million and disbursements have totaled \$3,094 million.

Reform of the Criminal Justice System

(\$75 million loan from the OC)

Rising crime rates and slow judicial procedures have jeopardized public confidence in Venezuela's criminal justice system. This program will help rebuild that confidence by improving the efficiency, professionalism and equity of criminal investigations, trials and rehabilitation. Case backlogs will be reduced by training prosecutors, police and other criminal justice personnel in methods of investigation, questioning and forensic medicine. New information systems will expand case tracking and connect all the bureaus of the Attorney General's Office. Civic education campaigns will inform citizens about the country's new penal code and the public's role in trials and other aspects of criminal justice. The program will support civil society organizations that help rehabilitate offenders through pre-parole residential centers and work release programs.

Agricultural Technology Program

(\$22.5 million loan from the OC)

This program will increase agricultural productivity by promoting innovations and by strengthening the institutions that provide the services and

technologies the sector needs to be competitive. Training, technical assistance and equipment will help upgrade biological and information technologies, accredit 18 laboratories of the National Institute for Agricultural Research (INIA), support research on market-oriented technological innovations, and meet new environmental requirements for trade and production. The INIA's technical information and institutional management systems will be upgraded to better help producers increase crop yields, reduce losses from pests and diseases, and improve product quality. Finally, the program will provide business technology services and establish a Capital Fund to support private sector projects with commercial potential.

REGIONAL

In 2001, the Bank approved six loans, two technical cooperation operations and six MIF financings at the regional level. On a cumulative basis, the Bank has made 61 loans totaling \$2,661 million and disbursements have totaled \$2,051 million.

Central American Electric Interconnection System (SIEPAC)

(\$120 million in loans from the OC, \$50 million in loans from the FSO, \$70 million in loans from the Spanish Quincentennial Fund, and a \$1.65 million grant from the FSO)

These financings will support creation of a wholesale electricity market for Central America and construction of the first regional power grid connecting the countries. The project will install a 1,830 km 230 kilovolt line that will function as an indivisible trunk transmission system interconnecting 16 substations from Guatemala to Panama. This SIEPAC line will increase firm inter-country transfer capacity to 300 MW. The project will also establish common market rules for all electricity transactions between the six countries, and create two regional institutions to operate and regulate the system. These institutional arrangements along with greater installed capacity are expected to spur the coordination and competition necessary for electric power integration

in Central America. This operation reformulates an earlier loan package for SIEPAC based on progress supported by the IDB in modernizing the institutions and structures of Central America's electric energy markets.

Argentina-Brazil Electricity Interconnection *(\$74 million loan from the OC with a "B" loan of \$169.9 million)*

This operation will finance private construction of a 1,000 MW 500kV electricity interconnection between Rincón, Argentina and Itá, Brazil. The project involves construction of a 510 km transmission line, upgrades of substations at both ends of the line, and construction of a conversion station at Garabí in Brazil. A fiber optic line will also be installed along the route of the interconnection. The new capacity is particularly important to Brazil, which faces an energy shortage because investments have not kept up with growing demand for electricity. The project will be developed and implemented by Companhia de Interconexão Energético, a private Brazilian firm.

Trinational Program for Sustainable Development in the Upper Lempa River Basin *(Loans of \$14 million to El Salvador and \$4.5 million to Guatemala from the OC and a \$3.3 million loan to Honduras from the FSO, with parallel financing from the Nordic Development Fund and grants from GTZ)*

This program will support the sustainable development of an impoverished and environmentally fragile frontier region by improving natural resource management, promoting economic diversification, and reducing vulnerability to natural hazards. Technical assistance will introduce financially sustainable agricultural practices, particularly for poor farmers in areas where forests and soils are degraded. To expand income-producing options, training and marketing will promote microenterprise development and nonagricultural activities. Financing will support construction of small-scale water and sanitation facilities as well as projects to stabilize slopes, control flooding and protect riverbanks. An early warning

and monitoring system will be established to help prevent or mitigate natural disasters.

INDES Training Courses

(\$2.5 million grant from the FSO)

This operation will finance training by the Inter-American Institute for Social Development in social policy and program formulation and management for more than 1,300 professionals from the region, including senior management, technical experts and trainers from government, non-governmental organizations, civil society, and post-secondary or vocational institutions. The financing covers participant, instructor and material costs. More than half the participants will be trained through distance education strategies such as CD-ROMs, the Internet, and multi-site video conferencing.

Latin American Energy Services (ESCO) Fund

(\$10 million MIF equity investment)

The goal of this fund is to make equity or quasi-equity investments in small, innovative enterprises that function as energy service companies. As a consequence, the fund will help these firms gain access to financing and technical expertise. Initially, the fund will pursue direct investments in energy-service companies (ESCOs) that bundle small and medium-sized projects focused on making the production, distribution and consumption of electricity or thermal energy more efficient.

Line of Activity for Infrastructure

(\$10 million MIF line of activity for grants)

This operation will finance individual projects up to \$500,000 with the goal of strengthening, consolidating and securing the sustainability of the reform process and incorporating the private sector into infrastructure development.

Line of Activity for Airport Security

(\$10 million MIF line of activity for grants)

The goal of this program is to enhance civil aviation policies and regulatory frameworks, improve

administrative services, and train personnel in charge of surveillance and enforcement of new regulations. The MIF will contribute up to \$500,000 for each qualified project. This will be supplemented by a counterpart contribution from the country of between 30 and 50 percent of the total value.

Youth Employment Program: Technologies in the Workplace

(\$10 million MIF grant)

This project will improve employment possibilities for disadvantaged young adults through an alliance between nongovernmental organizations, training centers, and the business community to help meet training needs in the fast-growing information technology sector. Participants will subsequently be placed in work situations where they can utilize IT technologies, benefit from lessons learned, and promote best practices as the project develops.

Promoting Instruments for Standards

(\$2.3 million MIF grant)

This project will spur development of a services market to implement quality, environmental and food safety management, systems models and standards. On both the demand and supply sides of such a market, the goal is to boost capacity, competition and transparency, thus facilitating introduction of such systems in small businesses while enhancing their competitive position.

Risk Assessment of Microfinance Institutions

(\$1.5 million MIF grant)

This project will help the region's microfinance institutions gain access to private sources of capital. A rating fund will be established to provide vouchers to the institutions so that they can purchase rating services. Also, an electronic information exchange will be created to provide information to microfinance institutions and disseminate project activities and results.

Technical Cooperation

The technical cooperation program has traditionally been an effective instrument for facilitating project design, preparing the Bank's lending program, and sharing knowledge and experience among the countries of the region. In recent years, the program has channeled valuable technical assistance to regional initiatives to strengthen dialogue on poverty, integration, trade and the environment.

Implementation of the technical cooperation program is based on Eighth Replenishment mandates, country programming papers, and the Bank's Institutional Strategy. Those documents set out medium-term priorities for the technical cooperation program to support the borrowing member countries by (i) improving the quality and efficacy of services for the social sector; (ii) expanding poverty alleviation efforts; (iii) intensifying initiatives to modernize public agencies; (iv) strengthening environmental management programs; and (v) promoting small business and microenterprise development. The Bank also is committed to responding quickly to emergencies resulting from natural disasters.

In 2001, the Bank approved \$71 million for 376 technical cooperation projects. National technical cooperation operations totaled \$59 million. Examples included social reforms in Colombia and Jamaica, an AIDS program in Haiti, support to indigenous groups and black communities in Honduras, financial reforms in Argentina, and modernization of transportation in Arequipa, Peru.

The regional technical cooperation program funded 55 operations totaling \$12 million.

Social sector reform projects concentrated on training social managers throughout the region. Funding was provided to develop a regional work plan to improve the coverage and quality of social services that target the neediest among the elderly population. Other operations are building the capacity of Central American

TABLE VII.

NONREIMBURSABLE TECHNICAL COOPERATION¹ (In thousands of U.S. dollars)

Country	2001	1961-01
Argentina	\$ 824	\$ 68,049
Bahamas	33	20,874
Barbados	77	18,013
Belize	533	6,229
Bolivia	1,304	72,996
Brazil	1,699	156,779
Chile	398	10,036
Colombia	2,826	53,402
Costa Rica	291	42,319
Dominican Republic	3,005	49,903
Ecuador	4,416	60,775
El Salvador	2,867	47,043
Guatemala	4,393	48,764
Guyana	3,162	48,657
Haiti	1,530	48,852
Honduras	5,844	54,622
Jamaica	4,181	34,288
Mexico	569	17,747
Nicaragua	2,229	67,733
Panama	2,028	33,612
Paraguay	1,681	56,567
Peru	2,758	80,314
Suriname	452	22,305
Trinidad and Tobago	77	19,475
Uruguay	3,400	31,165
Venezuela	253	11,896
Regional	20,376	641,481
TOTAL	\$71,206	\$1,823,896

¹ Does not include Small Project financings.

municipalities to reduce the vulnerability of poor urban communities to environmental hazards; producing studies and promoting dialogue to better articulate health sector reforms; and promoting social inclusion of persons with disabilities.

Modernization of the state programs are training government employees, bolstering civil society organizations, and strengthening strategic partnerships between government, private enterprise and civil society to develop and deliver social services. The Bank is also supporting initiatives to improve the quality and dissemination of national census and household survey data. Other operations are promoting the harmonization of government procurement policies and practices in CARICOM member states; supporting the creation of the Caribbean Court of Justice, a training program for public prosecutors and judges to prevent money laundering; and fostering the exchange of information on legislative processes among national congresses in Central America.

For further information, see
<http://www.iadb.org/goto.pl?rtc>

The Bank's technical cooperation is also supporting competitiveness in the region by strengthening countries' analytical capacity and charting national strategies and priorities. Initial steps were taken during the year to develop mechanisms to advance the integration and harmonization of regional financial markets, including gathering and analyzing information on the business environment in which small and mid-sized companies operate in selected countries.

A number of subregional and regional integration activities were funded, including strengthening subregional institutions; supporting the implementation and infrastructure development plans in South American countries; devising a strategy and action plan for basic infrastructure integration between Mexico and the Central American countries; and assessing the impact of the Common External Tariff on Andean Community Trade.

Cofinancing

In 2001, cofinancing of IDB-supported projects totaled \$629 million, including \$591 million from five multilateral donors and \$38 million from 12 bilateral donors. These resources helped finance 22 projects in 10 countries and two regional projects.

The cofinancing of projects is being redefined within the changing environment in which the Bank operates. Greater emphasis is being placed on policy coordination with other institutions as opposed to the conventional "matchmaking of resources." In this context, the Bank launched new initiatives to strengthen its ties with existing cofinanciers, such as the European Commission and Germany. These initiatives are expected to bring about a better understanding of mutual policies, priorities and procedures, resulting in better communications at the project preparation and implementation levels. The Bank had its first official coordination meeting with the Japan International Cooperation Agency (JICA) to discuss possible areas for future collaboration. In November, JICA and the Bank co-sponsored a technical forum on disaster mitigation and prevention.

For further information, see

<http://www.iadb.org/goto.pl?Cofinance>

More emphasis is being placed on the quality of cofinancing activities. The selection of projects is made on the basis of broadly-based discussions on policies and strategies with the Bank's partners. For cofinancing, added value is not just financial, but should also be reflected at the levels of project preparation, identification of components, implementation and evaluation. For example, monitoring project implementation is an area of increasingly recognized relevance. As a first step to raise awareness about this issue and improve inter-agency coordination, the Bank invited several donor agencies to participate in a seminar entitled "Cofinanced Projects: Performance Ratings and Experiences."

Funds in Administration

The Program for Development of Technical Cooperation among Member Countries of the Bank (TC/Funds Program), was established to finance short- and medium-term consultancies and training activities such as seminars and workshops. Since 1991, 34 trust funds have been established under the program with total contributions of \$157 million, as well as five agreements in-kind for the provision of services. Contributions have been donated by all but three of the nonborrowing member countries of the Bank. Funds have been established by Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Israel, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. Contributions by these donor countries in 2001 amounted to \$18 million. The Bank and the Government of Canada established the Canadian Technical Cooperation Program with a contribution of 6 million Canadian Dollars. Aside from the TC/Funds Program, the Ministry of Economy of Spain and the Bank established the General Cooperation Fund of Spain in 2001, with an initial contribution of \$44.4 million,

For further information, see

<http://www.iadb.org/goto.pl?TCfunds>

TABLE VIII.

COFINANCING IN 2001*(In millions of U.S. dollars)*

Cofinancier	Recipient country	Project	IDB financing ¹	Cofinanced amount
Austria	Nicaragua	Transparency in Procurement	\$ 18.0	\$ 0.5
Canadian International Development Agency (CIDA)	Honduras	Transparency in Procurement	14.6	0.6
	Nicaragua	Transparency in Procurement	18.0	0.3
Ministère de l'Économie, des Finances et de l'Industrie	Bolivia	Local Development and Fiscal Responsibility	47.0	0.2
German Agency for Technical Cooperation (GTZ)	El Salvador	Upper Rio Lempa Project	14.0	0.8
	Guatemala	Upper Rio Lempa Project	4.5	0.5
Kreditanstalt für Wiederaufbau (KfW)	Bolivia	Support to Small and Microenterprises	35.0	5.0
	El Salvador	Emergency Program II	20.5	5.0
	Nicaragua	Social Investment Fund (FISE III)	50.0	5.5
Global Environment Facility	Costa Rica	Electrical Development Program III – Tejona Wind Project	30.0	3.3
Japan International Cooperation Agency (JICA)	Argentina	Occupational Health and Safety Program (MIF)	2.3	0.1
	Honduras	Population and Housing Census 2001	3.0	1.0
The Netherlands	Nicaragua	Transparency in Procurement	18.0	1.0
Nordic Development Fund	Honduras	Education Program	22.9	6.6
	Honduras	Upper Rio Lempa Project	3.3	3.0
	Nicaragua	Forestry Project – POSAF II	32.7	3.0
Norwegian Agency for Development Cooperation (NORAD)	Nicaragua	Transparency in Procurement	18.0	0.3
Royal Norwegian Ministry of Foreign Affairs	Honduras	Transparency in Procurement	14.6	3.2
	Regional	Environmental Information System (COFAB) ²	-	0.2
Organization of Petroleum Exporting Countries (OPEC) Fund	Haiti	Water and Sanitation Program	54.0	6.6
	Honduras	Potable Water and Sanitation Program	26.0	5.0
Swedish International Development Agency (SIDA)	Honduras	Transparency in Procurement	14.6	1.0
	Honduras	Population and Housing Census 2001	3.0	2.4
	Nicaragua	Transparency in Procurement	18.0	0.3
	Regional	FORTAL – Urban Poverty Reduction in Central America and the Caribbean (COFAB) ²	-	0.2
Department for International Development (DFID) of the United Kingdom	Honduras	Training in the Design and Management of Social Policies and Programs (COFAB) ²	-	1.7
	Bolivia	Support to Poverty Reduction Strategy (COFAB) ²	40.0	4.3
	Honduras	Transparency in Procurement	14.6	1.0
	Nicaragua	Transparency in Procurement	18.0	1.0
United Nations Development Programme (UNDP)	Honduras	Population and Housing Census 2001	3.0	0.1
U.S. Agency for International Development (USAID)	Honduras	Population and Housing Census 2001	3.0	1.1
	Nicaragua	Transparency in Procurement	18.0	1.0
World Bank	Argentina	State Modernization of the Province of Córdoba	215.0	303.0
	Colombia	Social Support Program	270.0	150.0
	Honduras	Poverty Reduction and Local Development	50.0	60.0
	Peru	Rural Roads	50.0	50.0
TOTAL			\$1,133.6	\$628.8

¹ This list represents those projects for which cofinancing was approved during 2001 by the cofinanciers, although IDB approvals may have been in previous years.

² COFAB stands for Cofinancing Grant Administered by the Bank.

and South Korea has provided \$590,000 to its trust fund in support of the Central American countries and Colombia.

In 2001, the resources from the TC/Funds Program constituted the largest source of financing of the Bank's nonreimbursable technical cooperation program. Of the total of \$71 million approved by the Bank's nonreimbursable technical cooperation program, half was financed with resources from the trust funds. The TC/Funds Program financed 26 percent of the total approvals, the Japan Special Fund financed 21 percent, and the other donor funds financed 9 percent. Most of the resources were allocated to Group II countries, while 36 percent were allocated to regional projects.

Japanese Funds

In 2001, the Japan Special Fund (JSF) continued to play an essential role in providing financial resources for the Bank's technical cooperation activities. One of the oldest and largest funds administered by the Bank, the JSF approved 29 projects in 2001 totaling \$16.6 million. Created in 1988, the JSF funds projects in most of the Bank's priority areas, especially social protection programs, women in development, nutrition, health, education and the environment. New contributions in 2001 from the Government of Japan to the JSF were 429 million Yen (approximately \$3.4 million), raising the aggregate contribution to 24,634 million Yen (approximately \$204 million).

In 2001, the Government of Japan established the \$30 million Poverty Reduction Program as part of the JSF. The objective of this five-year program is to support projects focused on working with low-income groups or those with a direct impact on poverty.

In 2001, the Japan Program approved 19 projects for a total of \$2.6 million. The Japan Program was created in 1999 with a 15-year budget of \$30 million to facilitate knowledge transfer and exchange of best practices between the region and Asia.

The largest of the Bank's TC/Funds program, the Japanese Trust Fund for Consultancy Services (JCF) was created in 1995. In 2001, the

JCF approved nine projects for \$3.1 million. Fifty percent of JCF funding is tied to the financing of Japanese consultants or consulting firms. All Bank sectors where Japanese expertise is identified are available for financing, mainly in the environment, health, finance and economic infrastructure sectors. In 2001, Japan contributed 286 million Yen (approximately \$2.3 million) to this fund, with the cumulative contributions totaling 2,846 million Yen (approximately \$24.5 million).

The Bank continued to administer the Japan-IDB Scholarship program with grant funding to help develop human resources in the region. The program offers opportunities to selected individuals to undertake graduate studies at universities in member countries in the social sciences, management, engineering, and other development-related fields. The program provided scholarships for 34 recipients for the 2001-2002 academic year. Cumulative resources totaled 2,217 million Yen (approximately \$19.2 million) as of the end of 2001. Since the program's inception, 362 scholarships have been awarded.

Procurement

Bank policies mandate that the procurement of goods, works and consulting services for IDB-funded projects must comply with the principles of economy, efficiency, competition, transparency and due process. Procurement must be done based on a process of open selection and competitiveness, and there must be international public bidding for contracts above specific thresholds. Only firms from IDB member countries may participate in bidding for IDB-financed projects.

Borrowers are responsible for the execution and management of the projects, including the bidding process, from the drafting of bidding documentation to the adjudication and administration of contracts. IDB Country Offices are responsible for monitoring this process and cooperating with the executing agencies to ensure full compliance with Bank procedures.

For further information, see
<http://www.iadb.org/goto.pl?Procure>

TABLE IX.

FUNDS IN ADMINISTRATION

Name	Date Established	Entrusted by	Currency	Contributions ¹ (US\$ millions equivalent)	Sector Concentration or Purpose
Social Progress Trust Fund	1961	USA	USD	525	Agriculture, sanitation, education, social
Canadian Fund	1964	Canada	CAD	47.2	Physical infrastructure and other sectors
Venezuelan Trust Fund	1975	Venezuela VBO	USD	400 100	Integration, natural resources, industry, exports
Norwegian Development Fund for Latin America	1987	Norway	USD	2.0	Low-income groups, health, education, agriculture, small-scale industry
Japan Special Fund	1988	Japan	JPY	200.4	Technical assistance, small projects, emergency assistance
Spanish Quincentennial Fund	1990	Spain	EUR	83.8	Technical education, agriculture, health, communications, urban development
Trust Fund for Belgian Consultants	1991	Belgium	EUR	3.1	Technical assistance for the preparation of projects
IDB Graduate Scholarship Program	1991	Japan	JPY	19.2	Scholarship for advanced studies
Portuguese Technical Cooperation Fund	1991	Portugal	EUR	2.7	Technical assistance, scholarships and training
Swedish Fund for Small Projects and Technical Assistance for Latin America	1991	Sweden	USD	5.0	Small projects financing for low-income groups
Austrian Technical Cooperation Trust Fund	1992	Austria	USD	0.6	Preparation, execution and supervision of projects
Israeli Consultant Trust Fund (Bank of Israel)	1992	Israel	USD	0.7	Preparation and appraisal of economic and social development projects
Italian Consulting Firms and Specialized Institutions	1992	Italy	USD	9.0	Sector studies and special programs
Italian Individual Consultant Trust Fund	1992	Italy	USD	2.7	Short-term consultancy for development projects
Norwegian Fund for Women in Development	1993	Norway	USD	5.9	Technical assistance, studies, training and seminars under the Women in Development Program
Swedish Fund for Microenterprise Activities in Bolivia	1993	Sweden	USD	3.9	Micro and small enterprise activities in Bolivia
Environmental Technical Cooperation Trust Fund from The Netherlands	1993	The Netherlands	EUR	2.9	Technical assistance for environmental activities
Canadian Technical Cooperation Program	2001	Canada	CAD	11.2	Consultancy services in all sectors with emphasis on social reform
Danish Consultants Fund	1994	Denmark	USD	10.0	Prefeasibility and feasibility studies in infrastructure, environment, health and education
Norwegian Technical Cooperation Trust Fund for Consulting Services	1994	Norway	USD	7.7	Prefeasibility and feasibility studies in infrastructure, environment, health and education
Spanish Fund for Consultants (ICEX)	1994	Spain	EUR	10.9	All sectors, preferably in agroindustry and industrial restructuring
Swiss Consultants Fund	1994	Switzerland	USD	4.0	Activities sponsored by the Bank and the Bolívar Program
United Kingdom Fund for Consulting Services	1994	United Kingdom	GBP	0.8	All sectors of activities, particularly for project assessment and technical support studies
Japanese Trust Fund for Consultancy Services	1995	Japan	JPY	24.5	All sectors of activities for project preparation and implementation

Name	Date Established	Entrusted by	Currency	Contributions ¹ (US\$ millions equivalent)	Sector Concentration or Purpose
USTDA-IDB Evergreen Fund for Technical Assistance	1995	USA	USD	3.5	All sectors, preferably in support of infrastructure and industrial projects
European Special Fund for Technical Assistance in Latin America	1997	European Union	EUR	6.0	Improve preparation of projects, transfer of technology and development of human resources
European Special Fund for the Financing of Small Productive Projects	1997	European Union	EUR	19.7	Small projects and technical assistance
Finnish Technical Cooperation Trust Fund for Consulting Services	1997	Finland	USD	2.0	Project identification, preparation and implementation, training, sector studies
French Technical Cooperation for Consultancy and Training Activities	1997	France	EUR	9.8	Consultancy services and training activities
Norwegian Fund for Innovation in Social Programs	1997	Norway	USD	4.1	Technical cooperation for social sector programs in the poorest countries of IDB Region 2
Indigenous Fund	1998	Regional	USD	8.9	Endowment fund for assistance to indigenous peoples
Norwegian Fund for Microenterprise Development	1998	Norway	USD	1.6	Technical cooperation for microenterprise projects in the poorest countries
Regional Fund for Agricultural Technology	1998	Regional	USD	29.0	Endowment fund for assistance in agricultural projects
Swedish Trust Fund for Domestic Violence	1998	Sweden	USD	0.2	Financing of social and domestic violence prevention projects
Swedish Trust Fund for Governance, State Reform and Civil Society	1998	Sweden	USD	1.1	Financing of projects for modernization of the state and civil society
Swedish Trust Fund for Consulting Services and Training Activities	1998	Sweden	USD	14.0	Consultants and training in areas of social and economic development
United Kingdom Capacity Building Fund for Local Institutions in Central America	1999	United Kingdom	USD	2.4	Capacity building of local institutions in Central America
IDB Disaster Assistance and Reconstruction Fund	1999	Austria	USD	4.1	Disaster assistance and reconstruction of countries affected by Hurricane Mitch
Italian Trust Fund for MIF Project Preparation	2000	Italy	USD	1.0	Support the preparation of MIF projects
Swedish Framework-SIDA IDB Partnership Program	2000	Sweden	USD	1.3	Social sectors of the poorest countries in Central America affected by Hurricane Mitch
U.S. Department of Energy-Hemispheric Sustainable Energy Fund	2000	USA	USD	1.3	Support clean energy technology projects in all energy-consuming sectors
Partnership Program in Environment	2000	The Netherlands	USD	1.0	Support environmental projects
The Netherlands Framework Program for Women's Leadership for Good Governance	2000	The Netherlands	USD	0.6	Support women's leadership in civic and public life
Korean Trust Fund	2000	Korea	USD	0.6	Assistance to Central American countries and social projects in Colombia
Spanish Framework-General Cooperation Fund	2001	Spain	EUR	44.4	Support projects in modernization of the state and governance, regional integration and competitiveness

¹ Amounts reflect historical exchange rates.

The Procurement Policy and Coordination Office at IDB headquarters is responsible for formulating norms and procedures for bidding policies. The office also provides assistance, training and dissemination of information regarding interpretation and application of regulations and procedures. The office periodically offers seminars and workshops on procurement procedures for staff from the executing agencies.

The Bank continued efforts to harmonize its procurement regulations and procedures with those of the multilateral development institutions. Based on adopting best practices identified by each of the institutions, this process will allow for standard bidding documentation among all participating parties.

The Bank also began working on a project to disseminate regional experiences on the execution of procurement procedures via the Internet. The objective is to incorporate the use of electronic media into Bank procurement procedures, which will result in a significant increase in efficiency and transparency.

The Bank's Procurement Committee is a management-level interdepartmental group that reviews and oversees procurement policies and procedures. The committee is also responsible for resolving any serious procurement problems that may arise in Bank-financed projects.

Disbursements of convertible currencies for the purchase of goods, works and consulting serv-

ices under investment and sector loans totaled \$6.5 billion in 2001. Borrowing member countries received \$4.6 billion, or 71.3 percent of this value. Local purchase of goods, works and consulting services for projects in the borrowing countries totaled \$3.3 billion, while nonborrowing countries provided a total of \$1.9 billion. The accompanying tables (Disbursements for Purchase of Goods and Services by Country of Origin, Tables X, XI, and XII) break out disbursements for all Bank lending, sector loans, and investment loans. Where applicable, the tables include a detailed breakdown of local purchases and exports of goods, works and consulting services.

The Bank promotes transparency in procurement for the projects it finances through its efforts to disseminate information on business opportunities in IDB-financed projects. The Office of External Relations organizes regular seminars for suppliers, contractors and consultants in Washington and throughout the Bank's member countries.

The Bank's procurement information service, *IDB Projects Online*, is available to subscribers at <http://www.condc05.iadb.org/ldbprojects>. The site provides subscribers with a wealth of information on the Bank's project pipeline, as well as on approved projects. It also has procurement notices and contract award information. *IDB Projects Online* is updated on a weekly basis.

TABLE X.

DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (INVESTMENT AND SECTOR LOANS)

(In millions of U.S. dollars)

	1961-00				2001				1961-01			
	Local Purchases		Exports		Local Purchases		Exports		Local Purchases		Exports	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	\$ 3,142.7	10.1	\$1,439.0	4.0	\$ 4,581.7	6.8	\$ 132.7	4.1	\$ 3,397.2	9.9	\$1,571.7	3.9
Bahamas	22.0	0.1	91.2	0.2	113.2	0.2	0.0	0.0	23.7	0.1	91.2	0.2
Barbados	46.8	0.2	6.2	0.0	53.0	0.1	0.0	0.0	59.9	0.2	6.7	0.0
Belize	8.8	0.0	0.6	0.0	9.4	0.0	0.0	0.0	28.9	0.1	30.1	0.1
Bolivia	759.0	2.4	70.7	0.2	829.7	1.2	22.2	0.7	817.6	2.4	92.9	0.2
Brazil	8,980.4	28.9	3,052.1	8.3	12,032.5	17.8	669.8	20.6	10,226.9	29.7	3,721.9	9.3
Chile	2,159.5	6.9	269.8	0.7	2,429.3	3.6	87.5	2.7	2,198.8	6.4	357.3	0.9
Colombia	1,765.2	5.7	354.8	1.0	2,120.0	3.1	34.4	1.1	1,914.8	5.6	389.2	1.0
Costa Rica	369.8	1.2	228.8	0.6	598.6	0.9	13.7	0.4	380.9	1.1	242.5	0.6
Dominican Republic	424.3	1.4	37.2	0.1	461.5	0.7	0.0	0.0	463.5	1.3	37.2	0.1
Ecuador	1,461.6	4.7	234.2	0.6	1,695.8	2.5	54.0	1.7	1,555.8	4.5	288.2	0.7
El Salvador	605.8	1.9	54.4	0.1	660.2	1.0	7.7	0.2	680.8	2.0	62.1	0.2
Guatemala	436.4	1.4	90.0	0.2	526.4	0.8	10.8	0.3	515.9	1.5	100.8	0.3
Guyana	71.9	0.2	2.4	0.0	74.3	0.1	16.3	0.5	88.2	0.3	2.4	0.0
Haiti	241.8	0.8	9.6	0.0	251.4	0.3	9.0	0.0	250.8	0.7	9.6	0.0
Honduras	369.3	1.2	40.7	0.1	410.0	0.6	0.0	0.0	415.5	1.2	40.9	0.1
Jamaica	233.6	0.8	86.6	0.2	320.2	0.5	0.0	0.0	238.6	0.7	86.8	0.2
Mexico	4,950.6	15.9	1,059.1	3.0	6,009.7	8.9	141.1	4.3	5,510.2	16.0	1,200.2	3.0
Nicaragua	344.1	1.1	23.6	0.1	367.7	0.5	1.6	0.0	385.0	1.1	25.2	0.1
Panama	452.2	1.5	105.1	0.3	557.3	0.8	0.0	0.0	508.1	1.5	105.4	0.3
Paraguay	576.9	1.8	87.9	0.2	664.8	1.0	10.7	0.3	639.9	1.9	98.6	0.2
Peru	1,518.4	4.8	164.0	0.4	1,682.4	2.4	3.0	0.1	1,624.7	4.7	167.0	0.4
Suriname	0.7	0.0	1.0	0.0	1.7	0.0	0.0	0.0	0.7	0.0	1.0	0.0
Trinidad and Tobago	230.3	0.7	92.8	0.3	323.1	0.5	16.1	0.6	251.8	0.7	108.9	0.3
Uruguay	861.0	2.8	193.9	0.5	1,054.9	1.6	27.9	0.9	947.6	2.7	221.8	0.6
Venezuela	1,083.1	3.5	744.4	2.0	1,827.5	2.7	109.9	3.3	1,294.6	3.7	854.3	2.2
Total Borrowers	\$31,116.2	100.0	\$8,540.1	23.1	\$39,656.3	58.6	\$1,373.8	42.2	\$34,420.4	100.0	\$9,913.9	24.9
NONBORROWING COUNTRIES												
Austria	\$ 111.3	0.3	\$ 111.3	0.3	\$ 111.3	0.2	\$ 7.8	0.2	\$ 119.1	0.3	\$ 119.1	0.3
Belgium	245.8	0.7	245.8	0.7	245.8	0.4	0.0	0.0	245.8	0.6	245.8	0.6
Canada	661.3	1.8	661.3	1.8	661.3	1.0	42.5	1.3	703.8	1.8	703.8	1.8
Croatia	4.1	0.0	4.1	0.0	4.1	0.0	0.3	0.0	4.4	0.0	4.4	0.0
Denmark	144.2	0.4	144.2	0.4	144.2	0.2	7.4	0.2	151.6	0.4	151.6	0.4
Finland	77.9	0.2	77.9	0.2	77.9	0.1	34.1	1.0	112.0	0.3	112.0	0.3
France	1,804.7	5.0	1,804.7	5.0	1,804.7	2.7	106.1	3.3	1,910.8	4.8	1,910.8	4.8
Germany	2,468.8	6.8	2,468.8	6.8	2,468.8	3.6	148.0	4.5	2,616.8	6.6	2,616.8	6.6
Israel	135.5	0.4	135.5	0.4	135.5	0.2	17.3	0.5	152.8	0.4	152.8	0.4
Italy	2,618.1	7.2	2,618.1	7.2	2,618.1	3.9	137.1	4.2	2,755.2	6.9	2,755.2	6.9
Japan	1,967.8	5.4	1,967.8	5.4	1,967.8	2.9	133.1	4.2	2,100.9	5.3	2,100.9	5.3
Netherlands	573.6	1.6	573.6	1.6	573.6	0.8	22.4	0.7	596.0	1.5	596.0	1.5
Norway	47.7	0.1	47.7	0.1	47.7	0.1	2.3	0.0	50.0	0.1	50.0	0.1
Portugal	49.4	0.1	49.4	0.1	49.4	0.1	7.9	0.2	57.3	0.1	57.3	0.1
Slovenia	25.1	0.1	25.1	0.1	25.1	0.0	15.4	0.5	40.5	0.1	40.5	0.1
Spain	1,195.6	3.3	1,195.6	3.3	1,195.6	1.8	131.0	4.0	1,326.6	3.3	1,326.6	3.3
Sweden	529.9	1.4	529.9	1.4	529.9	0.8	49.4	1.5	579.3	1.5	579.3	1.5
Switzerland	707.9	2.0	707.9	2.0	707.9	1.0	49.2	1.5	757.1	1.9	757.1	1.9
United Kingdom	912.2	2.5	912.2	2.5	912.2	1.3	61.1	1.9	973.3	2.4	973.3	2.4
United States	13,731.5	37.6	13,731.5	37.6	13,731.5	20.3	909.3	27.9	14,640.8	36.8	14,640.8	36.8
Yugoslavia	14.3	0.0	14.3	0.0	14.3	0.0	0.0	0.0	14.3	0.0	14.3	0.0
Total Nonborrowers	\$28,026.7	76.9	\$28,026.7	76.9	\$28,026.7	41.4	\$1,881.7	57.8	\$29,908.4	75.1	\$29,908.4	40.3
TOTAL	\$31,116.2	100.0	\$36,566.8	100.0	\$67,683.0	100.0	\$6,559.7	100.0	\$34,420.4	100.0	\$39,822.3	100.0

TABLE XI.

DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (SECTOR LOANS)¹

(In millions of U.S. dollars)

	1990-00				2001				1990-01			
	Local Purchases		Exports		Local Purchases		Exports ²		Local Purchases		Exports	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	\$30.0	40.2	\$ 682.3	4.2	\$ 712.3	4.3	\$ 45.1	1.80	\$ 727.4	3.9	\$ 757.4	4.0
Bahamas			6.4	0.0	6.4	0.0			6.4	0.0	6.4	0.0
Barbados			4.2	0.0	4.2	0.0	0.5	0.02	0.5	0.0	0.5	0.0
Belize			0.5	0.0	0.5	0.0	29.4	1.20	29.4	1.2	29.9	0.2
Bolivia			32.7	0.2	32.7	0.2	21.8	0.90	21.8	0.9	54.5	0.3
Brazil			1,478.8	9.1	1,478.8	9.0	469.4	18.40	469.4	18.4	1,948.2	10.3
Chile			199.8	1.2	199.8	1.2	82.5	3.20	82.5	3.2	282.3	1.5
Colombia			222.0	1.4	222.0	1.4	31.8	1.30	31.8	1.3	253.8	1.3
Costa Rica			69.1	0.4	69.1	0.4	10.4	0.40	10.4	0.4	79.5	0.4
Dominican Republic			0.6	0.0	0.6	0.0			0.6	0.0	0.6	0.0
Ecuador			191.7	1.2	191.7	1.2	38.7	1.50	38.7	1.5	230.4	1.2
El Salvador			23.5	0.1	23.5	0.1	6.6	0.30	6.6	0.3	30.1	0.2
Guatemala			36.1	0.2	36.1	0.2	9.8	0.40	9.8	0.4	45.9	0.2
Guyana			1.7	0.0	1.7	0.0			1.7	0.0	1.7	0.0
Haiti			0.0	0.0	14.6	0.1			14.6	19.5	0.0	0.1
Honduras			9.6	0.1	9.6	0.1			9.6	0.1	9.6	0.1
Jamaica			3.4	0.0	3.4	0.0			3.4	0.0	3.4	0.0
Mexico			409.4	2.5	409.4	2.5	78.9	3.10	78.9	3.1	488.3	2.5
Nicaragua	0.4	0.5	1.4	0.0	1.8	0.0	1.4	0.10	1.4	0.1	2.8	0.0
Panama	29.7	39.8	64.1	0.4	93.8	0.6			0.4	0.5	32.0	0.2
Paraguay			43.6	0.3	43.6	0.3	9.7	0.40	29.7	39.8	93.8	0.4
Peru			72.7	0.4	72.7	0.4			53.3	0.3	53.3	0.3
Suriname			1.0	0.0	1.0	0.0			72.7	0.4	72.7	0.4
Trinidad and Tobago			41.5	0.3	41.5	0.3	14.2	0.60	1.0	0.0	1.0	0.0
Uruguay			154.9	0.9	154.9	0.9	27.4	1.00	55.7	0.3	55.7	0.3
Venezuela			552.3	3.4	552.3	3.4	106.7	4.20	182.3	1.0	182.3	1.0
Total Borrowers	\$74.7	100.0	\$4,303.3	26.3	\$4,378.0	26.6	\$984.3	38.8	\$74.7	100.0	\$5,287.6	28.0
NONBORROWING COUNTRIES												
Austria			43.4	0.3	43.4	0.3	6.0	0.20	49.4	0.3	49.4	0.3
Belgium			155.6	1.0	155.6	1.0			155.6	0.8	155.6	0.8
Canada			327.2	2.0	327.2	2.0	35.7	1.40	362.9	1.9	362.9	1.9
Croatia			1.8	0.0	1.8	0.0	0.2	0.00	2.0	0.0	2.0	0.0
Denmark			43.5	0.2	43.5	0.3	7.4	0.30	50.9	0.3	50.9	0.3
Finland			48.3	0.3	48.3	0.3	13.8	1.00	62.1	0.3	62.1	0.3
France			475.0	3.0	475.0	2.9	98.6	3.90	98.6	3.0	573.6	3.0
Germany			1,133.2	7.0	1,133.2	6.9	132.3	5.20	1,265.5	6.7	1,265.5	6.7
Israel			38.7	0.2	38.7	0.2	11.3	0.40	50.0	0.3	50.0	0.3
Italy			658.1	4.0	658.1	4.0	92.8	3.70	750.9	4.0	750.9	4.0
Japan			768.7	4.7	768.7	4.7	121.7	4.80	890.4	4.7	890.4	4.7
Netherlands			377.0	2.3	377.0	2.3	21.7	0.90	398.7	2.1	398.7	2.0
Norway			34.4	0.2	34.4	0.2	2.3	0.10	36.7	0.2	36.7	0.2
Portugal			15.0	0.1	15.0	0.1			15.0	0.1	15.0	0.1
Slovenia			4.7	0.0	4.7	0.0	0.5	0.00	5.2	0.0	5.2	0.0
Spain			455.9	2.8	455.9	2.8	90.2	3.50	546.1	2.9	546.1	2.9
Sweden			159.3	1.0	159.3	1.0	45.4	1.80	204.7	1.1	204.7	1.1
Switzerland			217.5	1.3	217.5	1.3	27.1	1.00	244.6	1.3	244.6	1.3
United Kingdom			324.7	2.0	324.7	2.0	46.0	1.80	370.7	2.0	370.7	2.0
United States			6,748.9	41.3	6,748.9	41.1	808.5	31.20	7,557.4	40.0	7,557.4	39.9
Yugoslavia			0.8	0.0	0.8	0.0			0.8	0.0	0.8	0.0
Total Nonborrowers	\$12,031.7	73.7	\$12,031.7	73.4	\$12,031.7	73.4	\$1,561.5	61.2	\$13,593.2	72.0	\$13,593.2	71.8
TOTAL	\$74.7	100.0	\$16,335.0	100.0	\$16,409.7	100.0	\$2,545.8	100.0	\$18,880.8	100.0	\$18,955.5	100.0

¹ Sector lending began in 1990.² Since 1998, the information in this table has reflected adjustment loan disbursements to each borrower as pro rata shares of that borrower's eligible imports from supplying countries, using the latest available import data drawn from United Nations trade statistics.

TABLE XII.

DISBURSEMENTS FOR PURCHASE OF GOODS AND SERVICES BY COUNTRY OF ORIGIN (INVESTMENT LOANS)

(In millions of U.S. dollars)

	1961-00				2001				1961-01			
	Local Purchases		Exports		Local Purchases		Exports		Local Purchases		Exports	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BORROWING COUNTRIES												
Argentina	\$ 3,112.7	10.0	\$ 756.7	3.7	\$ 3,869.4	7.5	\$ 254.5	7.70	\$ 342.1	8.5	\$ 844.3	4.0
Bahamas	22.0	0.1	84.8	0.4	106.8	0.2	1.7	0.10	1.7	0.0	23.7	0.1
Barbados	46.8	0.2	2.0	0.0	48.8	0.1	13.1	0.40	13.1	0.3	59.9	0.2
Belize	8.8	0.0	0.1	0.0	8.9	0.0	20.1	0.60	20.2	0.5	28.9	0.1
Bolivia	759.0	2.4	38.0	0.2	797.0	1.5	58.6	0.4	59.0	0.1	817.6	2.4
Brazil	8,980.4	28.9	1,573.3	7.8	10,553.7	20.6	1,246.5	37.70	1,446.9	36.1	10,226.9	29.8
Chile	2,159.5	7.0	70.0	0.3	2,229.5	4.3	39.3	1.20	44.3	1.1	2,198.8	6.4
Colombia	1,765.2	5.7	132.8	0.7	1,898.0	3.7	149.6	4.50	152.2	3.8	1,914.8	5.6
Costa Rica	369.8	1.2	159.7	0.8	529.5	1.0	11.1	0.30	14.4	0.4	380.9	1.1
Dominican Republic	424.3	1.4	36.6	0.2	460.9	0.9	39.2	1.20	39.2	1.0	463.5	1.4
Ecuador	1,461.6	4.7	42.5	0.2	1,504.1	3.0	94.2	2.90	109.5	2.7	1,555.8	4.5
El Salvador	605.8	2.0	30.9	0.2	636.7	1.2	75.0	2.30	76.1	1.9	680.8	2.0
Guatemala	436.4	1.4	53.9	0.3	490.3	1.0	79.5	2.40	80.5	2.0	515.9	1.5
Guyana	71.9	0.2	0.7	0.0	72.6	0.1	16.3	0.50	16.3	0.4	88.2	0.3
Haiti	227.2	0.7	9.6	0.0	236.8	0.5	9.0	0.30	9.0	0.2	236.2	0.7
Honduras	369.3	1.2	31.1	0.2	400.4	0.8	46.2	1.40	46.4	1.2	415.5	1.2
Jamaica	233.6	0.8	83.2	0.4	316.8	0.6	5.0	0.10	5.2	0.1	238.6	0.6
Mexico	4,950.6	15.9	649.7	3.2	5,600.3	11.0	559.6	16.90	621.8	15.5	5,510.2	16.0
Nicaragua	343.7	1.1	22.2	0.1	365.9	0.7	40.9	1.20	41.1	1.0	384.6	1.1
Panama	422.5	1.4	41.0	0.2	463.5	0.9	55.9	1.70	56.2	1.4	478.4	1.4
Paraguay	576.9	1.9	44.3	0.2	621.2	1.2	63.0	1.90	64.0	1.6	639.9	1.9
Peru	1,518.4	4.9	91.3	0.5	1,609.7	3.2	106.3	3.20	109.3	2.7	1,624.7	4.7
Suriname	0.7	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Trinidad and Tobago	230.3	0.7	51.3	0.3	281.6	0.5	21.5	0.70	23.4	0.6	251.8	0.7
Uruguay	861.0	2.8	39.0	0.2	900.0	1.8	86.6	2.60	87.1	2.2	947.6	2.8
Venezuela	1,083.1	3.5	192.1	0.9	1,275.2	2.5	211.5	6.40	214.7	5.4	1,294.6	3.7
Total Borrowers	\$31,041.5	100.0	\$4,236.8	20.9	\$35,278.3	68.8	\$3,304.2	100.00	\$3,693.7	92.1	\$34,345.7	100.0
NONBORROWING COUNTRIES												
Austria	67.9	0.3	67.9	0.3	67.9	0.1	1.8	0.3	1.8	0.0	69.7	0.3
Belgium	90.2	0.4	90.2	0.4	90.2	0.2	6.8	1.0	6.8	0.2	90.2	0.4
Canada	334.1	1.7	334.1	1.7	334.1	0.7	0.1	0.0	0.1	0.0	340.9	1.5
Croatia	2.3	0.0	2.3	0.0	2.3	0.0	0.1	0.0	0.1	0.0	2.4	0.0
Denmark	100.7	0.5	100.7	0.5	100.7	0.2	20.3	2.9	20.3	0.5	100.7	0.5
Finland	29.6	0.1	29.6	0.1	29.6	0.1	7.5	1.1	7.5	0.2	49.9	0.2
France	1,329.7	6.6	1,329.7	6.6	1,329.7	2.6	15.7	2.2	15.7	0.4	1,337.2	6.4
Germany	1,335.6	6.6	1,335.6	6.6	1,335.6	2.6	6.0	0.9	6.0	0.0	1,351.3	6.5
Israel	96.8	0.5	96.8	0.5	96.8	0.2	44.3	6.2	44.3	1.1	102.8	0.5
Italy	1,960.0	9.7	1,960.0	9.7	1,960.0	3.9	11.4	1.5	11.4	0.3	2,004.3	9.6
Japan	1,199.1	5.9	1,199.1	5.9	1,199.1	2.3	0.7	0.1	0.7	0.0	1,210.5	5.8
Netherlands	196.6	1.0	196.6	1.0	196.6	0.4	7.9	1.1	7.9	0.2	197.3	0.8
Norway	13.3	0.1	13.3	0.1	13.3	0.0	7.9	1.1	7.9	0.2	13.3	0.1
Portugal	34.4	0.2	34.4	0.2	34.4	0.1	14.9	2.1	14.9	0.4	42.3	0.2
Slovenia	20.4	0.1	20.4	0.1	20.4	0.0	40.8	5.8	40.8	1.0	35.3	0.1
Spain	739.7	3.7	739.7	3.7	739.7	1.4	4.0	0.6	4.0	0.1	780.5	3.7
Sweden	370.6	1.8	370.6	1.8	370.6	0.7	22.1	3.1	22.1	0.6	374.6	1.8
Switzerland	490.4	2.4	490.4	2.4	490.4	1.0	15.1	2.1	15.1	0.4	512.5	2.6
United Kingdom	587.5	2.9	587.5	2.9	587.5	1.1	100.8	14.2	100.8	2.5	602.6	2.8
United States	6,982.6	34.5	6,982.6	34.5	6,982.6	13.6	0.0	0.0	0.0	0.0	7,083.4	33.8
Yugoslavia	13.5	0.1	13.5	0.1	13.5	0.0	0.0	0.0	0.0	0.0	13.5	0.1
Total Nonborrowers	\$15,995.0	79.1	\$15,995.0	79.1	\$15,995.0	31.2	\$0.0	0.0	\$320.2	7.9	\$16,315.2	77.8
TOTAL	\$31,041.5	100.0	\$20,231.8	100.0	\$51,273.3	100.0	\$3,304.2	100.00	\$4,013.9	100.0	\$20,941.5	100.0
											\$55,287.2	100.0

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2001
Ordinary Capital

Country	Project	Loan Number	Amount (Millions of US\$)
Argentina	Improvement of the Education System	1345/OC-AR	\$600
	Financial Services Sector Program	1324/OC-AR	500
		1325/OC-AR	2
	Support for the Federal Commitment to Growth and Fiscal Discipline	1341/OC-AR	500
	"Rosario Habitat" Program for Unregulated Settlements	1307/OC-AR	43
Bahamas	New Providence Transport Program	1320/OC-BH	46.2
Barbados	Administration of Justice	1332/OC-BA	8.8
Belize	Land Management	1322/OC-BL	7
Brazil	Support for Microenterprise and Small and Medium-sized Businesses	1374/OC-BR	900
	Sector Program to Build Human Capital	1378/OC-BR	500
	Expanding Markets for Small and Medium-sized Enterprises in the Northeast	1308/OC-BR	150
	Highway Rehabilitation in the State of São Paulo	1351/OC-BR	120
	Social Action Sanitation Plan	1356/OC-BR	100
	Sustainable Development in Pernambuco's Mata Region	1357/OC-BR	90
	Termobahia Cogeneration Power Project	1367A/OC-BR ¹	62.1
	Modernization of Pension System	1346/OC-BR	57
	Termopernambuco Power Generation Project	1380A/OC-BR ²	42.4
	Multiphase Program for Tenement Action in São Paulo	1354/OC-BR	34
Chile	Integral Development Program for Indigenous Communities	1311/OC-CH	34.8
	Mejillones Terminal 1 Project	1364A/OC-CH ³	25
Colombia	Sector Program for Subnational Fiscal Reform	1335/OC-CO	400
	Social Reform Program	1381/OC-CO	390
		1382/OC-CO	10
Costa Rica	Administration of Justice (Second Phase)	1377/OC-CR	22.4
Dominican Republic	Social Sector Institutional Reform	1333/OC-DR ⁴	200
	EDE Sur/EDE Norte Electricity Distribution Project	1319A/OC-DR ⁵	75
Ecuador	Social Investment Fund (Third Stage)	1373/OC-EC ⁴	40
	Rural Land Regularization and Administration	1376/OC-EC ⁴	15.2
	Institutional Strengthening of the Ministry of Economic Affairs and Finance	1366/OC-EC ⁴	5.1
	Support for Decentralization	1358/OC-EC ⁴	4.8

¹ Complemented by a "B" loan syndication up to \$124 million.

² Complemented by a "B" loan syndication up to \$150 million.

³ Complemented by a "B" loan syndication up to \$34 million.

⁴ Interest rate partially subsidized by the Intermediate Financing Facility.

⁵ Complemented by a "B" loan syndication up to \$113 million.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2001*Ordinary Capital*

Country	Project	Loan Number	Amount (Millions of US\$)
El Salvador	Housing Program	1379/OC-ES ⁴	70
	Local Development Program	1352/OC-ES	70
	Multiphase Program for Sustainable Roads in Rural Areas	1314/OC-ES	58
	Emergency Reconstruction Programs	1310/OC-ES ⁴	20
		1315/OC-ES ⁴	20
	Agribusiness Reengineering	1327/OC-ES	25
Guatemala	Education Reform (Stage II)	1326/OC-GU ⁴	22
	Support for Foreign Trade	1318/OC-GU ⁴	5
Jamaica	Social Safety Net Reform	1355/OC-JA ⁴	60
	Improving National Road Services	1363/OC-JA	24.5
	Citizen Security and Justice Program	1344/OC-JA ⁴	16
	Rural Water Program	1360/OC-JA	10
Mexico	Support for Small Farmers through PROCAMPO	1334/OC-ME	500
	Training and Employment Support Program	1384/OC-ME	300
	Investment Program and Financial Institutional Strengthening for States and Municipalities	1383/OC-ME	300
Panama	Institutional Transformation of the Health Sector (Phase I)	1350/OC-PN	35
Paraguay	Potable Water and Sanitation in Small Communities	1312/OC-PR	12
	Business Development for Small and Medium-sized Enterprises	1349/OC-PR	10
Peru	Fiscal, Social and Judicial Policy Reform	1321/OC-PE	250
	Rural Transportation Infrastructure Program (Stage Two)	1328/OC-PE	50
	Land Titling and Registration (Second Phase)	1340/OC-PE	23.3
	Emergency Earthquake Relief Program	1329/OC-PE	20
Suriname	Low-Income Shelter	1342/OC-SU ⁴	9.8
	Decentralization and Local Government Strengthening	1343/OC-SU ⁴	4.9
Uruguay	Modernization of Public Administration	1336/OC-UR	150
		1337/OC-UR	3.6
	Health Sector Reform	1348/OC-UR	75
	Secondary Education Modernization and Teacher Training	1361/OC-UR	75
Venezuela	Reform of the Criminal Justice System	1362/OC-VE	75
	Agricultural Technology Program	1359/OC-VE	22.5
Regional	Central American Electric Interconnection System (SIEPAC)	1368/OC-CR ⁶	30
		1369/OC-ES ⁶	30
		1370/OC-GU ⁶	30
		1371/OC-PN ⁶	30
	Argentina-Brazil Electricity Interconnection	1338A/OC-RG ⁷	49
		1339A/OC-RG ⁸	25
	Trinational Program for Sustainable Development in the Upper Lempa River Basin	1330/OC-ES	14
		1331/OC-GU	4.5

⁶ Reformulated loans.⁷ Complemented by a "B" loan syndication up to \$153 million.⁸ Complemented by a "B" loan syndication up to \$15 million.

STATEMENT OF APPROVED LOANS AND GUARANTEES, 2001
Fund for Special Operations

Country	Project	Loan Number	Amount (Millions of US\$)
Bolivia	Local Development and Fiscal Accountability	1075/SF-BO	\$47
	Social Sector Program to Support the Poverty Reduction Strategy	1097/SF-BO	40
	Modernization of Municipal Financial Management	1091/SF-BO	20
	Strengthening Technical and Technological Training	1093/SF-BO	6
Guyana	Mahaica-Rosignol Road Rehabilitation	1094/SF-GY	33
	Social Impact Amelioration Program – SIMAP III	1085/SF-GY	20
Honduras	Institutional Reform and Implementation of the Poverty Reduction Strategy	1087/SF-HO	30
	Management of Natural Resources in Priority Watersheds (Phase I)	1077/SF-HO	25
	Expansion of Technical Capacity in Poor Communities	1092/SF-HO	8.5
	Population and Housing Census	1078/SF-HO	3
	Support for Indigenous and Black Communities	1090/SF-HO	1.6
Nicaragua	Repairs to the Managua-Rama Highway	1088/SF-NI	35
	Socioeconomic and Forestry Development Program (POSF II)	1084/SF-NI	32.7
	Pension System Reform	1089/SF-NI	30
	Comprehensive Childcare Program – Stage 2	1081/SF-NI	25
	Municipal Strengthening and Development	1086/SF-NI	12
	Strengthening the Judiciary and Improving Access to Justice	1074/SF-NI	12
	Technical Innovation Program	1079/SF-NI	6.8
Regional	Central American Electric Interconnection System (SIEPAC)	1095/SF-HO	25
		1096/SF-NI	25
	Trinational Program for Sustainable Development in the Upper River Basin	1082/SF-HO	3.3

Institutional Aspects

Evaluation and Internal Audit

The year 2001 marked the first full year of operations for the Bank's redesigned Office of Evaluation and Oversight (OVE). In accordance with a new mandate defined by the Board of Executive Directors, the Office carried out a work program in five basic areas: 1) oversight of the Bank's Evaluation System; 2) country program evaluation; 3) strategy evaluation; 4) policy and instrument evaluation; and 5) evaluation capacity building.

Preparation of the "Annual Report on Oversight and Evaluation" was designed to establish a "baseline" status report on the Bank's Evaluation System that will serve as a point of comparison for subsequent reports. The Office also released a major review on the Bank's system for monitoring and reporting on lending projects. Additional reports included an oversight memorandum on resource allocations for evaluation work; methodology notes on the evaluability of country papers; and 80 evaluability assessments of individual projects being considered for submission to the Board for approval.

Country program evaluations were carried out for Peru, Trinidad and Tobago, Haiti, Mexico and Honduras. Each evaluation reviewed the entire spectrum of Bank support provided to the respective country in the recent past, with a view toward contributing to the dialogue between the Bank and the country concerning the drafting of the next country paper.

Strategy evaluations were undertaken for programs that target indigenous groups, decentralization and citizen participation, water and sanitation, and justice. Each evaluation examined both the explicit and implicit strategies reflected in Bank operations in the particular area.

Evaluations completed in 2001 included economic assessment reports as well as evaluations of the social information system, Bank lending in support of financial emergencies, and large

For further information, see

<http://www.iadb.org/goto.pl?Evaleng>

technical cooperation operations. In addition, the office worked with both the IIC and the MIF to develop evaluation systems related to private sector operations.

A conceptual paper on building evaluation capacity in the borrowing member countries was produced during the year and submitted to the Board of Executive Directors for discussion. OVE is also pursuing the issue of evaluation capacity building through its own independent actions, and through closer cooperation with Management in the process of lending program design. Externally, OVE has been promoting the concepts of building evaluation capacity in the borrowing member countries. There has also been ongoing cooperation with the Caribbean Development Bank, the University of the West Indies, and the Central American Bank for Integration.

During 2001, the Auditor General's Office continued to coordinate all internal audits with the IDB's external auditors to provide maximum audit coverage of Bank activities. At headquarters, the emphasis was on the areas of electronic fund transfers and enhancements to the Loan Management System, which is the system for the Bank's lending and guarantee program. The Office also continued a review of the Borrowing Management System, focusing on the enhancements required for reporting financial derivatives under the new accounting standards. The office reviewed test plans and followed up on improvements to the Bank's disaster recovery plan in terms of its mission critical computer systems. The office continued to monitor and review the selection, implementation and upgrade of significant computer applications, including the future Budget and Financial Management System, which will replace current systems for budgeting, general ledger, accounts payable, purchasing, Country

Office accounting and project accounting; and replacement of the Bank's Investment Management System. Additionally, the office reviewed management of the Bank's Trust Fund activities and coordinated an ongoing external review of the risk management process of the Bank's private sector lending program.

In the Regional Operations Departments and Country Offices, the office focused on the Management Oversight System as well as all key operational control features in Country Offices pertaining to project supervision, procurement, disbursement, reporting and resource management. In addition to its ongoing audit of Country Office operations, the office continued reviewing the effectiveness of key control features for highly decentralized projects, including the eligibility requirements for the performance of ex-post reviews of procurement and disbursements; the adequacy and timeliness of Bank supervision; the responsibilities of external auditors and consultants regarding projects; and the adequacy of existing reporting requirements. In addition, the office worked on the development of the Bank's anti-corruption strategy and revision of the Code of Ethics, and supported the reviews by Regional Operations Departments of certain executing agencies to strengthen their transparency and overall control environment. The office has also continued reviewing the involvement of national audit institutions in auditing Bank-financed projects.

Country Offices

The Bank's Country Offices continue to play a role of the utmost importance in supporting the overall goal of development assistance and client support. Many Country Offices were strengthened during the year as a result of an internal staff mobility exercise. In other countries, such as Chile, the Bank hired additional sector specialists to respond to an increase in the volume of lending activities. Still others found creative ways to increase efficiency in terms of work procedures and support to clients. In Ecuador, for example, internal procedures were reviewed to reduce duplication of efforts, and recommendations were made to eventually free up sector specialists from

many routine administrative tasks to allow them to concentrate more on portfolio monitoring, project preparation and attention to clients. To achieve this goal, the Bank hired a procurement specialist and reclassified administrative staff positions as project assistants. An in-house training program has been organized and is underway to assist the project assistants in their new operational responsibilities.

In the area of *project preparation*, the Country Offices embarked upon a number of initiatives to enhance stakeholder participation early in the project cycle. Proactive discussions with finance and planning ministries were critical in determining the appropriate size and financial conditions of an operation, and in reviewing available counterpart resources and the overall absorptive capacity of the country. Workshops were held with members of legislatures during the project design stage to build consensus, especially in the case of difficult reform operations.

The importance of involving civil society organizations in Bank discussions continued to play a predominant role in the region. In response to a request by the President, Country Offices drafted action plans for institutionalizing the relationship with civil society organizations. Consultations to discuss a draft of the strategic framework for participation of these organizations have already been carried out in at least ten countries, and a number of Civil Society Advisory Councils are in the process of being formed. Representatives of the English-speaking Caribbean and the Andean countries met in Colombia to exchange experiences and to discuss the strategic framework being prepared. In Guyana, international agencies such as CIDA, UNDP and USAID have expressed interest in this topic and are cooperating in the identification and mapping out of civil society organizations.

Country Office staff also continued to take on more active roles in preparing new operations, especially tasks related to coordinating preparation of the logical framework, carrying out the institutional analysis of the borrower, writing the chapter in documents on project execution, and providing valuable input in the definition of conditions prior to a first project disbursement.

BOX 9

ETHICS AND DEVELOPMENT

More than 400 delegates from all facets of society participated in the Central American Meeting on Ethics and Development held on September 1-3, 2001 in Tegucigalpa, Honduras. The President of Honduras, Carlos Flores, IDB President Enrique V. Iglesias, and the Cardinal of Honduras, Monsignor Oscar Rodríguez Maradiaga, opened the event with welcoming remarks. Ministers, international experts, members of academia and civil society leaders from Central America and the hemisphere reflected on the ethical challenges faced by the region in areas such as health, education, the environment, child development, ethnic groups, and the roles of the public and private sectors and civil society.

This vigorous call for action on ethics and development is culminating in policy development at the Bank, as well as the identification of joint actions to be taken in all sectors in the region. Previous meetings had been held at the Bank's Annual Meeting in Chile, in March of 2001, and in Venezuela in February.

The Inter-American Initiative on Social Capital, Ethics, and Development—an initiative of President Iglesias with the support of the Government of Norway—has attracted interest from the entire hemisphere. Numerous organizations have decided to join forces with the Bank. A network of academic institutions will directly support and coordinate its activities, as well as disseminate its products in their respective countries. The network is made up of 15 accredited centers in Latin America and the Caribbean, the United States and Europe.

The main objectives of the initiative are to:

- Analyze ethical challenges within the context of development in the region, and the responsibilities of the main social actors in the face of such challenges;
- Promote development of social capital mobilization in the region in areas such as strengthening volunteer organizations, social responsibility of the private sector, and the involvement of religious institutions in social work;
- Encourage integration of systematic programs for the teaching of ethics for development in the educational curricula in elementary schools;
- Support studies and research on the subject at the university level.

Important strides are being made in moving the initiative forward. Meetings on social problems are being coordinated with religious institutions, a meeting on entrepreneurial social responsibility is being planned, and a workshop on methodologies to include social capital and ethics criteria in the formulation of development projects is being organized. In addition, preparations are under way on a seminar for universities in the region on teaching ethics and development, as well as a project to teach values in elementary schools.

A number of experts contributed to the initiative, including Nobel Prize winners Amartya Sen and Joseph Stiglitz, as well as Edgard Morin, Peter Singer, Astrid Fishel, Father Fernando Montes, Father Luis Ugalde, George Alleyne, Patricio Aylwin, Raul Alfonsín, Father Diarmud Martin, Ignacy Sachs, and many others.

For further information, see

<http://www.iadb.org/goto.pl?Ethics>

Country Office specialists were more actively involved in the discussion of projects in preparation, with a significant number attending the management review meetings or participating via teleconference. Significant efforts were also made by Country Offices to involve relevant stakehold-

ers in the discussion and preparation of the logical framework early in the project design phase—an effort to build strong national ownership on the part of the borrower.

In the area of *project monitoring and execution*, many Country Offices organized project

start-up workshops with executing agencies to launch new operations and orient national counterpart teams in the application of the Bank's policies and procedures. These workshops were useful in building stronger partnerships with national counterpart agencies and provided the opportunity to review the logical framework, project reporting and monitoring tools with borrowers. Past experience has shown that active involvement by the executing agencies in project execution frequently results in increased borrower commitment throughout the life of the project.

Another key task of the Country Offices was the ongoing dialogue with government authorities regarding the overall health of the portfolio. The difficult macroeconomic situation in 2001 forced many Country Offices to work closely together with national governments to scale down some operations to reflect reduced budget allocations for public sector investment programs. In the case of some operations deemed problematic or unlikely to meet their development objectives, projects were reformulated, cancelled or reoriented towards financing investments of a greater priority. Specific action plans for these projects were also developed with government authorities to support more intensive follow-up and corrective measures. Proactive dialogue was also extremely important in countries where changes in government occurred and the level of staff rotation in executing agencies increased.

With respect to other portfolio monitoring activities, Country Offices met with the respective country authorities to review the entire portfolio on a quarterly or trimester basis. In Honduras, for example, work sessions are organized by the Bank in which authorities from the Ministry of Finance, executing agencies and Country Office staff meet to discuss factors affecting the performance of the portfolio and corrective measures that need to be carried out to resolve issues identified. Other Country Offices, such as the one in Brazil, are resolving portfolio issues by combining forces with fellow Country Offices to carry out joint project administration missions, promote the exchange of experiences, and share lessons learned. This type of intensive portfolio management has revitalized stagnant operations, identi-

fied bottlenecks at a macro level, and strengthened ties between the Bank and national authorities in the area of increased attention to portfolio issues.

The organization of training events to support project execution in C and D countries was once again highlighted by the Bank and borrowers as critical to improving portfolio performance. Many workshops for borrowers in the areas of the logical framework, procurement, project management and evaluation were carried out with resources of the C and D Action Plan. In countries affected by high levels of staff rotation due to changes in government, these training events were crucial to maintaining the dialogue with client institutions. In addition, the C and D Action Plan facilitated the hiring of consultants to support short-term project implementation needs, especially for projects experiencing difficulties. Country Offices once again rallied in the wake of various natural disasters in 2001, such as the earthquakes that hit El Salvador and Peru or Hurricanes Michelle and Iris, which affected many parts of Belize, Jamaica and the Central American countries. Efforts to support emergency situations began with damage assessments, and in some countries have continued with the coordination of reconstruction activities. Many reconstruction activities begun after Hurricane Mitch have continued in Central America.

Special Office in Europe

The role of the Special Office in Europe (SOE) is to contribute to strengthening relations and cooperation between the Bank and its 17 nonregional member countries, the European Union and international organizations based in Europe. A new strategy outlined during the year to bolster the Bank's ties among the nonregional countries emphasized:

- Promoting links with European institutions in the areas of poverty reduction, governance, civil society, gender, the environment, and small and medium-sized business development;

For further information, see
<http://www.iadb.org/goto.pl?Europe>

- Creating a network of specialized European academic and research centers to track macroeconomic developments in Latin America;
- Raising the profile of Latin America and the Caribbean in the agenda of the major European stakeholders in the areas of trade and integration, particularly with private and public sector entities and the media;
- Cooperating on development issues pertaining to culture, higher education and science.

The IDB and the European Commission approved a memorandum of understanding in 2001 aimed at focusing cooperation in Latin America and the Caribbean. France, the Netherlands, Norway and Spain signed agreements with the Bank covering the establishment and enlargement of trust funds and the creation of programs in such targeted sectors as the environment and ethics and development. Five European countries—Belgium, Finland, Norway, Portugal and Sweden—became new members of the Bank's private sector affiliate, the Inter-American Investment Corporation (IIC). The IIC also signed a cooperation agreement with the Israel Export Institute.

SOE helped organize several donor group meetings in Europe during the year to promote integration and investment in Central America; support the reconstruction of El Salvador after the earthquakes earlier in the year; assist Peru's recovery program; promote the Colombian peace process; and stop the spread of drug production and trafficking in Ecuador. The office also undertook outreach activities such as business information missions in Belgium, the Netherlands and the United Kingdom, as well as activities to foster contacts with the private sector and other key Bank constituencies such as NGOs and the European media.

Several IDB programs sought to link the Bank's economic and research activities with those of European institutions. In the integration and trade area, presentations were made at meetings in Paris, Brussels and Buenos Aires by the IDB co-financed MERCOSUR Chair of the Political Science Institute in Paris. Together with the Centre d'Études Prospectives et d'Informations Internationales (CEPII), the IDB co-organized a

seminar in Washington, D.C. on the impact of trade liberalization agreements on Latin America and the Caribbean. The 12th IDB/OECD Latin America Forum was held in Madrid jointly with SECIB, the Ibero-American Cooperation Secretariat.

In the area of culture and development, the IDB co-sponsored a seminar with UNESCO on cultural industries and globalization, and participated in the Ibero-American cultural cooperation conferences in Madrid.

The IDB also published a book entitled *Foreign Direct Investment in Latin America: The Role of the European Investors*.

Office in Japan

During 2001, the IDB Office in Japan continued its outreach and dissemination programs in order to inform the Japanese community about the social and economic situation of Latin America

For further information, see
<http://www.iadb.org/goto.pl?Japan>

and the Caribbean and the business opportunities created by Bank-financed operations. The office also provided information about trade and investment opportunities and promoted an exchange of development experiences among Japan, East Asian and the Latin American and Caribbean countries.

The office organized a number of workshops and seminars including:

- In coordination with the Bank's Inter-American Institute for Social Development (INDES) and the Japan Program (JPR), both of which are part of the Regional Programs and Integration Department (INT), the office organized in Tokyo and Shimane Prefecture a workshop on "Rural Poverty Reduction Priorities and Strategies." This workshop brought together a distinguished group of policymakers and practitioners from East Asia, Japan and Latin America and the Caribbean. They exchanged experiences and best practices on the effective design and implementation of successful programs for alleviating poverty and promoting more social equity in the rural areas of both regions.

TABLE XIII.

CONSOLIDATED ADMINISTRATIVE EXPENSES*(In thousands of U.S. dollars)*

Category	1999 Actual	2000 Actual	2001 Actual
Board of Governors	\$ 2,512.5	\$ 2,095.9	\$ 2,885.0
Board of Executive Directors	16,027.9	14,751.1	14,918.1
Evaluation Office	3,212.5	3,633.8	4,581.5
Headquarters and Country Offices	305,556.6	292,102.2	305,159.1
Post-Retirement Benefits	4,300.0	1,200.0	-
Total before Reimbursement^{1,2,3}	331,609.6	313,783.1	327,543.8
Reimbursement from Funds in Administration and IIC	(2,132.4)	(2,526.9)	(2,333.9)
Total Administrative	329,477.2	311,256.2	325,209.9
Capital	14,197.2	10,750.0	20,206.2
TOTAL ADMINISTRATIVE AND CAPITAL	\$343,674.4	\$322,006.2	\$345,416.1

¹ Excludes depreciation amounting to \$14.5 million in 1999, \$15.7 million in 2000 and \$15.3 million in 2001.

² Net of certain income items in the amount of \$13.7 million, \$13.1 million, and \$11.6 million in 1999, 2000, and 2001, respectively.

³ Includes \$24.3 million of pre-paid pension costs in 1999.

■ A presentation on the Bank's 2001 report on *Economic and Social Progress* (IPES) entitled *Competitiveness: The Business of Growth*, emphasizing the Bank's efforts to address constraints faced by the borrowing countries in the productive sectors of credit, human resources, infrastructure and information technologies. These problems are hindering the ability of these countries to effectively compete in an increasingly integrated global economy, and they also affect the investment opportunities available to Japanese investors.

■ Organization of trade and investment promotion seminars on the occasion of the visit to Japan of the Presidents of Costa Rica, Guatemala and Uruguay, and of the Vice-President of El Salvador.

■ Organization of investment promotion seminars on the petroleum and energy sectors of Brazil, Colombia, Mexico and Venezuela; and on the information technology sector of Uruguay.

■ Presentations on the social and economic situation and prospects of Latin America on the occasion of the visits to Japan by President Enrique V. Iglesias and the Bank's Chief Economist, Guillermo Calvo.

■ Participation in an International Conference in Malaysia on "Improving the

Competitiveness and Development of Small and Medium-sized Enterprises (SMEs) in Latin America and the Caribbean and Asia." This was one of the Bank's first activities carried out within the context of the partnership agreement signed by the IDB and the Asian Development Bank at the Bank's Annual Meeting in Santiago, Chile.

■ Additional seminars on regional integration issues.

The Japan Office was also instrumental in promoting and organizing bilateral discussions on the cofinancing of projects and the use of Japanese funds under the Funds in Administration program. This included joint organization, with the Financial Services Subdepartment (FSS) of the Regional Operations Department 2 (RE2), of the IDB-JBIC Coordination Meeting in Tokyo to discuss strategies and projects for possible cofinancing between the two organizations.

Administration

There was considerable focus during the year on implementation of the Human Resources Strategy, which includes leadership assessment and development, management training, staffing plans, employment mobility, the employment model,

compensation policy, an action plan for diversity, and a separation policy.

The Leadership Assessment and Development Program (LADP)—which is designed to identify, assess and develop Bank staff with high potential to perform leadership roles—completed three comprehensive sessions. The Management Development Program (MDP) to improve skills of newly appointed supervisors, current supervisors and senior management conducted several workshops, forums and seminars, and implemented an individual coaching program.

In addition to implementing the Leadership Assessment and Development Program and the Management Development Program, the Office of Learning (LRN) focused its resources on responding to the demand of its clients and at the same time developing strong incentives for staff participation. Training focused on civil society participation and social inclusion and workshops for project teams and sector specialists.

The methodology for the first Staffing Plan was completed, enabling the Bank to initiate a comprehensive human resources planning process aligned with the business goals and programs of the Bank. An employment mobility exercise aimed at facilitating career development was conducted for administrative staff. A new employment model

was implemented and its corresponding policies developed. A new proposed compensation policy is under discussion with the Board of Executive Directors. A Diversity Action Plan was approved by the Bank and will be implemented in 2002.

At the end of 2001 the long-term consultant category of employment ceased to exist at the Bank. New staff positions were created for the essential and continuing staff functions heretofore performed by long-term consultants. This competitive process included job grading, selection panel appointments, interviews and hiring. The new staff will be starting in January 2002.

A net Administrative Budget of \$367 million and a Capital Improvement Program of \$24.2 million have been authorized for 2002. Table XIII shows total expenditures for 1999, 2000 and 2001. In 2001, total administrative expenditures of \$325.2 million represented 93 percent of the net approved budget.

At year-end 2001, Bank staff funded by the administrative budget, excluding the Board of Executive Directors and the Evaluation Office, totaled 1,730 positions, of whom 1,243 staff were in professional grades and 487 in administrative. Of this total, 526 staff were assigned to the Country Offices. At year's end, there were 454 professional women in the Bank, comprising 36.5 percent of all professional staff.



Financial Matters

Highlights

As of December 31, 2001, all ordinary capital loans were performing except for certain loans to private sector borrowers without sovereign guarantee, which were classified as impaired and were in nonaccrual. Ordinary capital operations generated operating income of \$1 billion, compared with \$846 million in 2000. Operating income continued at a high level largely due to higher loan charges on a limited number of short-term loans approved in 1998-99 in response to the liquidity crisis in those years. The interest coverage ratio was 1.44 in 2001. Total ordinary capital reserves grew to \$8.9 billion as of December 31, 2001 from \$8.1 billion in the previous year. The ratio of reserves to net loans and guarantees at the end of 2001 was 20.3 percent. These ratios are consistent with Bank policy and reflect the institution's financial soundness.

The Bank was again rated AAA by the major rating agencies in 2001, as it has ever since it was first rated.

The Bank set its lending spread at 0.5 percent during the first and second semesters of 2001, a level equal to that of the previous year. Similarly, the inspection and supervision fee remained at the one percent level for the first and second semesters. The credit commission was set at 0.75 percent for both the first and second semesters. The collection of basic fees in 2001 was needed to meet the Bank's desired income targets for the year. For a detailed description of the terms and conditions that apply to the Bank's various loan products, refer to the Bank's Web site at www.iadb.org.

As of December 31, 2001, the loan portfolio of the Fund for Special Operations (FSO) was

TABLE XIV.

CAPITAL OF THE BANK

(In thousands of U.S. dollars)¹

Country	Subscriptions as of December 31, 2001		
	Paid-in	Callable	Total
Argentina	\$ 465,118	\$10,393,829	\$ 10,858,947
Austria	6,900	153,688	160,588
Bahamas	11,533	198,347	209,880
Barbados	5,634	124,253	129,887
Belgium	14,235	316,762	330,997
Belize	7,202	103,516	110,718
Bolivia	37,324	834,355	871,680
Brazil	465,118	10,393,829	10,858,947
Canada	173,677	3,866,209	4,039,887
Chile	127,716	2,853,919	2,981,634
Colombia	127,716	2,853,919	2,981,634
Costa Rica	18,662	417,081	435,743
Croatia	2,087	46,384	48,471
Denmark	7,347	163,435	170,782
Dominican Republic	24,911	556,788	581,699
Ecuador	24,911	556,788	581,699
El Salvador	18,662	417,081	435,743
Finland	6,900	153,688	160,588
France	82,273	1,831,446	1,913,719
Germany	82,273	1,831,446	1,913,719
Guatemala	24,911	556,788	581,699
Guyana	7,793	153,773	161,566
Haiti	18,662	417,081	435,743
Honduras	18,662	417,081	435,743
Israel	6,804	151,541	158,345
Italy	82,273	1,831,446	1,913,719
Jamaica	24,911	556,788	581,699
Japan	217,106	4,833,154	5,050,260
Mexico	298,980	6,681,308	6,980,288
Netherlands	14,633	325,640	340,273
Nicaragua	18,662	417,081	435,743
Norway	7,347	163,435	170,782
Panama	18,662	417,081	435,743
Paraguay	18,662	417,081	435,743
Peru	62,235	1,390,745	1,452,980
Portugal	2,316	51,656	53,972
Slovenia	1,267	28,096	29,362
Spain	82,273	1,831,446	1,913,719
Suriname	5,718	82,852	88,570
Sweden	14,139	314,807	328,946
Switzerland	20,411	454,249	474,660
Trinidad and Tobago	18,662	417,081	435,743
United Kingdom	41,776	929,946	971,722
United States	1,303,020	29,006,704	30,309,724
Uruguay	49,870	1,114,335	1,164,206
Venezuela	249,339	5,568,456	5,817,795
Subtotal	4,339,289	96,596,415	100,935,704
Unallocated	1,363	22,317	23,680 ²
TOTAL	\$4,340,652	\$96,618,732	\$100,959,384

¹ Data are rounded to the nearest one thousand; detail may not add up to subtotals and totals because of rounding.

² Total unallocated amount of \$23,680 consists of 1,963 shares (113 paid-in and 1,850 callable) pertaining to the remainder of the former Social Federal Republic of Yugoslavia.

TABLE XV.**CONTRIBUTION QUOTAS TO THE FUND FOR SPECIAL OPERATIONS¹***(In thousands of U.S. dollars)*

Country	As of December 31, 2001
Argentina	\$ 486,094
Austria	17,312
Bahamas	10,383
Barbados	1,716
Belgium	40,156
Belize	7,472
Bolivia	47,958
Brazil	535,635
Canada	289,572
Chile	155,259
Colombia	151,262
Costa Rica	23,012
Croatia	5,064
Denmark	18,454
Dominican Republic	33,431
Ecuador	29,821
El Salvador	21,036
Finland	17,352
France	205,161
Germany	226,856
Guatemala	32,366
Guyana	8,201
Haiti	21,417
Honduras	26,174
Israel	17,813
Italy	196,749
Jamaica	28,313
Japan	531,661
Mexico	323,373
Netherlands	33,656
Nicaragua	23,808
Norway	18,467
Panama	25,004
Paraguay	27,562
Peru	78,575
Portugal	7,041
Slovenia	3,206
Spain	195,652
Suriname	6,195
Sweden	34,805
Switzerland	57,893
Trinidad and Tobago	20,590
United Kingdom	170,095
United States	4,814,697
Uruguay	54,930
Venezuela	310,539
Subtotal	9,391,788
Unallocated	88,525
TOTAL	\$9,480,313

¹ After exchange adjustments.

For further information, see

<http://www.iadb.org/goto.pl?Finance>

fully performing. FSO operations generated net income before technical cooperation expense and HIPC debt relief of \$129 million, compared to \$134.8 million in 2000.

An amount of \$54.5 million was allocated from the FSO to the Intermediate Financing Facility (IFF) in 2001, for its standard operations, for the Highly Indebted Poor Countries (HIPC) initiative, and in connection with the agreement on concessional resources approved by the Board of Governors in 1999. The transfer in 2000 was \$66.5 million.

In 2001, Bolivia reached the completion point, thereby becoming eligible for net present value (NPV) \$307 million in HIPC debt relief. The Board of Directors approved interim HIPC financing for debt relief for Honduras and Nicaragua in nominal amounts of \$43.8 million (\$23.2 million in 2001) and \$56.3 million (\$20.7 million in 2001), respectively. As a result of these decisions, the FSO recognized HIPC debt relief totaling \$540.8

TABLE XVI.**OUTSTANDING BORROWINGS BY CURRENCY AS OF DECEMBER 31, 2001***(In millions of U.S. dollars)*

Currency¹	Amount
Australian dollars	\$ 343
British pounds sterling	3,617
Canadian dollars	720
Danish kroner	47
Euro	3,753
Hong Kong dollars	1,370
Hungarian forints	36
Japanese yen	4,334
New Taiwan dollars	901
New Zealand dollars	208
Polish zlotys	101
South African rand	25
Swedish kronor	47
Swiss francs	2,221
United States dollars	24,463
Total	\$42,186

¹ Medium- and long-term borrowings before swaps, SFAS 133 bond hedge basis adjustments and net unamortized discounts.

TABLE XVII.

BORROWINGS¹, FISCAL YEAR 2001*(In millions of U.S. dollars)*

Type	Issue	Amount	Amount (US\$ equiv.)
Australian dollars	5.00%, due 2006	675	\$ 333
British pounds sterling	5.25%, due 2003	200	293
Hong Kong dollars	6.1475%, due 2011 ¹	250	32
	5.55%, due 2004	2,000	256
Hungarian forints	9.50%, due 2002	10,000	35
New Taiwan dollars	4.01%, due 2002	1,000	29
	4.01%, due 2003	1,000	29
	4.02%, due 2003	1,000	29
	4.03%, due 2003	1,000	29
	4.05%, due 2003	1,000	29
	3.30%, due 2006 ²	1,000	29
	3.30%, due 2006 ²	1,000	29
	3.32%, due 2006 ²	1,000	29
	3.32%, due 2006 ²	1,000	29
	3.34%, due 2006 ²	1,000	29
	3.40%, due 2007	1,000	29
	3.50%, due 2008	1,000	29
Polish zlotys	15.00%, due 2003	300	74
	11.125%, due 2002	100	24
Swiss francs	3.00%, due 2007	300	182
United States dollars	5.375%, due 2006	2,000	2,000
	4.65%, due 2004	115	115
	4.72%, due 2005	85	85
	5.22%, due 2011	300	300
	5.00%, due 2003 ³	100	100
	5.2225%, due 2004	100	100
	6.50%, due 2004	250	250
	5.00%, due 2008	70	70
	3.875%, due 2004	2,500	2,500
TOTAL BORROWINGS			\$7,097

¹ Medium- and long-term borrowings before swaps.² The issuer has a single call option.³ The issuer has multiple call options.

million during 2001 following its accounting policy for these transactions.

The audited financial statements of the ordinary capital, the Fund for Special Operations and the Intermediate Financing Facility, appear on pages 93-141 of this report.

Borrowings

In 2001, the Bank issued bonds for a total amount of \$7.1 billion equivalent with an average life of 4.1 years. The funding continued within a strategy of combining a few very large benchmark bonds in the Bank's core currency with smaller transactions

in a series of currencies as opportunities arose. Accordingly, the Bank marketed two U.S. dollar denominated global bond issues, \$2 billion each, carrying maturities of three and five years. The three-year global issue was subsequently increased by \$500 million. In addition, the Bank sold smaller bond issues in seven other currencies, including the Bank's first domestic Australian dollar borrowing, and an inaugural issue denominated in Hungarian forint. The Bank maintained a broad geographical distribution of its bond sales with 42 percent placed in Asia, 34 percent in North and South America, and 25 percent in Europe and the Middle East.



PART II:

FINANCIAL STATEMENTS

ORDINARY CAPITAL

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheets of the Inter-American Development Bank (Bank)—Ordinary Capital as of December 31, 2001 and 2000, and the related statements of income and general reserve, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Ordinary Capital as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As explained in Note B to the financial statements, effective January 1, 2001, the Bank changed its method of accounting for derivative instruments and hedging activities.



Washington, D.C.
February 13, 2002

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in thousands of United States dollars

	December 31,			
	2001		2000	
ASSETS				
Cash and investments				
Cash	\$ 267,477		\$ 185,954	
Investments				
Trading	8,384,364		11,020,779	
Held-to-maturity	3,370,235	\$12,022,076	3,101,208	\$14,307,941
Loans outstanding.	44,950,977		41,871,615	
Allowance for loan losses	(1,423,849)	43,527,128	(1,308,146)	40,563,469
Accrued interest and other charges				
On investments	103,954		98,849	
On loans	805,086	909,040	689,439	788,288
Receivable from members				
Capital subscriptions	11,617		20,021	
Non-negotiable, non-interest bearing demand obligations	578,831		733,560	
Amounts required to maintain value of currency holdings	56,991	647,439	56,367	809,948
Currency and interest rate swaps				
Investments—trading	41,688		5,461	
Borrowings	739,277	780,965	92,926	98,387
Other assets				
Property, net	271,405		266,507	
Accrued interest and charges on swaps, net	150,364		124,105	
Unamortized borrowing costs	113,216		139,477	
Miscellaneous	159,499	694,484	124,006	654,095
Total assets		\$58,581,132		\$57,222,128
LIABILITIES AND CAPITAL				
Liabilities				
Borrowings				
Short-term	\$ 490,361		\$ 1,070,944	
Medium-and long-term	42,676,726	\$43,167,087	41,370,180	\$42,441,124
Currency and interest rate swaps				
Investments—trading	132,102		190,534	
Loans	8,709		—	
Borrowings.	1,159,904	1,300,715	1,153,046	1,343,580
Accrued interest on borrowings		749,387		832,639
Accounts payable and accrued expenses		110,295		161,093
Total liabilities		45,327,484		44,778,436
Capital				
Capital stock				
Subscribed—8,369,043 shares	100,959,384		100,959,384	
Less callable portion	(96,618,732)		(96,618,732)	
	4,340,652		4,340,652	
General reserve	6,535,821		5,542,421	
Special reserve	2,665,500		2,665,500	
Accumulated other comprehensive loss	(288,325)	13,253,648	(104,881)	12,443,692
Total liabilities and capital		\$58,581,132		\$57,222,128

The accompanying notes are an integral part of these financial statements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND GENERAL RESERVE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Income		
Loans		
Interest	\$2,994,938	\$2,838,581
Credit commissions	114,687	136,506
Supervision and inspection and other fees	81,344	85,700
	3,190,969	3,060,787
Investments	540,917	765,479
Other	45,162	51,633
Total income	3,777,048	3,877,899
Expenses		
Borrowing expenses		
Interest	2,269,439	2,527,017
Amortization of borrowing costs	40,116	42,811
Debt repurchase costs	10,955	—
	2,320,510	2,569,828
Provision for loan losses	147,303	174,428
Administrative expenses	299,777	287,587
Total expenses	2,767,590	3,031,843
Operating income	1,009,458	846,056
Net loss from hedging activities under SFAS 133	(39,697)	—
Income before cumulative effect of change in accounting principle	969,761	846,056
Cumulative effect of change in accounting principle	50,839	—
Net income	1,020,600	846,056
Allocation to the Fund for Special Operations	(27,200)	(27,200)
Addition to general reserve for the year	993,400	818,856
General reserve, beginning of year	5,542,421	4,723,565
General reserve, end of year	\$6,535,821	\$5,542,421

STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Net income	\$1,020,600	\$ 846,056
Other comprehensive income (loss)		
Translation adjustments	(207,049)	(151,722)
Cumulative effect of change in accounting principle	44,760	—
Net loss on cash flow hedges under SFAS 133	(21,155)	—
Total other comprehensive loss	(183,444)	(151,722)
Comprehensive income	\$ 837,156	\$ 694,334

The accompanying notes are an integral part of these financial statements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Cash flows from lending and investing activities		
Lending:		
Loan disbursements (net of participations)	\$ (6,037,233)	\$ (6,682,526)
Loan collections (net of participations)	1,925,760	2,312,434
Net cash used in lending activities	(4,111,473)	(4,370,092)
Gross purchases of held-to-maturity investments	(15,159,919)	(18,864,271)
Gross proceeds from maturities of held-to-maturity investments	14,801,386	18,696,210
Purchase of property	(20,220)	(10,747)
Miscellaneous assets and liabilities	5,683	(12,401)
Net cash used in lending and investing activities	(4,484,543)	(4,561,301)
Cash flows from financing activities		
Medium- and long-term borrowings:		
Gross proceeds	7,081,689	8,143,176
Repayments	(5,399,508)	(4,123,468)
Short-term borrowings:		
Gross proceeds	2,900,790	4,519,656
Repayments	(3,479,867)	(4,232,094)
Capital:		
Collections of receivables from members	164,148	159,963
Net cash provided by financing activities	1,267,252	4,467,233
Cash flows from operating activities		
Loan income collections	3,028,763	2,990,522
Interest and other costs of borrowings	(2,366,599)	(2,486,565)
Income from investments	577,643	750,533
Other income	14,862	17,194
Administrative expenses	(318,481)	(253,204)
Net cash provided by operating activities	936,188	1,018,480
Adjustments to receivable from members	(1,639)	(1,177)
Change in market value of trading investments	4,612	17,535
Effect of exchange rate fluctuations on cash and trading investments	(154,903)	(254,236)
Allocation to the Fund for Special Operations	(27,200)	(27,200)
Net (decrease) increase in cash and trading investments	(2,460,233)	659,334
Cash and trading investments, beginning of year	11,021,660	10,362,326
Cash and trading investments, end of year	\$ 8,561,427	\$11,021,660
Composition of cash and trading investments:		
Cash	\$ 267,477	\$ 185,954
Investments held in trading portfolio	8,384,364	11,020,779
Currency and interest rate swaps—Investments—trading, net	(90,414)	(185,073)
	<u>\$ 8,561,427</u>	<u>\$11,021,660</u>

The accompanying notes are an integral part of these financial statements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank is to promote the economic and social development of Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The primary activities of the Bank are conducted through the Ordinary Capital with such operations supplemented by those of the Fund for Special Operations (FSO) and the Intermediate Financing Facility Account (IFF). The FSO was established for the purpose of making loans in the less developed member countries in Latin America and the Caribbean by providing financing on terms which are highly concessional. The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital.

Note B – Summary of Significant Accounting Policies

The Bank's financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New accounting pronouncements

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—A replacement of SFAS No. 125". This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain additional disclosures. This statement does not have a material impact on the Bank's financial statements.

Adoption of SFAS No. 133

On January 1, 2001, the Bank adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the Balance Sheet as either an asset or liability measured at

its fair value. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of the hedge transaction. In accordance with the transition provisions of SFAS No. 133, as amended, the Bank recorded a cumulative effect adjustment of \$96,101,000 (gain) in earnings to recognize at fair value all derivatives that were designated as fair value type hedging instruments at December 31, 2000. The Bank also recorded a cumulative effect adjustment of \$45,262,000 (loss) in earnings to adjust the carrying values of related hedged assets, liabilities and firm commitments. In addition, the Bank recorded a cumulative effect adjustment of \$44,760,000 (gain) in other comprehensive income to recognize at fair value all derivatives that are designated as cash flow hedging instruments.

Investment derivative instruments are already recorded at market value as part of the trading portfolio; therefore, they are not affected by SFAS No. 133.

Reclassifications

Certain reclassifications of the prior year's information have been made to conform to the current year's presentation.

Translation of currencies

The Bank's financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members. The Bank's resources are derived from capital, borrowings and accumulated earnings in those various currencies. The Bank has a number of general policies aimed at minimizing exchange-rate risk in a multicurrency environment. The Bank generally follows the policy of investing and lending the proceeds of borrowings (after swaps) and paid-in capital in the currencies received. In addition, the Bank periodically undertakes currency conversions to match more closely the currencies underlying its general and special reserves with those of the outstanding loans.

Assets and liabilities derived from borrowings (after swaps), denominated in currencies other than the United States dollar, are translated at approximate market exchange rates prevailing at the dates of the financial statements. Exchange rate fluctuations do not have any effect on the United States dollar equivalent of currencies from paid-in capital because of the maintenance of value described below. Income and expenses are translated at approximate market exchange rates prevailing during each month. Net adjustments resulting from the translation into United States dollars of assets and liabilities are charged or credited to translation adjustments and are presented as a separate component of other comprehensive income in the Statement of Comprehensive Income.

ORDINARY CAPITAL
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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

Valuation of capital stock

The Agreement Establishing the Bank (Agreement) provides that the Ordinary Capital be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978, and consequently the General Counsel of the Bank has rendered an opinion that the Special Drawing Right (SDR) has become the successor to the 1959 United States dollar as the standard of value of the Bank's capital stock and for the purpose of maintaining the value of the Bank's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using the 1959 United States dollar, which pursuant to the devaluations of the United States dollar in 1972 and 1973 is equal to approximately 1.2063 current United States dollars, as the basis of valuation. If the 1959 United States dollar were to have been substituted with the SDR on December 31, 2001, the financial position and the results of operations of the Bank would not have been materially affected.

Maintenance of value

In accordance with the Agreement, each member is required to maintain the value of its currency held in the Ordinary Capital, except for currency derived from borrowings. Likewise, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency which is held in the Ordinary Capital, except for currency derived from borrowings. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959.

General and special reserves

In accordance with resolutions of the Board of Governors, the net income from the Ordinary Capital resources of the Bank is generally added to the general reserve to provide for possible annual excess of expenses over income.

The special reserve consists of loan commissions set aside from the Bank's inception to 1998 pursuant to Article III, Section 13 of the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities of the Bank on its borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed by the Bank.

Investments

Investment securities are classified based on management's intention on the date of purchase. Securities which management

has the intent and ability to hold until maturity are included in the held-to-maturity portfolio and reported at amortized cost. All other securities are held in a trading portfolio. Securities and related derivative instruments (mostly currency and interest rate swaps) held in the trading portfolio are carried and reported at market value, with realized and unrealized gains and losses included in income from investments. These securities and related derivative instruments are included in the Statement of Cash Flows as cash equivalents due to their nature and the Bank's policy governing the level and use of such investments.

Loans

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members or to private enterprises located in their territories. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the Bank has followed the general policy, since 1967, of requiring a guarantee engaging the full faith and credit of the government. Up to 10% of the Bank's outstanding loans and guarantees, not including emergency lending, may be made directly to private sector entities without a government guarantee on the basis of market-based pricing and provisioning (Private Sector Program). These loans are subject to a number of restrictions, including a ceiling on financing the lesser of 25% of the total costs of an individual project or \$75 million, although in the case of certain specified countries the Bank may finance up to the lesser of 40% of the total costs of an individual project or \$75 million. There is also a ceiling on partial risk guarantees of the lesser of 50% of the total costs of an individual project or \$150 million.

Loans representing approximately 50% of the outstanding balances have repayment obligations in various currencies determined on the basis of a currency pooling system (Currency Pooling System). The principal amount of Currency Pooling System loans is repayable, in aggregate, in the currencies lent. Multicurrency loans approved prior to January 1, 1983 and single currency loans are repayable in the specific currencies disbursed.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial to the financial results of the Bank. Front-end fees on "emergency loans" are deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.

It is the policy of the Bank to place on nonaccrual status all loans made to or guaranteed by a member of the Bank if principal, interest or other charges with respect to any such loan are overdue by more than 180 days. In addition, if loans made to a member country by the FSO or any fund owned or admin-

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

istered by the Bank are placed on nonaccrual status, all loans made to or guaranteed by that member government will also be placed on nonaccrual status by the Bank. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For Private Sector Program loans, it is the policy of the Bank to place on nonaccrual status loans made to a borrower when interest or other charges are past due by more than 90 days, or earlier when management has doubts about the future collectibility of principal or interest. Income is recorded thereafter on a cash-basis or a combination of cash-basis and cost-recovery methods, until loan service is current. If the collectibility risk is considered to be particularly high at the time of arrears clearance, the borrower's loans will not automatically emerge from nonaccrual status.

The Bank's Ordinary Capital has a policy of not rescheduling public sector loan repayments and has never had a write-off on any of its loans. The Bank reviews the collectibility of loans on a continuous basis and records, as an expense, provisions for loan losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio.

The Bank considers Private Sector Program loans as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the loan's original contractual terms. Specific allowance for losses on impaired loans are set aside based on management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral.

Guarantees

The Bank provides partial guarantees for debt financing designed to encourage private sector lending and investments. The partial risk guarantees and partial credit guarantees are provided mostly for infrastructure projects and may be offered on a stand-alone basis or in conjunction with a Bank loan. Guarantees may be made either without a government counter-guarantee under the 10% limit for the Private Sector Program operations mentioned above or with a member government counter-guarantee. Fees are recognized as income over the term of the guarantee.

Receivable from members

Receivable from members includes non-negotiable, non-interest bearing demand obligations that have been accepted in lieu of the immediate payment of all or any part of a member's subscribed paid-in capital stock.

Property

Property is recorded at cost. Major improvements are capitalized while routine replacements, maintenance and repairs are charged to expense. Depreciation is computed on the straight-line method over estimated useful lives (30 to 40 years for buildings, 10 years for building improvements and capitalized software, and 4 to 15 years for equipment).

Borrowings

To ensure funds are available for lending and liquidity purposes, the Bank borrows in the international capital markets, offering its securities to private and public investors. The Bank issues medium- and long-term debt instruments denominated in various currencies with both fixed and adjustable interest rates. The Bank also issues short-term discount notes for liquidity management purposes. Borrowings are carried on the Balance Sheet at their par value (face value) adjusted for changes in fair value attributable to the hedged risk, when part of a hedging relationship (basis adjustment), and for any unamortized premiums or discounts. Basis adjustments on hedged borrowings and related amortization, as applicable, are recorded in net gain (loss) from hedging activities under SFAS 133 on the Statement of Income and General Reserve. The Bank starts amortizing basis adjustments when the related hedge is terminated. Basis adjustments and premiums or discounts are amortized on a straight-line basis, which approximates the effective interest method. Amortization of premiums and discounts is included in interest under borrowing expenses on the Statement of Income and General Reserve. Borrowing costs associated with a bond offering are deferred and amortized on a straight-line basis, which approximates the effective interest method, over the period during which the related indebtedness is outstanding. The unamortized balance of the borrowing costs is presented separately under other assets on the Balance Sheet and the amortization of the borrowing costs is presented as a separate element under borrowing expenses on the Statement of Income and General Reserve.

Derivatives

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respec-

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

tive operation to produce the desired interest and/or currency type.

Effective January 1, 2001, all derivatives are recognized on the Balance Sheet at their fair value and are classified as assets or liabilities, depending on the nature (debit or credit) of their net fair value amount. On the date the derivative contract is entered into, the Bank designates the derivative as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or as held in the trading portfolio (investment derivatives). Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair-value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk (including gains or losses on firm commitments) are recorded in net gain (loss) from hedging activities under SFAS 133 in the Statement of Income and General Reserve. The effective portion of the changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The ineffective portion, resulting from excess expected cash flows on the derivative, is recorded in net gain (loss) from hedging activities under SFAS 133 in the Statement of Income and General Reserve. Changes in the fair value of investment derivatives are recorded in income from investments. The interest component of derivatives is recognized as an adjustment to the investment yield, the loan return, or the borrowing cost, as applicable, over the life of the derivative contract and is included in the corresponding income or expense category on the Statement of Income and General Reserve.

The Bank occasionally issues debt instruments that contain an embedded derivative. The Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the debt instrument (i.e., the host contract), excluding the embedded derivative features. If the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, not already marked to market through earnings, and would separately meet the definition of a derivative, then the embedded derivative is separated from the host contract, carried at fair value, and designated as a fair value or cash flow hedge.

Prior to the adoption of SFAS No. 133, investment derivatives were recorded at market value as part of the trading portfolio while borrowing and lending derivatives were recorded at cost (currency swaps) or treated as off-balance sheet items (interest rate swaps). Also, in prior years, the Bank reported

separately the gross receivable and gross payable amounts of currency swaps as assets and liabilities, respectively. In this regard, the comparative prior year amounts have been reclassified to conform to the current year's presentation.

Administrative expenses

Substantially all administrative expenses of the Bank, including depreciation are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors. During 2001, such expenses were charged 84.0% to the Ordinary Capital and 16.0% to the FSO (2000—83.6% and 16.4%, respectively).

Fair values of financial instruments

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

Cash: The carrying amount reported in the Balance Sheet for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. For all loans and related commitments, the Bank is of the opinion that, due to its unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair value for the Bank's lending portfolio.

Swaps: Fair values for the Bank's interest rate and currency swaps are based on quoted market prices or pricing models and represent the estimated cost of replacing these contracts.

Borrowings: The fair values of the Bank's borrowings are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Note C – Restricted Currencies

At December 31, 2001, cash includes \$112,749,000 (2000—\$119,030,000) in non-convertible currencies of regional borrowing members, of which \$22,612,000 (2000—\$23,219,000) has been restricted by one of the members, in accordance with the provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

Note D – Investments

As part of its overall portfolio management strategy, the Bank invests in government, agency, bank and corporate obligations, time deposits, asset- and mortgage-backed securities, and related derivative instruments, in particular currency and interest rate swaps.

Government and agency obligations: These obligations include unsubordinated and marketable bonds, notes and other obligations issued or unconditionally guaranteed by a government of a country, an agency or instrumentality of a government of a country, a multilateral organization, or any other official entity. The Bank invests only in (i) obligations of or guaranteed by the government of the member country whose currency is being invested, (ii) obligations issued or unconditionally guaranteed by an agency or instrumentality of the government of certain countries or any other official entity, in any currency, with credit quality equivalent to a AA– or better rating (residential mortgage-backed securities require a AAA rating), (iii) obligations of multilateral organizations, in any currency, with credit quality equivalent to a AAA rating, and (iv) non-local currency obligations of or guaranteed by certain governments with credit quality equivalent to a AA– or better rating.

Bank obligations and time deposits: These obligations include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions. The Bank invests in these types of obligations if the entity issuing or guaranteeing them has a senior debt securities rating of at least A+.

Corporate securities: These obligations include publicly issued, unsubordinated and marketable bonds, notes or other debt obligations issued or unconditionally guaranteed by non-bank corporate entities or trusts. The Bank invests only in these types of securities with credit ratings of AAA.

Asset- and mortgage-backed securities: Asset- and mortgage-backed securities include unsubordinated, marketable asset-backed and residential mortgage-backed obligations issued or unconditionally guaranteed by corporate entities or trusts. The cash flow of these instruments is based on the cash flows of the pool of underlying assets managed by a special purpose vehicle, or trust, which provides credit enhancements to ensure higher credit ratings. The Bank invests only in these types of securities with credit ratings of AAA. In addition, the Bank invests in short-term asset-backed securities and short-term asset-backed

commercial paper carrying only the highest short-term credit ratings.

Currency swaps: Currency swaps are agreements to exchange cash flows denominated in different currencies at one or more certain times in the future. Cash flows are based on a predetermined exchange rate and a formula, which reflects fixed or floating rates of interest and an exchange of principal.

Interest rate swaps: Interest rate swaps are agreements involving the exchange of periodic interest payments of differing character, based on an underlying notional principal amount for a specified time.

Trading portfolio: A summary of the Bank's position in trading portfolio instruments at December 31, 2001 and 2000 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1.

Net unrealized gains (losses) on trading portfolio instruments, held at December 31, 2001, of \$3,135,000 (2000—(\$1,612,000)), were included in income from investments. The average return on trading investments, after swaps, including realized and unrealized gains and losses, during 2001 and 2000 was 4.18% and 5.70%, respectively.

Held-to-maturity portfolio: A summary of the Bank's held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2001 and 2000 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2. The average return on held-to-maturity investments for the years ended December 31, 2001 and 2000 was 3.97% and 3.70%, respectively.

Note E – Loans and Guarantees Outstanding

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed balances, the Bank has entered into irrevocable commitments to disburse approximately \$60,589,000 at December 31, 2001.

The average interest rate earned on loans outstanding was 7.02% in 2001 and 7.24% in 2000. The average total return on loans outstanding was 7.48% in 2001 and 7.81% in 2000.

A summary statement of loans is presented in Appendix I-3 and a summary of the Bank's outstanding loans by currency and product type and their maturity structure at December 31, 2001 and 2000 is shown in Appendix I-4.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

Multicurrency loans – With a government guarantee

Fixed rate loans: Prior to January 1, 1983, the interest rate due on all amounts disbursed under each loan was the interest rate prevailing at the time that the loan was approved. In 1982, the Bank established the Currency Pooling System to equalize exchange risk among the borrowers in determining their repayment obligations. The interest rate due for Currency Pooling System loans approved from January 1, 1983 to December 31, 1989 is fixed at the time of each disbursement, for the life of the loan, at a rate which represents the cost of the funds borrowed by the Bank for such loans over the two calendar semesters prior to the date of disbursement, plus a spread which, including loan fees, is estimated to cover administrative and other costs.

Adjustable rate loans: On January 1, 1990, the Bank mitigated its interest rate risk by moving from fixed rate to adjustable rate lending for all Currency Pooling System loans made after that date. This rate, which resets twice a year, represents the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus a spread which, including loan fees, is estimated to cover administrative and other costs and to meet desired income targets.

Average maturity: The Bank maintains a targeted currency composition in its Currency Pooling System. The present target ratio is 50% United States dollars, 25% Japanese yen and 25% European currencies (primarily Swiss francs and euro). The composition of the multicurrency loans is affected by the selection of currencies for disbursements on those loans and by the currencies selected for the billing of the principal repayments, both of which are managed so as to maintain the alignment of the multicurrency loans' composition with the target ratio. The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity information for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and the average maturity for the total multicurrency loan portfolio on a combined U.S. dollar equivalent basis.

Single currency loans – With a government guarantee

Adjustable rate loans: In 1996, the Single Currency Facility was approved, pursuant to which borrowers have the option to choose to denominate each loan in the Currency Pooling System, in one of four currencies (United States dollars, euro, Japanese yen and Swiss francs) or in a combination of the Currency Pooling System and such currencies. The rates charged on Single Currency Facility loans are reset semi-annually to reflect the effective cost during the previous six months of each of the

single-currency pools of borrowings allocated to fund such loans, plus a spread which, including loan fees, is estimated to cover administrative and other costs and to meet desired income targets.

LIBOR-based loans: In 1994, a lending program (U.S. Dollar Window Program) aimed for private sector borrowers was approved under which loans are denominated and disbursed only in United States dollars and are guaranteed by a government. The amount approved for this program is currently \$500,000,000 per calendar year. Borrowers under the U.S. Dollar Window Program have the option of electing either a LIBOR-based fixed or floating-rate loan. For fixed rate loans, the interest rate is fixed for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost. For floating-rate loans, the interest rate resets every six months based on a LIBOR rate. In either case, the borrower pays the Bank's spread and fees.

In December 1998, guidelines were approved for emergency lending to participate in concerted international emergency financial assistance to the Bank's borrowing member countries in response to the global liquidity crisis. These loans, which had to be approved by the end of 1999, are for a term not to exceed five years, with a three-year grace period, and carry a six-month LIBOR interest rate plus a spread of 400 basis points, a front-end fee of 1% on the total amount of the loan, and a commitment fee of 0.75% per annum on the undisbursed balance. Under the guidelines approved, these loans are currently not eligible for the standard fee waivers described below. Emergency loans approved amounted to \$7,610,000,000. As of December 31, 2001, emergency loans cancellations amounted to \$370,345,000 (2000—\$64,500,000), disbursements amounted to \$7,239,511,000 (2000—\$6,492,136,000) and repayments amounted to \$240,500,000 (2000—\$240,500,000). Outstanding emergency loans amounted to \$6,999,011,000 at December 31, 2001 (2000—\$6,251,636,000).

The Bank has under consideration the approval of a new emergency lending facility for up to \$6 billion of shorter term, higher rate loans outstanding at any time, also for concerted international assistance designed to help address financial emergencies in the region.

Charges on loans with a government guarantee (excluding emergency lending)

In addition to the interest rate, for loans made under the Currency Pooling System, the U.S. Dollar Window Program and the Single Currency Facility, the Bank charges a credit commission of 0.75% (1.25% on loans approved prior to January 1, 1989) per annum on the undisbursed convertible currency portion of a loan and a one-time supervision and inspection fee of 1% on

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

the principal amount of a loan which is capitalized into the loan balance in quarterly installments during the disbursement period of the loan. Waivers of these fees are granted, at the discretion of the Board of Executive Directors, when their collection is not needed to meet desired income targets. Lending spreads, credit commissions and one-time supervision and inspection fees prevailing during 2001 and 2000 were as follows:

	Lending spread %	Credit commission %	One-time supervision & inspection fee %
2000: First six months	0.50	Full	1.00
Second six months	0.50	Full	1.00
2001: First six months	0.50	Full	1.00
Second six months	0.50	Full	1.00

Single currency loans – Without a government guarantee

Under the terms of the Eighth General Increase in the Resources of the Bank and subsequent agreements, the Bank is authorized to lend under the Private Sector Program up to 10% of outstanding loans and guarantees, not including emergency lending, directly to private sector entities without a government guarantee on the basis of market-based pricing and provisioning, subject to a number of restrictions. Disbursements are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. For fixed rate loans, the interest rate is fixed upon approval or for each disbursement, for the life of the loan, at a rate based on a LIBOR funding cost plus a credit spread. For floating-rate loans, the interest rate resets every six months based on a LIBOR rate plus a credit spread. The credit spreads and fees for Private Sector Program loans are set on a case by case basis.

As of December 31, 2001, cumulative Private Sector Program loans approved, net of cancellations and participations, amounted to \$1,765,230,000 (2000—\$1,568,730,000). Outstanding loans, net of participations, under this Program amounted to \$1,059,428,000 at December 31, 2001 (2000—\$722,398,000).

Inter-American Investment Corporation (IIC)

Currently, the Bank has an approved loan to the IIC, an affiliated entity, in the amount of \$300,000,000. Disbursements under this loan are to be denominated in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding as of December 31, 2001 and 2000.

Loan participations and guarantees

Under the loan contracts with the borrowers, the Bank may sell participations in the loans to commercial banks or other public

or private organizations, but it reserves to itself the administration of the loans. As of December 31, 2001, there were \$1,725,023,000 (2000—\$1,071,876,000) in outstanding participations in Private Sector Program loans not included in the Balance Sheet.

As of December 31, 2001, the Bank had approved guarantees without government counter-guarantees in the amount of \$531,250,000 (2000—\$531,250,000) of which \$337,104,000 (2000—\$93,662,000) was subject to call. The net present value of guarantee exposure, which is the amount counted under the Private Sector Program's limit, was \$312,000,000 at December 31, 2001. Guarantees are not included in reported loan balances.

IFF subsidy

The IFF was established in 1983 by the Board of Governors of the Bank for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital resources of the Bank. In addition, under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which is a concerted, international initiative for addressing the debt problems of a group of countries identified as heavily indebted poor countries in which the Bank is participating, the IFF will subsidize 100% of certain principal and interest payments on Ordinary Capital loans. During 2001, the IFF paid \$73,328,000 (2000—\$70,820,000) of interest and \$1,243,000 (2000—\$0) of principal on behalf of the borrowers. The IFF is funded primarily from the general reserve of the Bank's FSO.

Nonaccrual and impaired loans and allowance for loan losses

At December 31, 2001, all loans were performing except for certain Private Sector Program loans which were classified as impaired and were in nonaccrual. The Bank's recorded investment in impaired Private Sector Program loans at December 31, 2001 was \$185,004,000 (2000—\$28,660,000). The average recorded investment in impaired Private Sector Program loans during 2001 was \$60,439,000 (2000—\$12,137,000). Interest income recognized on impaired Private Sector Program loans while impaired was \$3,676,000 in 2001 and \$1,539,000 in 2000. Interest income that would have been recognized on a cash basis for the period of impairment was \$7,599,000 in 2001 and \$1,539,000 in 2000. All impaired loans have specific allowances for loan losses amounting to \$66,887,000 at December 31, 2001 (2000—\$14,617,000).

The changes in the allowance for loan losses for the years ended December 31, 2001 and 2000 were as follows (in thousands):

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	2001	2000
Balance at January 1,	\$1,308,146	\$1,166,736
Provision for loan losses	147,303	174,428
Translation adjustments	(31,600)	(33,018)
Balance at December 31,	<u>\$1,423,849</u>	<u>\$1,308,146</u>

Note F – Property

As of December 31, 2001 and 2000, the property of the Bank—Ordinary Capital—consists of the following (in thousands):

	2001	2000
Land, buildings, improvements, capitalized software and equipment, at cost	\$ 466,546	\$ 446,326
Less: accumulated depreciation	<u>(195,141)</u>	<u>(179,819)</u>
	<u>\$ 271,405</u>	<u>\$ 266,507</u>

Note G – Borrowings

The primary objective of the Bank's borrowing policy is to obtain the necessary resources to finance its lending program at the lowest possible cost for borrowers. The medium- and long-term borrowings of the Bank consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.50% to 15.00%, before swaps, and from (0.52%) to 12.77%, after swaps, with various maturity dates through 2027. A summary of the Bank's medium- and long-term borrowing portfolio and its maturity structure at December 31, 2001 and 2000 is shown in Appendix I-5.

The Bank has a short-term borrowing facility under which discount notes are issued in amounts not less than \$100,000 and maturities of 360 days or less.

The average cost of total borrowings during 2001 and 2000 was 6.18% and 6.23%, respectively, before swaps, and 5.34% and 6.07%, respectively, after swaps.

The estimated fair values of borrowings as of December 31, 2001 and 2000 amounted to \$44,872,000,000 and \$43,985,000,000, respectively.

Note H – Derivatives and Hedging Activities

Risk management strategy and use of derivatives

The Bank's financial risk management strategy is designed to strengthen the Bank's ability to fulfill its purpose. Such strategy includes establishing and maintaining financial practices consistent with its risk preference primarily by implementing, updating, and monitoring its interrelated set of financial policies and guidelines and by utilizing appropriate financial instruments and organizational structures. Financial derivative instruments are an important component of the set of financial instruments used by the Bank to facilitate increasing its financial efficiency while

achieving its risk management objectives. The Bank uses financial derivative instruments, mostly currency and interest rate swaps, exclusively for hedging purposes as part of its asset and liability management. This approach enables the Bank to lower funding costs and enhance investment returns without increasing the Bank's exposure to market risk. Consequently, whenever it enters into a derivative contract, the Bank identifies the specific hedging relationship and when designated in accordance with SFAS No. 133, as amended, documents the hedge transaction and evaluates its hedge effectiveness to determine whether or not the transaction qualifies for hedge accounting.

The majority of the Bank's current borrowing operations include swaps to hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and rate type). The Bank's operations also include interest rate swaps to hedge private sector fixed rate loans and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle to invest existing cash. Investment swaps are held in the trading portfolio which is carried and reported at market value. Effective January 1, 2001, the Bank follows hedge accounting under SFAS No. 133, as amended, for all currency and interest rate swaps, except for a small number of basis swaps and the investment swaps already reported at market value, as described below:

Fair-value hedges

To protect against interest and foreign exchange fluctuations, while converting debt into the currencies and interest rate types required, the Bank enters into currency and/or interest rate swap agreements to convert fixed-rate medium- and long-term debt to floating-rate debt. In aligning its private sector loans with the funding obtained for such loans, the Bank also enters into interest rate swap agreements to convert its fixed-rate private sector loans to floating-rate loans. During 2001, the Bank recognized a net loss of \$26,698,000 (included in Net loss from hedging activities under SFAS 133 on the Statement of Income and General Reserve), which represented the ineffective portion of all fair value hedges.

Cash-flow hedges

The Bank enters into currency swap agreements to convert debt into the currencies required while hedging foreign currency fixed-rate medium- and long-term debt against the variability of cash flows resulting from changes in exchange rates. The ineffectiveness of cash-flow hedges for the year ended December 31, 2001 was not significant. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness. During 2001, an amount of approximately \$8,400,000 associated with the transition adjustment originated upon adoption of SFAS No. 133 was reclassified to earnings. The esti-

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

mated amount, included in accumulated other comprehensive income as of December 31, 2001, expected to be reclassified into earnings within the next 12 months to offset the variability of cash flows during this period is not material. The maximum term over which the Bank is hedging its exposure to the variability of future cash flows is 9.3 years.

Hedge effectiveness assessment

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the Balance Sheet or to specific firm commitments. The Bank formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether they are expected to continue to be highly effective in the future.

Discontinuation of hedge accounting

The Bank discontinues hedge accounting when the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item or when management determines that designation of the derivative as a hedging instrument is no longer appropriate. In general, when hedge accounting is discontinued, the derivative designated in a fair value hedge continues to be carried on the Balance Sheet at its fair value, the hedged asset or liability no longer is adjusted for changes in fair value and the related basis adjustment is amortized over the remaining life of the asset or liability. Similarly, the derivative designated in a cash flow hedge continues to be carried on the Balance Sheet at its fair value, and the gains and losses that were accumulated in other comprehensive income are reclassified to earnings in the same period or periods in which the hedged transaction affects earnings. Also, the Bank discontinues hedge accounting when the derivative expires, is sold, terminated, or exercised.

Note I – Commercial Credit Risk

Commercial credit risk is the potential loss that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the debt instruments in which the Bank invests its liquid holdings. The primary objective in the management of the Bank's liquid assets is the maintenance of a conservative exposure to market, credit and liquidity risks. Consequently, the Bank will only invest in high quality debt instruments issued by sovereigns, agencies, banks and corporate entities.

In addition, as part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, exclusively for hedging purposes without incurring additional market risk. To manage the credit risk of its investment, funding and asset and liability management activities, the Bank limits these activities to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank also establishes strict credit limits for each counterparty and, for swap counterparties, has entered into master swap agreements which contain enforceable close-out netting provisions and has agreements in place providing for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits, which are a function of the counterparty's credit rating. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its counterparties. As of December 31, 2001, the Bank had received collateral of \$244,700,000 in connection with swap agreements. None of this collateral has been included in the assets of the Bank.

The credit risk exposures below represent the maximum potential loss, based on the gross fair value of the financial instrument, the Bank would incur if the parties to the derivative financial instruments referred to in the preceding paragraphs failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value. As of December 31, 2001 and 2000, such credit risk exposures, prior to considering any master swap or collateral agreements, are as follows (in thousands):

	2001	2000
Investments – Trading Portfolio		
Currency swaps	\$ 33,191	\$ 3,333
Interest rate swaps	3,061	2,128
Borrowing Portfolio		
Currency swaps	318,860	192,115
Interest rate swaps	587,452	294,500

**Note J – Capital Stock
Composition**

The capital of the Bank consists of "paid-in" and "callable" shares. The subscribed "paid-in" capital has been or is to be paid in gold and/or United States dollars and in the currency of the respective member, which in some cases must be made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest bearing demand obligations have been or will be accepted in lieu of the immediate payment of all or any part of the member's subscribed "paid-in" capital stock. The subscribed "callable" portion of capital may only be called when required to meet obligations of the

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

Bank created by borrowings of funds for inclusion in the Bank's Ordinary Capital resources or guarantees chargeable to such resources and is payable at the option of the member either in gold, in United States dollars, in fully convertible currency of the member country, or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. For a Statement of Subscriptions to Capital Stock at December 31, 2001 and 2000, see Appendix I-6.

Voting power

Under the Agreement, each member country shall have 135 votes plus one vote for each share of Ordinary Capital stock held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Bank, also provides that no increase in the subscription of any member to the Ordinary Capital stock shall have the effect of reducing the voting power of the regional developing members below 50.005%, of the United States below 30%, and of Canada below 4% of the total voting power, leaving the voting power available for nonregional members at up to 15.995%, including approximately 5% for Japan.

In making decisions concerning operations of the FSO and the IFF, the number of votes and percent of total voting power for each member country are the same as determined by the provisions of the Agreement referred to above.

Changes for the period

On July 31, 1995, the Board of Governors of the Bank approved the Eighth General Increase in the Resources of the Bank which provided, subject to the member countries' subscriptions, for an increase in the capital stock of the Bank in the amount of \$40,000,000,000, consisting of \$1,000,000,000 of "paid-in" capital and \$39,000,000,000 of "callable" capital. During 2000, the Bank's member countries completed the subscriptions to this increase.

Total subscriptions to shares of Ordinary Capital stock and the voting power of the member countries as of December 31, 2001 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

The composition of subscribed capital and receivable from members as of December 31, 2001 and 2000 is as follows (in thousands):

	Subscribed capital			
	Shares	Amount		Total
		Paid-in	Callable	
Balance at				
January 1, 2000	8,362,584	\$4,337,769	\$96,543,697	\$100,881,466
Subscriptions during				
2000	6,459	2,883	75,035	77,918
Balance at				
December 31, 2000				
and 2001	8,369,043	\$4,340,652	\$96,618,732	\$100,959,384

Receivable from members	2001	2000
Regional developing members	\$525,891	\$601,703
United States	30,733	51,222
Canada	5,468	8,096
Non-regional members	85,347	148,927
Total	<u>\$647,439</u>	<u>\$809,948</u>

Membership

On April 21, 1993, the Bank's Board of Executive Directors decided that the Socialist Federal Republic of Yugoslavia (SFRY) had ceased to be a member of the Bank and that the Republic of Bosnia and Herzegovina, the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (Serbia and Montenegro) are authorized to succeed to the SFRY's membership. Accordingly, the shares representing SFRY's membership in the Ordinary Capital of the Bank were classified as unallocated until each successor republic succeeded to the membership of the SFRY. The Republics of Croatia and Slovenia have since become members of the Bank and have subscribed to the 1,142 and 655 shares, respectively, allocated to them. On June 21, 1993, the Government of the former Yugoslav Republic of Macedonia declined the offer to succeed to the membership of the SFRY in the Bank.

Note K – Allocation of Net Income

The agreement for the Eighth General Increase in the Resources of the Bank provides for up to \$136,000,000 of unallocated special contributions to the FSO to be paid by contributions from members. Any unpaid portion is to be paid to the FSO by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2001, no such contributions had been paid by members. Accordingly, the Bank transferred \$27,200,000, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2001 and 2000.

Note L – Accumulated Other Comprehensive Loss

Other comprehensive loss comprises the effects of the implementation of SFAS No. 133, as amended, and currency translation adjustments. These items are presented on the Statement of Comprehensive Income.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

The following is a summary of changes in accumulated other comprehensive loss for the years ended December 31, 2001 and 2000 (in thousands):

	Translation Adjustments		SFAS 133 Adjustments	Total
	General Reserve	Special Reserve		
Balance at				
January 1, 2000	\$249,436	\$(202,595)	\$ —	\$ 46,841
Translation adjustments	(81,490)	(70,232)	—	(151,722)
Balance at				
December 31, 2000	167,946	(272,827)	—	(104,881)
Translation adjustments	(150,976)	(56,073)	—	(207,049)
Cumulative effect of change in accounting principle	—	—	44,760	44,760
Net loss on cash flow hedges	—	—	(21,155)	(21,155)
Balance at				
December 31, 2001	<u>\$ 16,970</u>	<u>\$(328,900)</u>	<u>\$ 23,605</u>	<u>\$(288,325)</u>

Note M – Pension and Postretirement Benefit Plans

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC and the Local Retirement Plan (LRP) for the pension benefit of local employees in the country offices. The Plans are funded by employee and Bank contributions in accordance with the provisions of the Plans. Any and all contributions to the Plans by the Bank are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Plans.

The Bank also provides certain health care and other benefits to retirees. All current staff of the Bank and the IIC who contribute to the SRP and LRP while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefits Plan (PRF). Retirees contribute toward the Bank's health care program based on a premium schedule established by the Bank. The Bank contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions made by the Bank and all other assets and income of the PRF remain the property of the Bank, they are held and administered separately and apart from the other property and assets of the Bank solely for the purpose of payment of benefits under the plan.

The following table summarizes the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRF and amounts recognized in the Balance Sheet for the years ended December 31, 2001 and 2000 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Change in benefit obligation				
Benefit obligation,				
beginning of year	\$1,444,637	\$1,379,638	\$695,781	\$657,661
Service cost	40,161	38,050	18,099	22,472
Interest cost	83,724	83,740	33,419	40,792
Plan participants' contributions	15,550	14,416	—	—
Actuarial (gain) loss	26,048	(27,957)	(112,231)	(15,928)
Benefits paid	(43,117)	(43,250)	(10,942)	(9,216)
Benefit obligation, end of year	<u>1,567,003</u>	<u>1,444,637</u>	<u>624,126</u>	<u>695,781</u>
Change in plan assets				
Fair value of plan assets,				
beginning of year	1,949,616	1,971,011	813,842	840,173
Actual return on plan assets	(81,094)	5,730	(48,059)	(17,115)
Employer contribution	1,881	1,753	—	—
Plan participants' contributions	15,550	14,416	—	—
Benefits paid	(43,117)	(43,250)	(10,942)	(9,216)
Net payments from (to) other plans	57	(44)	—	—
Fair value of plan assets, end of year	<u>1,842,893</u>	<u>1,949,616</u>	<u>754,841</u>	<u>813,842</u>
Funded status	<u>275,890</u>	<u>504,979</u>	<u>130,715</u>	<u>118,061</u>
Unrecognized:				
Net actuarial gain	(174,700)	(415,756)	(94,751)	(106,135)
Prior service cost	7,214	8,667	(5,023)	(6,797)
Prepaid benefit cost	<u>\$ 108,404</u>	<u>\$ 97,890</u>	<u>\$ 30,941</u>	<u>\$ 5,129</u>
Amounts recognized in the Balance Sheet consist of:				
Prepaid benefit cost	\$ 108,404	\$ 97,890	\$ 31,077	\$ 7,143
Accrued benefit liability	—	—	(136)	(2,014)
Net amount recognized	<u>\$ 108,404</u>	<u>\$ 97,890</u>	<u>\$ 30,941</u>	<u>\$ 5,129</u>

Unrecognized actuarial gains and losses which exceed 10% of the greater of the benefit obligation or fair value of plan assets at the beginning of the period are amortized over the average remaining service period of active employees expected to receive benefits under the SRP and LRP plans, which approximates 10.5 and 13.0 years, respectively. Excess unrecognized actuarial gains and losses for the PRF are amortized over the average remaining life of active participants, which approximates 11.8 years.

Unrecognized prior service cost is amortized over 15 years for the Plans and over 7 years for the PRF.

The weighted average actuarial assumptions taken into consideration for the calculation of the benefit obligation as of December 31, 2001 and 2000 are as follows:

	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Discount rate	5.25%	5.75%	5.25%	5.75%
Expected return on plan assets	6.00%	6.50%	6.00%	6.50%
Rate of salary increase SRP	4.33%	4.83%		
Rate of salary increase LRP	5.73%	6.23%		

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

The accumulated postretirement benefit obligation was determined using health care cost trend rates of 10.8% to 12.3% for those participants assumed to retire in the United States. The rate was assumed to decrease gradually to 5.0% in 2013 and thereafter. For those participants assumed to retire outside of the United States, a 9.5% health care cost trend rate was used.

Net periodic benefit income for the years ended December 31, 2001 and 2000 consists of the following components (in thousands):

	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Service cost	\$ 40,161	\$ 38,050	\$ 18,099	\$ 22,472
Interest cost	83,724	83,740	33,419	40,792
Expected return on plan assets	(121,613)	(122,136)	(57,825)	(56,188)
Amortization of:				
Prior service cost ..	1,453	1,453	(1,774)	(1,774)
Unrecognized net gain	(12,358)	(36,996)	(17,731)	(8,237)
Net periodic benefit income ...	<u>\$ (8,633)</u>	<u>\$ (35,889)</u>	<u>\$(25,812)</u>	<u>\$ (2,935)</u>

Total net benefit income for the Plans and the PRF for the year ended December 31, 2001 amounted to \$34,445,000 (2000—\$38,824,000) and was allocated to the ORC and FSO as indicated in Note B. The portion of this income that was credited to the Ordinary Capital for the year ended December 31, 2001 is \$27,834,000 (2000—\$31,176,000). The balance has been credited to the FSO.

During 2001, the SRP and PRF had benefit income of \$11,685,000 and \$25,812,000, respectively, which is included in the total net benefit income for the year (2000—\$38,760,000 and \$4,128,000, respectively). The portion of this benefit income related to the Ordinary Capital in the amount of \$30,300,000 (2000—\$34,439,000) has been included in other income.

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRF. A one-percentage point change in assumed health care costs trend rates would have the following effects as of December 31, 2001 (in thousands):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	\$ 9,993	\$ (8,118)
Effect on postretirement benefit obligation	67,487	(56,778)

Note N – Reconciliation of Net Income to Net Cash Provided by Operating Activities

A reconciliation of net income to net cash provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in thousands):

	Years ended December 31,	
	2001	2000
Net income	\$ 1,020,600	\$ 846,056
Difference between amounts accrued and amounts paid or collected for:		
Loan income	(162,206)	(70,265)
Investment income	41,338	2,589
Net unrealized gain on trading investments	(4,612)	(17,535)
Interest and other costs of borrowings	(46,089)	83,263
Administrative expenses, including depreciation	(49,004)	(56)
Provision for loan losses	147,303	174,428
Net loss from hedging activities under SFAS 133	39,697	—
Cumulative effect of change in accounting principle	(50,839)	—
Net cash provided by operating activities	<u>\$ 936,188</u>	<u>\$ 1,018,480</u>
Supplemental disclosure of noncash activities		
Decrease resulting from exchange rate fluctuations:		
Held-to-maturity investments ...	\$ (79,716)	\$ (107,428)
Loans outstanding	(1,032,111)	(1,050,328)
Borrowings	(1,052,391)	(1,205,721)

Note O – Segment Reporting

Management has determined that the Bank has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries. For the year 2001, loans made to or guaranteed by three countries individually generated in excess of 10 percent of loan income. Loan income from these three countries was \$838,845,000, \$590,772,000 and \$401,225,000, respectively.

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APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2001

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Carrying value	344,634	—	—	117,549	—	462,183
Average balance during year	207,322	—	—	122,672	—	329,994
Net gains for the year	5,014	—	—	1,429	—	6,443
Obligations of other governments and agencies:						
Carrying value	314,844	692,420	—	384,090	10,016	1,401,370
Average balance during year	284,275	341,233	—	557,956	31,282	1,214,746
Net gains (losses) for the year	(3,316)	(1,706)	—	18,690	98	13,766
Bank obligations and time deposits:						
Carrying value	1,525,009	44,917	278,722	566,682	5,071	2,420,401
Average balance during year	2,063,180	240,060	139,668	2,211,755	1,689	4,656,352
Net gains (losses) for the year	(216)	(114)	—	5,570	1	5,241
Corporate securities:						
Carrying value	—	7,648	—	296,552	105,707	409,907
Average balance during year	—	8,260	—	554,977	73,697	636,934
Net gains for the year	—	52	—	20,378	183	20,613
Asset- and mortgage-backed securities:						
Carrying value	159,002	34,143	—	3,497,358	—	3,690,503
Average balance during year	165,183	5,697	—	3,415,657	—	3,586,537
Net gains for the year	427	—	—	10,750	—	11,177
Total trading investments:						
Carrying value	2,343,489	779,128	278,722	4,862,231	120,794	8,384,364
Average balance during year	2,719,960	595,250	139,668	6,863,017	106,668	10,424,563
Net gains (losses) for the year	1,909	(1,768)	—	56,817	282	57,240
Currency swaps receivable:						
Carrying value ⁽²⁾	—	357,085	—	2,279,425	—	2,636,510
Average balance during year	—	648,345	—	2,309,037	—	2,957,382
Net losses for the year	—	(33)	—	(5)	—	(38)
Currency swaps payable:						
Carrying value ⁽²⁾	(2,180,072)	(68,611)	—	(333,067)	(115,723)	(2,697,473)
Average balance during year	(2,507,268)	(118,322)	—	(356,973)	(105,041)	(3,087,604)
Net gains (losses) for the year	(1,909)	504	—	(134)	(281)	(1,820)
Net interest rate swaps:						
Carrying value ⁽²⁾	—	(2,397)	—	(27,054)	—	(29,451)
Average balance during year	—	(3,176)	—	(17,989)	—	(21,165)
Net losses for the year	—	(242)	—	(24,938)	—	(25,180)
Total trading investments and swaps:						
Carrying value	163,417	1,065,205	278,722	6,781,535	5,071 ⁽¹⁾	8,293,950
Average balance during year	212,692	1,122,097	139,668	8,797,092	1,627	10,273,176
Net gains (losses) for the year	—	(1,539)	—	31,740	1	30,202
Return for the year (%)	4.43	0.27	2.74	4.66	5.02	4.18

⁽¹⁾ The carrying value of total trading investments and swaps held in other currencies consists of British pound sterling.

⁽²⁾ Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. Interest rate swaps are presented net. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated on the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

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APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2000

Expressed in thousands of United States dollars

	<u>Euro</u>	<u>Japanese yen</u>	<u>Swiss francs</u>	<u>United States dollars</u>	<u>Other currencies</u>	<u>All currencies</u>
Obligations of the United States Government and its corporations and agencies:						
Carrying value	—	—	—	355,566	—	355,566
Average balance during year	—	—	—	410,467	—	410,467
Net gains for the year	—	—	—	8,265	—	8,265
Obligations of other governments and agencies:						
Carrying value	266,544	439,634	—	389,158	33,883	1,129,219
Average balance during year	208,816	891,572	—	689,713	31,101	1,821,202
Net gains (losses) for the year	11,241	(6,965)	—	2,415	408	7,099
Bank obligations and time deposits:						
Carrying value	1,835,032	314,030	52,368	3,849,421	10,619	6,061,470
Average balance during year	1,225,989	452,561	89,985	4,566,861	13,778	6,349,174
Net gains (losses) for the year	26	(27)	—	23,554	134	23,687
Other, primarily asset-backed securities:						
Carrying value	102,277	8,716	—	3,363,531	—	3,474,524
Average balance during year	87,512	936	—	3,053,055	—	3,141,503
Net gains (losses) for the year	(67)	4	—	10,316	—	10,253
Total trading investments:						
Carrying value	2,203,853	762,380	52,368	7,957,676	44,502	11,020,779
Average balance during year	1,522,317	1,345,069	89,985	8,720,096	44,879	11,722,346
Net gains (losses) for the year	11,200	(6,988)	—	44,550	542	49,304
Currency swaps receivable:						
Carrying value ⁽²⁾	—	771,729	—	1,720,316	—	2,492,045
Average balance during year	—	643,791	—	920,953	—	1,564,744
Net gains (losses) for the year	—	(194)	—	406	—	212
Currency swaps payable:						
Carrying value ⁽²⁾	(2,074,324)	(175,098)	—	(392,597)	(33,883)	(2,675,902)
Average balance during year	(958,722)	(335,211)	—	(298,975)	(31,101)	(1,624,009)
Net gains (losses) for the year	(11,102)	8,180	—	(194)	(408)	(3,524)
Net interest rate swaps:						
Carrying value ⁽²⁾	—	(2,404)	—	1,188	—	(1,216)
Average balance during year	(10)	(1,418)	—	4,531	—	3,103
Net gains (losses) for the year	41	(462)	—	(3,983)	—	(4,404)
Total trading investments and swaps:						
Carrying value	129,529	1,356,607	52,368	9,286,583	10,619 ⁽¹⁾	10,835,706
Average balance during year	563,585	1,652,231	89,985	9,346,605	13,778	11,666,184
Net gains for the year	139	536	—	40,779	134	41,588
Return for the year (%)	4.21	0.22	2.34	6.75	5.96	5.70

⁽¹⁾ The carrying value of total trading investments and swaps held in other currencies consists of the following:

Canadian dollars	\$ 2,756
British pounds sterling	7,863
Total	<u>\$10,619</u>

⁽²⁾ Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. Interest rate swaps are presented net. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

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APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2001

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Net carrying amount	118,970	—	—	75,048	16,166	210,184
Gross unrealized gains	557	—	—	783	123	1,463
Gross unrealized losses	706	—	—	—	—	706
Market value	118,821	—	—	75,831	16,289	210,941
Obligations of other governments and agencies:						
Net carrying amount	405,498	491,816	162,734	213,586	655,031	1,928,665
Gross unrealized gains	800	1,156	1,042	4,934	12,976	20,908
Gross unrealized losses	457	101	427	2,042	290	3,317
Market value	405,841	492,871	163,349	216,478	667,717	1,946,256
Bank obligations and time deposits:						
Net carrying amount	6,319	34,203	2,822	700	205,942	249,986
Gross unrealized gains	—	46	—	—	19	65
Gross unrealized losses	—	—	—	—	—	—
Market value	6,319	34,249	2,822	700	205,961	250,051
Corporate securities:						
Net carrying amount	—	14,598	—	60,488	30,048	105,134
Gross unrealized gains	—	44	—	1,030	569	1,643
Gross unrealized losses	—	—	—	133	—	133
Market value	—	14,642	—	61,385	30,617	106,644
Asset-and mortgage-backed securities:						
Net carrying amount	402,707	—	8,900	210,838	253,821	876,266
Gross unrealized gains	2,706	—	—	7,081	7,622	17,409
Gross unrealized losses	3,576	—	82	220	102	3,980
Market value	401,837	—	8,818	217,699	261,341	889,695
Total held-to-maturity investments:						
Net carrying amount	933,494	540,617	174,456	560,660	1,161,008 ⁽¹⁾	3,370,235
Gross unrealized gains	4,063	1,246	1,042	13,828	21,309	41,488
Gross unrealized losses	4,739	101	509	2,395	392	8,136
Market value	932,818	541,762	174,989	572,093	1,181,925	3,403,587
Return for the year (%)	4.04	0.34	2.87	5.87	5.56	3.97

⁽¹⁾ The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	\$ 621,927
British pounds sterling	473,823
Other	65,258
Total	<u>\$1,161,008</u>

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2001

Expressed in thousands of United States dollars

Year of Maturity	Net Carrying Amount	Market Value
2002	\$ 905,583	\$ 910,014
2003	822,300	834,498
2004	709,360	717,838
2005	427,259	434,518
2006	350,604	351,178
2007	69,746	70,334
2008	70,422	70,165
2009	14,961	15,042
Total	<u>\$3,370,235</u>	<u>\$3,403,587</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D

December 31, 2000

Expressed in thousands of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:						
Net carrying amount	—	—	—	175,066	—	175,066
Gross unrealized gains	—	—	—	331	—	331
Gross unrealized losses	—	—	—	271	—	271
Market value	—	—	—	175,126	—	175,126
Obligations of other governments and agencies:						
Net carrying amount	372,656	601,571	124,895	40,181	671,819	1,811,122
Gross unrealized gains	164	149	333	1,166	2,983	4,795
Gross unrealized losses	8,852	1,166	1,360	—	798	12,176
Market value	363,968	600,554	123,868	41,347	674,004	1,803,741
Bank obligations and time deposits:						
Net carrying amount	289,893	81,623	50,721	41,130	255,506	718,873
Gross unrealized gains	—	61	—	146	—	207
Gross unrealized losses	—	—	—	—	7	7
Market value	289,893	81,684	50,721	41,276	255,499	719,073
Other, primarily asset-backed securities:						
Net carrying amount	31,807	—	—	165,176	199,164	396,147
Gross unrealized gains	—	—	—	3,998	1,196	5,194
Gross unrealized losses	88	—	—	8	300	396
Market value	31,719	—	—	169,166	200,060	400,945
Total held-to-maturity investments:						
Net carrying amount	694,356	683,194	175,616	421,553	1,126,489 ⁽¹⁾	3,101,208
Gross unrealized gains	164	210	333	5,641	4,179	10,527
Gross unrealized losses	8,940	1,166	1,360	279	1,105	12,850
Market value	685,580	682,238	174,589	426,915	1,129,563	3,098,885
Return for the year (%)	3.74	0.22	2.47	5.93	5.49	3.70

⁽¹⁾ The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	\$ 588,678
British pounds sterling	476,433
Other	61,378
Total	<u>\$1,126,489</u>

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2000

Expressed in thousands of United States dollars

Year of Maturity	Net Carrying Amount	Market Value
2001	\$1,464,476	\$1,463,666
2002	588,780	587,985
2003	741,103	734,642
2004	153,303	154,814
2005	124,914	127,808
2007	9,754	10,045
2008	18,878	19,925
Total	<u>\$3,101,208</u>	<u>\$3,098,885</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2001 and 2000

Expressed in thousands of United States dollars

Member in whose territory loans have been made	Loans approved, less cancellations ^{(1), (2)}	Principal collected ^{(2), (3)}	Undisbursed	Outstanding 2001	Currency in which outstanding portion of approved loans is collectible		Outstanding 2000
					Freely convertible currencies	Other currencies	
Argentina	\$15,555,435	\$ 3,486,171	\$ 3,799,523	\$ 8,269,741	\$ 8,174,665	\$ 95,076	\$ 7,206,829
Bahamas	332,516	62,534	83,838	186,144	186,144	—	179,068
Barbados	315,681	62,552	121,572	131,557	131,557	—	118,471
Belize	92,235	—	57,888	34,347	34,347	—	16,061
Bolivia	962,217	472,819	9,739	479,659	478,565	1,094	541,587
Brazil	21,325,668	4,685,246	5,493,583	11,146,839	11,100,180	46,659	10,662,289
Chile	4,231,164	3,175,357	475,830	579,977	575,760	4,217	586,614
Colombia	7,579,206	2,807,322	1,009,078	3,762,806	3,730,851	31,955	3,200,472
Costa Rica	1,582,045	511,422	401,908	668,715	668,715	—	732,951
Dominican Republic	1,225,413	216,638	535,667	473,108	473,108	—	376,746
Ecuador	2,595,980	987,324	270,055	1,338,601	1,338,425	176	1,314,700
El Salvador	1,902,598	373,487	607,510	921,601	921,290	311	806,985
Guatemala	1,514,289	440,179	442,784	631,326	631,326	—	573,341
Guyana	102,277	77,065	—	25,212	25,212	—	30,838
Honduras	474,531	289,783	400	184,348	184,348	—	207,379
Jamaica	1,255,702	384,598	357,368	513,736	513,736	—	540,662
Mexico	13,394,304	4,722,047	2,742,838	5,929,419	5,926,671	2,748	5,797,533
Nicaragua	232,219	111,959	—	120,260	120,260	—	135,691
Panama	1,522,733	410,584	472,192	639,957	639,957	—	612,330
Paraguay	1,115,643	173,917	434,660	507,066	506,977	89	492,085
Peru	4,698,556	1,387,623	647,933	2,663,000	2,661,166	1,834	2,439,019
Suriname	70,346	6,971	36,870	26,505	26,505	—	27,441
Trinidad and Tobago	895,227	152,850	307,704	434,673	434,673	—	458,221
Uruguay	2,418,599	477,139	505,227	1,436,233	1,436,231	2	1,309,510
Venezuela	3,555,619	881,754	636,732	2,037,133	2,032,170	4,963	1,968,314
Regional	1,885,758	941,818	194,354	749,586	749,586	—	814,080
Private Sector Program	1,765,230	144,744	561,058	1,059,428	1,059,428	—	722,398
Inter-American Investment Corporation	375,000	75,000	300,000	—	—	—	—
Total 2001	<u>\$92,976,191</u>	<u>\$27,518,903</u>	<u>\$20,506,311</u>	<u>\$44,950,977</u>	<u>\$44,761,853</u>	<u>\$189,124</u>	
Total 2000	<u>\$89,418,677</u>	<u>\$26,670,998</u>	<u>\$20,876,064</u>		<u>\$41,695,765</u>	<u>\$175,850</u>	<u>\$41,871,615</u>

⁽¹⁾ This table excludes participated Private Sector Program loans which amounted to \$2,792,605 at December 31, 2001 (2000—\$2,506,245). This table also excludes guarantees without government counter-guarantees approved in the amount of \$531,250 at December 31, 2001 and 2000.

⁽²⁾ Includes principal rollovers on revolving lines of credit under export financing operations of \$504,757 (2000—\$493,792).

⁽³⁾ Includes full principal repayments of loans previously sold.

The Bank has Private Sector Program loans outstanding in the following countries (in thousands):

	December 31,	
	2001	2000
Argentina	\$ 309,282	\$283,249
Brazil	222,131	101,331
Chile	22,500	25,000
Colombia	25,215	28,660
Mexico	300,892	184,853
Peru	41,017	44,849
Regional	73,693	4,800
Other	64,698	49,656
	<u>\$1,059,428</u>	<u>\$722,398</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2001

Expressed in thousands of United States dollars

Currency/Rate type	Multicurrency loans		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed	\$ 540,079	7.53	\$ —	—	—	\$ 540,079	7.53
Adjustable	2,404,599	6.29	4,836	6.09	10.11	2,409,435	6.29
Japanese yen							
Fixed	961,468	7.50	—	—	—	961,468	7.50
Adjustable	4,374,072	6.29	516	2.07	8.86	4,374,588	6.29
Swiss francs							
Fixed	527,100	7.54	—	—	—	527,100	7.54
Adjustable	2,320,435	6.29	—	—	—	2,320,435	6.29
United States dollars							
Fixed	2,122,350	7.50	—	—	—	2,122,350	7.50
Adjustable	9,614,249	6.29	13,258,740	6.97	9.36	22,872,989	6.68
LIBOR-based fixed	—	—	526,305	8.61	4.61	526,305	8.61
LIBOR-based floating	—	—	8,104,976	5.79	2.08	8,104,976	5.79
Others							
Fixed	191,252	4.07	—	—	—	191,252	4.07
Loans outstanding							
Fixed	4,342,249	7.36	—	—	—	4,342,249	7.36
Adjustable	18,713,355	6.29	13,264,092	6.97	9.36	31,977,447	6.57
LIBOR-based fixed	—	—	526,305	8.61	4.61	526,305	8.61
LIBOR-based floating	—	—	8,104,976	5.79	2.08	8,104,976	5.79
Total	\$23,055,604	6.49	\$21,895,373	6.57	6.55	\$44,950,977	6.53

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2001

Expressed in thousands of United States dollars

Year of Maturity	Multicurrency loans		Single currency loans		All loans		
	Fixed	Adjustable	Fixed ⁽¹⁾	Adjustable ⁽¹⁾	Fixed	Adjustable	Total
2002	\$ 764,349	\$ 1,128,355	\$ 53,505	\$ 2,717,168	\$ 817,854	\$ 3,845,523	\$ 4,663,377
2003	721,500	1,450,400	58,400	3,899,000	779,900	5,349,400	6,129,300
2004	673,400	1,541,100	67,000	2,158,000	740,400	3,699,100	4,439,500
2005	564,500	1,548,900	65,300	873,400	629,800	2,422,300	3,052,100
2006	424,500	1,550,500	53,400	928,600	477,900	2,479,100	2,957,000
2007 through 2011	973,700	7,288,100	167,200	4,949,400	1,140,900	12,237,500	13,378,400
2012 through 2016	206,900	3,328,100	49,000	3,789,000	255,900	7,117,100	7,373,000
2017 through 2021	12,600	833,300	10,600	1,812,900	23,200	2,646,200	2,669,400
2022 through 2026	800	44,600	1,900	229,100	2,700	273,700	276,400
2027 through 2029	—	—	—	12,500	—	12,500	12,500
Total	\$4,342,249	\$18,713,355	\$526,305	\$21,369,068	\$4,868,554	\$40,082,423	\$44,950,977
Average Maturity (years) ..	3.68	6.86	4.61	6.60	3.78	6.72	6.40

⁽¹⁾ Includes LIBOR-based loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2000

Expressed in thousands of United States dollars

Currency/Rate type	Multicurrency loans		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed	\$ 672,084	7.59	\$ —	—	—	\$ 672,084	7.59
Adjustable	2,506,016	6.36	—	—	—	2,506,016	6.36
Japanese yen							
Fixed	1,277,406	7.56	—	—	—	1,277,406	7.56
Adjustable	4,907,228	6.36	—	—	—	4,907,228	6.36
Swiss francs							
Fixed	639,977	7.59	—	—	—	639,977	7.59
Adjustable	2,376,240	6.36	—	—	—	2,376,240	6.36
United States dollars							
Fixed	2,548,560	7.55	—	—	—	2,548,560	7.55
Adjustable	9,815,885	6.36	9,328,424	7.03	9.45	19,144,309	6.69
LIBOR-based fixed	—	—	443,868	8.77	3.99	443,868	8.77
LIBOR-based floating	—	—	7,176,747	10.22	2.98	7,176,747	10.22
Others							
Fixed	179,180	4.10	—	—	—	179,180	4.10
Loans outstanding							
Fixed	5,317,207	7.45	—	—	—	5,317,207	7.45
Adjustable	19,605,369	6.36	9,328,424	7.03	9.45	28,933,793	6.58
LIBOR-based fixed	—	—	443,868	8.77	3.99	443,868	8.77
LIBOR-based floating	—	—	7,176,747	10.22	2.98	7,176,747	10.22
Total	<u>\$24,922,576</u>	<u>6.59</u>	<u>\$16,949,039</u>	<u>8.43</u>	<u>6.57</u>	<u>\$41,871,615</u>	<u>7.34</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2000

Expressed in thousands of United States dollars

Year of Maturity	Multicurrency loans		Single currency loans		All loans		
	Fixed	Adjustable	Fixed ⁽¹⁾	Adjustable ⁽¹⁾	Fixed	Adjustable	Total
2001	\$ 854,007	\$ 1,024,169	\$ 49,968	\$ 148,171	\$ 903,975	\$ 1,172,340	\$ 2,076,315
2002	796,200	1,363,300	52,900	2,484,500	849,100	3,847,800	4,696,900
2003	746,700	1,496,700	55,700	3,476,700	802,400	4,973,400	5,775,800
2004	696,500	1,532,600	62,200	1,950,100	758,700	3,482,700	4,241,400
2005	583,500	1,533,300	60,400	717,900	643,900	2,251,200	2,895,100
2006 through 2010	1,337,300	7,491,300	127,400	3,536,700	1,464,700	11,028,000	12,492,700
2011 through 2015	290,000	4,065,300	21,300	2,764,400	311,300	6,829,700	7,141,000
2016 through 2020	12,300	1,026,100	11,700	1,253,900	24,000	2,280,000	2,304,000
2021 through 2025	700	72,600	2,100	159,600	2,800	232,200	235,000
2026 through 2029	—	—	200	13,200	200	13,200	13,400
Total	<u>\$5,317,207</u>	<u>\$19,605,369</u>	<u>\$443,868</u>	<u>\$16,505,171</u>	<u>\$5,761,075</u>	<u>\$36,110,540</u>	<u>\$41,871,615</u>
Average Maturity (years) ..	<u>3.94</u>	<u>7.29</u>	<u>3.99</u>	<u>6.64</u>	<u>3.94</u>	<u>6.99</u>	<u>6.57</u>

⁽¹⁾ Includes LIBOR-based loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H

December 31, 2001

Expressed in thousands of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 2,769,560	6.45	4.15	\$ —	—	—	\$ 176,258	4.64	4.88	\$ 2,945,818	6.34	4.19
	—	—	—	(366,657)	6.13	1.50	(225,298)	6.22	4.79	(591,955)	6.16	2.75
Adjustable	983,669	5.93	11.71	324,205	3.04	4.88	225,298	3.49	4.79	1,533,172	4.96	9.25
	—	—	—	(1,043,487)	5.79	11.31	(176,258)	3.04	4.88	(1,219,745)	5.39	10.38
Japanese yen												
Fixed	4,250,774	4.16	5.93	684,796	0.93	6.82	267,040	0.01	2.08	5,202,610	3.52	5.85
	—	—	—	(495,083)	3.59	6.03	(969,651)	1.94	7.63	(1,464,734)	2.50	7.09
Adjustable	83,460	1.46	10.97	1,109,084	(0.23)	4.12	992,413	(0.19)	7.84	2,184,957	(0.15)	6.07
	—	—	—	(22,762)	3.37	12.76	(289,802)	(0.44)	3.25	(312,564)	(0.16)	3.94
Swiss francs												
Fixed	2,220,831	4.90	2.08	480,489	4.96	2.04	50,677	2.74	2.74	2,751,997	4.87	2.09
	—	—	—	(298,098)	2.17	2.39	(119,239)	3.33	2.83	(417,337)	2.50	2.52
Adjustable	—	—	—	212,097	1.70	2.78	119,239	2.03	2.83	331,336	1.82	2.80
	—	—	—	—	—	—	(50,677)	1.72	2.74	(50,677)	1.72	2.74
United States dollars												
Fixed	24,463,000	6.26	5.41	888,383	6.45	4.55	503,973	6.70	3.46	25,855,356	6.28	5.34
	—	—	—	—	—	—	(11,698,000)	5.66	3.51	(11,698,000)	5.66	3.51
Adjustable	—	—	—	8,405,510	1.89	4.84	13,107,800	2.03	3.36	21,513,310	1.98	3.94
	—	—	—	(1,903,817)	1.96	5.36	(1,913,773)	2.10	2.48	(3,817,590)	2.03	3.92
Others												
Fixed	7,357,843	6.60	3.94	—	—	—	—	—	—	7,357,843	6.60	3.94
	—	—	—	(7,000,338)	6.35	3.64	—	—	—	(7,000,338)	6.35	3.64
Adjustable	57,013	4.36	1.39	—	—	—	—	—	—	57,013	4.36	1.39
	—	—	—	(57,013)	2.05	1.39	—	—	—	(57,013)	2.05	1.39
Total												
Fixed	41,062,008	6.04	4.94	2,053,668			997,948			44,113,624	5.92	4.89
	—	—	—	(8,160,176)			(13,012,188)			(21,172,364)	5.62	3.76
Adjustable	1,124,142	5.52	11.13	10,050,896			14,444,750			25,619,788	1.98	4.42
	—	—	—	(3,027,079)			(2,430,510)			(5,457,589)	2.64	5.30
Principal at face value ..	42,186,150	6.03	5.10	917,309			—			43,103,459	4.14	5.11
SFAS 133 —												
Basis adjustment ...	515,414									515,414		
Market value adjustment ⁽²⁾ ...				(78,849)			(417,833)			(496,682)		
Net unamortized discount	(24,838)									(24,838)		
Total	\$42,676,726	6.03	5.10	\$ 838,460			\$ (417,833)			\$ 43,097,353	4.14	5.11

⁽¹⁾ As of December 31, 2001, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.

⁽²⁾ Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount payable from currency swaps of \$838,460 and the net fair value amount receivable from interest rate swaps of \$417,833 as of December 31, 2001, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$739,277 and currency and interest rate swap liabilities at fair value of \$1,159,904, included in the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2001

Expressed in thousands of United States dollars

Year of Maturity		Year of Maturity	
2002	\$ 4,877,789	2007 through 2011	\$13,803,008
2003	7,478,513	2012 through 2016	757,480
2004	7,019,293	2017 through 2021	721,826
2005	1,775,926	2022 through 2026	950,000
2006	4,202,315	2027	600,000
		Total	\$42,186,150

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H

December 31, 2000

Expressed in thousands of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount ⁽²⁾ payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 3,567,760	6.38	4.30	\$ —	—	—	\$ —	—	—	\$ 3,567,760	6.38	4.30
	—	—	—	(769,039)	5.64	1.51	(237,877)	6.22	5.79	(1,006,916)	5.78	2.52
Adjustable	1,038,587	5.93	12.71	—	—	—	237,877	4.98	5.79	1,276,464	5.75	11.42
	—	—	—	(1,038,587)	5.93	12.71	—	—	—	(1,038,587)	5.93	12.71
Japanese yen												
Fixed	5,702,802	4.46	6.01	785,519	0.93	7.82	43,516	1.71	7.37	6,531,837	4.02	6.24
	—	—	—	(567,903)	3.59	7.03	(1,112,271)	1.94	8.63	(1,680,174)	2.50	8.09
Adjustable	95,735	1.46	11.97	723,254	(0.03)	4.97	1,138,381	0.10	8.84	1,957,370	0.12	7.56
	—	—	—	(26,110)	3.30	13.76	(69,626)	0.77	11.29	(95,736)	1.46	11.96
Swiss francs												
Fixed	2,398,411	5.27	2.49	492,469	4.96	3.04	—	—	—	2,890,880	5.22	2.58
	—	—	—	(305,530)	2.17	3.39	(122,212)	3.33	3.83	(427,742)	2.50	3.52
Adjustable	—	—	—	—	—	—	122,212	3.32	3.83	122,212	3.32	3.83
United States dollars												
Fixed	21,923,644	6.66	6.07	1,306,628	6.25	3.94	455,428	7.17	4.24	23,685,700	6.65	5.92
	—	—	—	(263,644)	4.56	0.74	(9,648,715)	6.17	3.56	(9,912,359)	6.13	3.48
Adjustable	—	—	—	8,080,124	6.38	5.62	11,058,515	6.62	3.51	19,138,639	6.52	4.40
	—	—	—	(1,057,905)	6.61	8.01	(1,865,228)	6.65	3.39	(2,923,133)	6.64	5.06
Others												
Fixed	6,606,999	6.97	4.81	—	—	—	—	—	—	6,606,999	6.97	4.81
	—	—	—	(6,238,824)	6.70	4.46	—	—	—	(6,238,824)	6.70	4.46
Adjustable	60,332	4.36	2.39	—	—	—	—	—	—	60,332	4.36	2.39
	—	—	—	(60,332)	4.36	2.39	—	—	—	(60,332)	4.36	2.39
Total												
Fixed	40,199,616	6.29	5.48	2,584,616			498,944			43,283,176	6.18	5.44
	—	—	—	(8,144,940)			(11,121,075)			(19,266,015)	5.90	4.15
Adjustable	1,194,654	5.49	12.13	8,803,378			12,556,985			22,555,017	5.90	5.06
	—	—	—	(2,182,934)			(1,934,854)			(4,117,788)	6.31	7.11
Principal at face value	41,394,270	6.27	5.67	1,060,120			—			42,454,390	6.15	5.66
Net unamortized discount	(24,090)									(24,090)		
Total	<u>\$41,370,180</u>	<u>6.27</u>	<u>5.67</u>	<u>\$ 1,060,120</u>			<u>\$ —</u>			<u>\$ 42,430,300</u>	<u>6.15</u>	<u>5.66</u>

⁽¹⁾ As of December 31, 2000, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.⁽²⁾ Represents the face value or notional amount of each individual payable or (receivable) leg of swaps, classified by their currency. The net face value amount payable from currency swaps of \$1,060,120 as of December 31, 2000, shown in the above table, is represented by currency swap assets at face value of \$92,926 and currency swap liabilities at face value of \$1,153,046, included in the Balance Sheet. The notional amounts of interest rate swaps are recorded off-balance sheet.**MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING**

December 31, 2000

Expressed in thousands of United States dollars

Year of Maturity		Year of Maturity	
2001	\$ 5,114,271	2006 through 2010	\$14,951,591
2002	4,976,288	2011 through 2015	1,200,500
2003	7,010,704	2016 through 2020	660,869
2004	3,890,292	2021 through 2025	973,814
2005	1,815,941	2026 through 2027	800,000
		Total	<u>\$41,394,270</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE J

December 31, 2001 and 2000

Expressed in thousands of United States dollars⁽¹⁾

Members	Shares	Paid-in portion of subscribed capital		Callable portion of subscribed capital	Total 2001	Total 2000
		Freely convertible currencies	Other currencies			
Argentina	900,154	\$ 361,059	\$104,059	\$10,393,829	\$ 10,858,947	\$ 10,858,947
Austria	13,312	6,900	—	153,688	160,588	160,588
Bahamas	17,398	7,479	4,054	198,347	209,880	209,880
Barbados	10,767	3,879	1,755	124,253	129,887	129,887
Belgium	27,438	14,235	—	316,762	330,997	330,997
Belize	9,178	3,601	3,601	103,516	110,718	110,718
Bolivia	72,258	28,964	8,360	834,355	871,680	871,680
Brazil	900,154	361,059	104,059	10,393,829	10,858,947	10,858,947
Canada	334,887	173,677	—	3,866,209	4,039,887	4,039,887
Chile	247,163	99,149	28,566	2,853,919	2,981,634	2,981,634
Colombia	247,163	99,161	28,554	2,853,919	2,981,634	2,981,634
Costa Rica	36,121	14,500	4,162	417,081	435,743	435,743
Croatia	4,018	2,087	—	46,384	48,471	48,471
Denmark	14,157	7,347	—	163,435	170,782	170,782
Dominican Republic	48,220	19,338	5,573	556,788	581,699	581,699
Ecuador	48,220	19,338	5,573	556,788	581,699	581,699
El Salvador	36,121	14,500	4,162	417,081	435,743	435,743
Finland	13,312	6,900	—	153,688	160,588	160,588
France	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Germany	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Guatemala	48,220	19,338	5,573	556,788	581,699	581,699
Guyana	13,393	5,223	2,570	153,773	161,566	161,566
Haiti	36,121	14,500	4,162	417,081	435,743	435,743
Honduras	36,121	14,500	4,162	417,081	435,743	435,743
Israel	13,126	6,804	—	151,541	158,345	158,345
Italy	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Jamaica	48,220	19,338	5,573	556,788	581,699	581,699
Japan	418,642	217,106	—	4,833,154	5,050,260	5,050,260
Mexico	578,632	232,076	66,904	6,681,308	6,980,288	6,980,288
Netherlands	28,207	14,633	—	325,640	340,273	340,273
Nicaragua	36,121	14,500	4,162	417,081	435,743	435,743
Norway	14,157	7,347	—	163,435	170,782	170,782
Panama	36,121	14,500	4,162	417,081	435,743	435,743
Paraguay	36,121	14,500	4,162	417,081	435,743	435,743
Peru	120,445	48,278	13,957	1,390,745	1,452,980	1,452,980
Portugal	4,474	2,316	—	51,656	53,972	53,972
Slovenia	2,434	1,267	—	28,096	29,362	29,362
Spain	158,638	82,273	—	1,831,446	1,913,719	1,913,719
Suriname	7,342	3,486	2,232	82,852	88,570	88,570
Sweden	27,268	14,139	—	314,807	328,946	328,946
Switzerland	39,347	20,411	—	454,249	474,660	474,660
Trinidad and Tobago	36,121	14,500	4,162	417,081	435,743	435,743
United Kingdom	80,551	41,776	—	929,946	971,722	971,722
United States	2,512,529	1,303,020	—	29,006,704	30,309,724	30,309,724
Uruguay	96,507	38,699	11,171	1,114,335	1,164,206	1,164,206
Venezuela	482,267	216,008	33,331	5,568,456	5,817,795	5,817,795
Total before unallocated amount.	8,367,080	3,870,529	468,760	96,596,415	100,935,704	100,935,704
Unallocated (see Note J)	1,963	1,363	—	22,317	23,680	23,680
Total 2001	<u>8,369,043</u>	<u>\$3,871,892</u>	<u>\$468,760</u>	<u>\$96,618,732</u>	<u>\$100,959,384</u>	
Total 2000	<u>8,369,043</u>	<u>\$3,871,892</u>	<u>\$468,760</u>	<u>\$96,618,732</u>		<u>\$100,959,384</u>

⁽¹⁾ Data are rounded; detail may not add up to subtotals and totals because of rounding.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-7

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER*December 31, 2001*

Member countries	Subscribed shares	Number of votes	% of total number of votes ⁽¹⁾
Regional developing members			
Argentina	900,154	900,289	10.752
Bahamas	17,398	17,533	0.209
Barbados	10,767	10,902	0.130
Belize	9,178	9,313	0.111
Bolivia	72,258	72,393	0.865
Brazil	900,154	900,289	10.752
Chile	247,163	247,298	2.953
Colombia	247,163	247,298	2.953
Costa Rica	36,121	36,256	0.433
Dominican Republic	48,220	48,355	0.577
Ecuador	48,220	48,355	0.577
El Salvador	36,121	36,256	0.433
Guatemala	48,220	48,355	0.577
Guyana	13,393	13,528	0.162
Haiti	36,121	36,256	0.433
Honduras	36,121	36,256	0.433
Jamaica	48,220	48,355	0.577
Mexico	578,632	578,767	6.912
Nicaragua	36,121	36,256	0.433
Panama	36,121	36,256	0.433
Paraguay	36,121	36,256	0.433
Peru	120,445	120,580	1.440
Suriname	7,342	7,477	0.089
Trinidad and Tobago	36,121	36,256	0.433
Uruguay	96,507	96,642	1.154
Venezuela	482,267	482,402	5.761
Total regional developing members	<u>4,184,669</u>	<u>4,188,179</u>	<u>50.018</u>
Canada	334,887	335,022	4.001
United States	2,512,529	2,512,664	30.008
Nonregional members			
Austria	13,312	13,447	0.161
Belgium	27,438	27,573	0.329
Croatia	4,018	4,153	0.050
Denmark	14,157	14,292	0.171
Finland	13,312	13,447	0.161
France	158,638	158,773	1.896
Germany	158,638	158,773	1.896
Israel	13,126	13,261	0.158
Italy	158,638	158,773	1.896
Japan	418,642	418,777	5.001
Netherlands	28,207	28,342	0.338
Norway	14,157	14,292	0.171
Portugal	4,474	4,609	0.055
Slovenia	2,434	2,569	0.031
Spain	158,638	158,773	1.896
Sweden	27,268	27,403	0.327
Switzerland	39,347	39,482	0.472
United Kingdom	80,551	80,686	0.964
Total nonregional members	<u>1,334,995</u>	<u>1,337,425</u>	<u>15.973</u>
Total before unallocated amount	<u>8,367,080</u>	<u>8,373,290</u>	<u>100.000</u>
Unallocated (see Note J)	1,963	2,233	
GRAND TOTAL	<u>8,369,043</u>	<u>8,375,523</u>	

⁽¹⁾ Data are rounded; detail may not add to subtotals and grand total because of rounding.

FUND FOR SPECIAL OPERATIONS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Governors
Inter-American Development Bank

We have audited the accompanying special purpose statements of assets, liabilities and fund balance of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2001 and 2000, and the related special purpose statements of changes in general reserve, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special purpose financial statements have been prepared for the purpose of complying with Article IV, Section 8(d) of the Agreement Establishing the Inter-American Development Bank, as discussed in Note B, and are not intended to be, and in our opinion are not, a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the accompanying special purpose financial statements of the Fund for Special Operations as of December 31, 2001 and 2000 and for the years then ended, are fairly presented, in all material respects, on the basis of accounting described in Note B.

This report was prepared solely for the information and use of the Board of Governors, Board of Executive Directors, and management of the Fund for Special Operations. However, under the Agreement Establishing the Inter-American Development Bank, this report is included in the Annual Report of the Bank and is therefore a matter of public record and its distribution is not limited.

Washington, D.C.
February 13, 2002

Arthur Andersen LLP

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE

Expressed in thousands of United States dollars

	December 31,			
	2001		2000	
ASSETS				
Cash and investments				
Cash	\$ 517,527		\$ 693,675	
Investments	<u>1,041,679</u>	<u>\$1,559,206</u>	<u>819,069</u>	\$ 1,512,744
Loans outstanding		6,636,835		7,024,742
Accrued interest and other charges				
On investments	2,338		4,912	
On loans	<u>48,149</u>	<u>50,487</u>	<u>43,755</u>	48,667
Receivable from members				
Contribution quotas	85,380		113,657	
Non-negotiable, non-interest bearing demand obligations	999,843		1,236,916	
Amounts required to maintain value of currency holdings	<u>279,787</u>	<u>1,365,010</u>	<u>260,539</u>	1,611,112
Property, net		597		654
Other assets		<u>11,743</u>		<u>11,448</u>
Total assets		<u><u>\$9,623,878</u></u>		<u><u>\$10,209,367</u></u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	\$ 2,349		\$ 4,987	
Undisbursed technical cooperation projects and other financings	132,023		155,782	
Advance payments of contribution quotas	<u>—</u>	<u>\$ 134,372</u>	<u>1,801</u>	\$ 162,570
Fund balance				
Contribution quotas authorized and subscribed	9,480,313		9,559,010	
General reserve	4,124		498,345	
Accumulated translation adjustments	<u>5,069</u>	<u>9,489,506</u>	<u>(10,558)</u>	<u>10,046,797</u>
Total liabilities and fund balance		<u><u>\$9,623,878</u></u>		<u><u>\$10,209,367</u></u>

The accompanying notes are an integral part of these special purpose financial statements.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF CHANGES IN GENERAL RESERVE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Income		
Loans		
Interest	\$ 126,459	\$125,471
Credit commissions	4,704	6,603
Service charges	513	608
Supervision and inspection fees	3,220	4,061
	<u>134,896</u>	<u>136,743</u>
Investments	41,376	42,998
Other	7,863	9,235
Total income	<u>184,135</u>	<u>188,976</u>
Expenses		
Administrative expenses	55,604	54,211
Total expenses	<u>55,604</u>	<u>54,211</u>
Excess of income over expenses before technical cooperation expense and HIPC debt initiative	128,531	134,765
Technical cooperation expense	27,424	30,919
HIPC debt relief	540,828	—
Excess of (expenses) over income	(439,721)	103,846
General reserve, beginning of year	498,345	460,999
Allocations to Intermediate Financing Facility Account	(54,500)	(66,500)
General reserve, end of year	\$ 4,124	\$498,345

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Excess of (expenses) over income	\$(439,721)	\$103,846
Translation adjustments on assets and liabilities	(64,086)	(81,072)
Comprehensive (loss) income	\$(503,807)	\$ 22,774

The accompanying notes are an integral part of these special purpose financial statements.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

SPECIAL PURPOSE STATEMENT OF CASH FLOWS

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Cash flows from lending and investing activities		
Lending:		
Loan disbursements (net of participations)	\$ (416,694)	\$ (383,024)
Loan collections (net of participations)	262,385	285,567
Net cash used in lending activities	(154,309)	(97,457)
Miscellaneous assets and liabilities	(1,096)	7,836
Net cash used in lending and investing activities	(155,405)	(89,621)
Cash flows from financing activities		
Capital:		
Collections of receivables from members	277,357	270,881
Net cash provided by financing activities	277,357	270,881
Cash flows from operating activities		
Loan income collections	117,021	130,798
Income from investments	43,641	40,799
Other income	7,863	9,252
Administrative expenses	(57,403)	(42,456)
Technical cooperation and other financings	(51,299)	(56,239)
Net cash provided by operating activities	59,823	82,154
Adjustments to receivable from members	(55,379)	(92,161)
Change in market value of investments	301	(91)
Allocations to the Intermediate Financing Facility Account	(54,500)	(66,500)
Effect of exchange rate fluctuations on cash and investments	(25,735)	(5,339)
Net increase in cash and investments	46,462	99,323
Cash and investments, beginning of year	1,512,744	1,413,421
Cash and investments, end of year	\$1,559,206	\$1,512,744

The accompanying notes are an integral part of these special purpose financial statements.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

December 31, 2001 and 2000

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank is to promote the economic and social development of Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Fund for Special Operations (FSO) was established under the Agreement Establishing the Bank (Agreement) for the purpose of making loans in the less developed member countries in Latin America and the Caribbean by providing financing on terms which are highly concessional. The FSO also provides technical assistance both related to projects and not connected to specific loans. The FSO complements the activities of the Ordinary Capital and the Intermediate Financing Facility Account (IFF). The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The FSO makes annual general reserve allocations to the IFF, as indicated in Note H.

Note B – Summary of Significant Accounting Policies

Due to the nature and organization of the FSO, the accompanying financial statements have been prepared on a special accounting basis. As described below, this special accounting basis is not consistent with United States generally accepted accounting principles (GAAP) with respect to certain items. These special purpose financial statements have been prepared to comply with Article IV, Section 8(d) of the Agreement.

Basis of accounting

The FSO's special purpose financial statements are prepared on the accrual basis of accounting for loan income, investment income and administrative expenses. That is, the effect of transactions and other events is recognized when they occur (not as cash is received or paid) and they are recorded in the accounting records and reported in the annual financial statements of the period to which they relate. The FSO follows a special accounting basis for loans and contribution quotas as described below.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of currencies

The FSO's financial statements are expressed in United States dollars; however, the Bank conducts the operations of the FSO

in the currencies of all of its members. Assets and liabilities denominated in currencies other than the United States dollar are generally translated at approximate market rates of exchange prevailing at the dates of the financial statements. Income and expenses in such currencies are translated at approximate market rates of exchange prevailing during each month. Exchange rate fluctuations generally do not have any effect on the United States dollar equivalents of such currencies because of the maintenance of value provisions described below. The adjustments resulting from the translation into United States dollars of assets and liabilities are presented as a component of comprehensive income in the Special Purpose Statement of Comprehensive Income. The adjustments resulting from the translation of contribution quotas authorized and subscribed that do not have maintenance of value protection, which are derived from the 1983, 1990 and 1995 increases in contribution quotas, are charged or credited directly to accumulated translation adjustments. Under United States GAAP, the contribution quotas authorized and subscribed should be reported at historical rates of exchange prevailing at the date of the relevant replenishment's approval.

Investments

All of the FSO's investment securities are held in a trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments. The investments are included in the Special Purpose Statement of Cash Flows as cash equivalents due to their nature and the Bank's policy governing the level and use of such investments.

Loans

The FSO makes highly concessional loans in convertible currencies to the Bank's least-developed borrowing members, agencies or political subdivisions of such members, or to private enterprises located in their territories. The FSO also makes concessional loans in local currencies, where available, to borrowing members. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the FSO has followed the general policy, since 1967, of requiring a guarantee engaging the full faith and credit of the government. Under the loan contracts with the borrowers, the FSO sells participations in certain loans to the Social Progress Trust Fund (SPTF), reserving to itself the administration of those loans.

Loans generally have up to 40 years final maturity and up to a 10 year grace period for principal payments and generally carry an interest rate of 1% during the grace period and 2% thereafter. The principal amount of loans and accrued interest are repayable in the currencies lent.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

It is the policy of the FSO to place on nonaccrual status all loans to a member government if service under any loan to or guaranteed by the member government, made from any fund owned or administered by the Bank, is overdue more than 180 days. On the date that a member's loan is placed on nonaccrual status, all loans to that member country are also placed on nonaccrual status. When a loan is placed on nonaccrual status, charges that had been accrued and remain unpaid are deducted from the income of the current period. Charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the FSO. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored, and all overdue charges (including those from prior years) are recognized as income from loans in the current period. Except for the debt relief loan write-offs resulting from the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative discussed in Note M, the FSO has never had a write-off on any of its loans and has a policy of not rescheduling loan repayments.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to the financial results of the FSO.

Under United States GAAP, loans are recorded at their net realizable value, including an allowance for amounts estimated to be uncollectible. Management has elected to present loans under a special accounting basis to provide for recording loans at the full face amount of the borrowers' outstanding obligations. Any loan losses that might occur would be charged to income of the current period.

The principal component of FSO loans affected by the enhanced HIPC Initiative are recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve and as a reduction in loans in the Special Purpose Statement of Assets, Liabilities and Fund Balance when the Board of Executive Directors determines that a country has reached completion point. Interim debt relief, which is revocable, during the period between decision and completion points (as defined in Note M) is recognized when relief is delivered to the country. HIPC loans continue to accrue interest and other charges until principal debt relief is delivered. The interest and other charges component of debt relief, if any, is recognized as HIPC debt relief in the period it is forgiven.

Contribution quotas

Recognition: Under United States GAAP, contribution quotas authorized and subscribed should not be recorded until the Bank receives a promissory demand note, which is guaranteed by the member country, as payment of the amount due. To

present the full amount of the member country's commitment, management has elected to report contribution quotas under a special accounting basis that provides for the recording of member's contribution quotas, for each FSO replenishment, in full as contribution quotas receivable upon approval of the relevant replenishment by the Board of Governors.

Contribution quotas come due as a receivable throughout the replenishment period in accordance with an agreed subscription and encashment schedule. The actual subscription and payment of receivables when they become due from certain members is conditional upon the respective member's budgetary appropriation processes. Contribution quotas are settled through payment of cash or non-negotiable, non-interest bearing demand notes. If the receivable is settled in cash, the cash is recorded in cash and investments. The notes are encashed by the FSO as provided in the relevant replenishment resolution.

Valuation: The Agreement provides that the FSO be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978, and consequently the General Counsel of the Bank has rendered an opinion that the Special Drawing Right (SDR) has become the successor to the 1959 United States dollar as the standard of value of the FSO's member contributions and for the purpose of maintaining the value of the FSO's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing board and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using the 1959 United States dollar, which, pursuant to the devaluations of the United States dollar in 1972 and 1973, is equal to approximately 1.2063 current United States dollars, as the basis of valuation. If the 1959 United States dollar were to have been substituted with the SDR on December 31, 2001, the financial position and the results of operations of the FSO would not have been materially affected.

Maintenance of value

In accordance with the Agreement, each member is required to maintain the value of its currency held in the FSO to the extent established by the terms for the respective increases in contribution quotas. Likewise, and subject to the same terms of the contribution quota increases, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency which is held in the FSO. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1,

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

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1959, as provided in the Agreement. Currency holdings derived from the 1983, 1990 and 1995 increases in contribution quotas do not have maintenance of value protection.

Property

Property is recorded at cost. Major improvements are capitalized while routine replacements, maintenance and repairs are charged to expense. Depreciation is computed on the straight-line method over estimated useful lives.

Administrative expenses

Substantially all administrative expenses of the Bank, including depreciation, are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors. During 2001, such expenses were charged 16.0% to the FSO and 84.0% to the Ordinary Capital (2000—16.4% and 83.6%, respectively).

Technical cooperation

Non-reimbursable technical cooperation projects, as well as certain financings whose recovery is explicitly contingent on events that may not occur, are recorded as technical cooperation expense at the time of approval.

Cancellations of undisbursed balances and recuperations of contingently recoverable financings are recognized as an offset to technical cooperation expense in the period in which they occur.

Fair values of financial instruments

The following methods and assumptions were used by the FSO in estimating the fair value disclosures for its financial instruments:

Cash: The carrying amount reported in the Special Purpose Statement of Assets, Liabilities and Fund Balance for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: The FSO is one of very few lenders of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. Interest on all loans within the FSO is accrued at fixed rates. For all loans and related commitments, the FSO is of the opinion that, due to its unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair market value for the FSO's lending portfolio.

Note C – Restricted Currencies

As of December 31, 2001, cash includes \$500,584,000 (2000—\$677,924,000) in non-convertible currencies of regional borrowing members, of which \$53,212,000 (2000—\$64,645,000) has been restricted by one of the members in accordance with provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

Note D – Investments

As part of its overall portfolio management strategy, the Bank invests FSO resources in government, agency, bank and corporate obligations, time deposits and asset and mortgage-backed securities. The Bank limits FSO activities of investing in securities to a list of authorized dealers and counterparties. Strict credit limits have been established for each counterparty.

Government and agency obligations: These obligations include unsubordinated and marketable bonds, notes and other obligations issued or unconditionally guaranteed by a government of a country, an agency or instrumentality of a government of a country, a multilateral organization, or any other official entity. The Bank invests only in (i) obligations of or guaranteed by the government of the member country whose currency is being invested, (ii) obligations issued or unconditionally guaranteed by an agency or instrumentality of the government of certain countries or any other official entity, in any currency, with credit quality equivalent to a AA– or better rating (residential mortgage-backed securities require a AAA rating), (iii) obligations of multilateral organizations, in any currency, with credit quality equivalent to a AAA rating, and (iv) non-local currency obligations of or guaranteed by certain governments with credit quality equivalent to a AA– or better rating.

Bank obligations and time deposits: These obligations include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions. The Bank invests in these types of obligations if the entity issuing or guaranteeing them has a senior debt securities rating of at least A+.

Corporate securities: These obligations include publicly issued, unsubordinated and marketable bonds, notes or other debt obligations issued or unconditionally guaranteed by non-bank corporate entities or trusts. The Bank invests only in these types of securities with credit ratings of AAA.

Asset- and mortgage-backed securities: Asset- and mortgage-backed securities include unsubordinated, marketable asset-backed and residential mortgage-backed obligations issued or

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

unconditionally guaranteed by corporate entities or trusts. The cash flow of these instruments is based on the cash flows of the pool of underlying assets managed by a special purpose vehicle, or trust, which provides credit enhancements to ensure higher credit ratings. The Bank invests only in these types of securities with credit ratings of AAA. In addition, the Bank invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

Trading portfolio: A summary of the FSO's position in trading portfolio securities at December 31, 2001 and 2000 is shown in the Summary Statement of Investments in Appendix II-1.

Net unrealized gains on trading securities, held at December 31, 2001, of \$320,000 (2000—\$20,000) were included in income from investments. The average return on investments, including realized and unrealized gains and losses, during 2001 and 2000 was 3.88% and 5.95%, respectively.

Note E – Loans Outstanding

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed balances, the FSO has entered into irrevocable commitments to disburse approximately \$4,330,000 at December 31, 2001. The loans outstanding of the FSO are shown in the Summary Statement of Loans in Appendix II-2.

The Board of Executive Directors has authorized participations by the SPTF in the United States dollar or local currency portions of loans made from the FSO provided that, with respect to such loans, the provisions of the SPTF Agreement have in substance been complied with as fully as if the loans had been made initially from the SPTF.

At December 31, 2001, there were no countries in nonaccrual status in the FSO. The average maturity for loans outstanding at December 31, 2001 and 2000 was 13.52 years and 13.01 years, respectively, and the average interest rate was 1.74% in both years.

Note F – Contribution Quotas Authorized and Subscribed

Non-negotiable, non-interest bearing demand obligations have been or will be accepted in lieu of the immediate payment of all or any part of a member's contribution quotas. The payment of contribution quotas is conditional on the members' budgetary and, in some cases, legislative processes. The Canadian contribution quota is being increased by collections of principal, interest and service charges on loans extended from the Canadian Trust Fund administered by the Bank. For a Statement of Contribution Quotas at December 31, 2001 and 2000, see Appendix II-3.

Voting power

The number of votes and percent of voting power of the Ordinary Capital for each member country form the basis of decision making concerning the operations of the FSO.

Changes for the period

The following table summarizes the changes in contribution quotas authorized and subscribed for the years ended December 31, 2001 and 2000 (in thousands):

	Contribution quotas authorized and subscribed
Balance at January 1, 2000	\$9,645,641
Contribution by Canada – Trust Fund collections ..	957
Contribution by Switzerland – Additional contribution from terminated trust fund	444
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	(86,831)
Other	(1,201)
Balance at December 31, 2000	9,559,010
Contribution by Canada – Trust Fund collections ..	828
Contribution by Switzerland – Additional contribution from terminated trust fund	321
Translation adjustment of contributions approved in 1983, 1990 and 1995 due to exchange rate fluctuations	(79,713)
Other	(133)
Balance at December 31, 2001	<u>\$9,480,313</u>

As of December 31, 2001, the cumulative decrease in the United States dollar equivalents of contribution quotas because of exchange rate fluctuations was \$300,717,000 (2000—\$221,004,000).

The composition of the receivable from members as of December 31, 2001 and 2000 is as follows (in thousands):

Receivable from members	2001	2000
Regional developing members	\$1,033,258	\$1,047,239
United States	—	16,574
Canada	2,508	5,729
Non-regional members	247,644	432,770
Unallocated	81,600	108,800
Total	<u>\$1,365,010</u>	<u>\$1,611,112</u>

In 2001 and 2000, the FSO reclassified \$55,379,000 and \$92,161,000, respectively, from cash to receivable from members—amounts required to maintain the value of currency holdings relating to its regional developing members.

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

On July 31, 1995, the Board of Governors of the Bank approved the Eighth General Increase in the Resources of the Bank which provided for an increase in the authorized contribution quotas for the FSO of approximately \$1,000,000,000. Encashments of contributions under this increase are due annually through 2005. Under the increase, up to \$136,000,000 of unallocated special contributions to the FSO are to be paid by contributions from members. Any unpaid portion is to be paid to the FSO by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2001 no such contributions had been paid by members. Accordingly, the Bank transferred \$27,200,000, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2001 and 2000. In accordance with the Agreement, these transfers are credited to the total contribution quotas of each member in the FSO in proportion to the number of Ordinary Capital shares held by each member.

Membership

On April 21, 1993, the Bank's Board of Executive Directors decided that the Socialist Federal Republic of Yugoslavia (SFRY) had ceased to be a member of the Bank and that the Republic of Bosnia and Herzegovina, the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (Serbia and Montenegro) are authorized to succeed to the SFRY's membership. Accordingly, the contribution quotas representing SFRY's membership in the FSO of the Bank were classified as unallocated until each successor republic succeeded to the membership of the SFRY. Subsequently, the Republics of Croatia and Slovenia became members of the Bank and subscribed to their allocated share of the contribution quotas. On June 21, 1993, the Government of the former Yugoslav Republic of Macedonia declined the offer to succeed to the membership of the SFRY in the Bank.

Note G – Maintenance of Value Receivable

At December 31, 2001, amounts required to maintain value of currency holdings, included on the Special Purpose Statement of Assets, Liabilities and Fund Balance as a component of receivable from members, includes \$47,302,000 (2000—\$47,415,000) of amounts due from member countries for maintenance of value adjustments resulting from the changes in the values of currencies in 1972 and 1973 due to the devaluation of the United States dollar in those years and \$227,570,000 (2000—

\$208,208,000) relating to adjustments to receivable from members as described in Note F.

Note H – General Reserve

In accordance with resolutions of the Board of Governors, the excess of income over expenses of the FSO is to be added to the general reserve.

In 2001, the Board of Governors allocated the equivalent of \$54,500,000 (2000—\$66,500,000) in convertible currencies from the general reserve of the FSO to the IFF for the purpose of subsidizing part of the interest for which certain borrowers are liable on loans from the Ordinary Capital. Projected allocations from the general reserve of the FSO to the IFF in accordance with various agreements of the Board of Governors are shown in the following table (in thousands):

Year	Capital increases ⁽¹⁾	HIPC initiative ⁽²⁾	Concessional resources agreement ⁽³⁾	Total
2002	\$ 23,500	\$ 26,700	\$ 20,000	\$ 70,200
2003	30,000	11,000	20,000	61,000
2004	30,000	11,000	20,000	61,000
2005	30,000	11,000	20,000	61,000
2006	30,000	11,000	20,000	61,000
2007	30,000	11,000	20,000	61,000
2008	30,000	11,000	20,000	61,000
2009	30,000	11,000	20,000	61,000
2010	30,000	6,000	20,000	56,000
2011	30,000	—	20,000	50,000
2012	—	—	85,000	85,000
2013	—	—	80,000	80,000
2014 to 2019	—	—	390,000	390,000
Total	<u>\$293,500</u>	<u>\$109,700</u>	<u>\$755,000</u>	<u>\$1,158,200</u>

⁽¹⁾ Under the terms of the Sixth and Seventh General Capital Increases in the Resources of the Bank.

⁽²⁾ Transfers to fund additional subsidy payments on Ordinary Capital loans to Bolivia, Guyana and Nicaragua. See Note M for a description of the HIPC Initiative.

⁽³⁾ Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to \$20 million annually from 2000 to 2012 and \$15 million in 2013. Additional transfers of approximately \$65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement of 1999. The level of these additional transfers may change as assumptions are revised in future years.

These allocations are subject to annual approvals by the Board of Governors and to adjustment for appropriate reasons related to the availability of funding for the IFF.

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

The following is a summary of changes in the general reserve for the years ended December 31, 2001 and 2000 (in thousands):

	HIPC Initiative	Income, Other than HIPC	Total General Reserve
Balance at January 1, 2000	\$(177,077)	\$638,076	\$ 460,999
Allocation to IFF	—	(66,500)	(66,500)
Income, excluding HIPC	—	103,846	103,846
Balance at December 31, 2000 . .	(177,077)	675,422	498,345
Allocation to IFF	—	(54,500)	(54,500)
HIPC debt relief	(540,828)	—	(540,828)
Income, excluding HIPC	—	101,107	101,107
Balance at December 31, 2001 . .	<u>\$(717,905)</u>	<u>\$722,029</u>	<u>\$ 4,124</u>

Note I – Accumulated Translation Adjustments

The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2001 and 2000 (in thousands):

	Assets and liabilities	Contribution quotas authorized and subscribed	Total
Balance at			
January 1, 2000	\$(150,490)	\$134,173	\$(16,317)
Translation adjustments	(81,072)	86,831	5,759
Balance at			
December 31, 2000	(231,562)	221,004	(10,558)
Translation adjustments	(64,086)	79,713	15,627
Balance at			
December 31, 2001	<u>\$(295,648)</u>	<u>\$300,717</u>	<u>\$ 5,069</u>

Note J – Administrative Expenses

Pursuant to the policy described in Note B, the FSO shares in all of the expenses incurred by the Bank in the Ordinary Capital including those related to the pension and postretirement benefit plans. During 2001, the Bank's Staff Retirement Plan and Postretirement Benefit Plan had benefit income of \$37,497,000 (2000—\$42,888,000). The FSO's share of such income, which is included in other income, amounted to \$7,200,000 (2000—\$8,449,000).

Note K – Undisbursed Technical Cooperation Projects and Other Financings

The following is a summary of changes in undisbursed technical cooperation projects and other financings for the years ended December 31, 2001 and 2000 (in thousands):

	2001	2000
Balance at January 1,	\$155,782	\$181,133
Approvals	39,412	36,432
Cancellations	(9,814)	(4,279)
Disbursements	(53,357)	(57,504)
Balance at December 31,	<u>\$132,023</u>	<u>\$155,782</u>

Note L – Reconciliation of Excess of (Expenses) Over Income to Net Cash Provided by Operating Activities

A reconciliation of excess of (expenses) over income to net cash provided by operating activities, as shown in the Special Purpose Statement of Cash Flows, is as follows (in thousands):

	Years ended December 31,	
	2001	2000
Excess of (expenses) over income	\$(439,721)	\$103,846
Difference between amounts accrued and amounts paid or collected for:		
Loan income	(17,875)	(5,945)
Income from investments	2,566	(2,290)
Other income	—	17
Net unrealized (gain) loss on investments	(301)	91
Administrative expenses	(1,799)	11,755
Technical cooperation and other financings	(23,875)	(25,320)
HIPC debt relief	540,828	—
Net cash provided by operating activities	<u>\$ 59,823</u>	<u>\$ 82,154</u>

Supplemental disclosure of noncash activities

Decrease resulting from exchange rate fluctuations:		
Loans outstanding	\$ (14,843)	\$ (26,766)
Receivable from members	(23,063)	(48,933)
Contribution quotas authorized and subscribed	(79,713)	(86,831)

Note M – Heavily Indebted Poor Countries (HIPC) Initiative

The Bank is participating in the HIPC Initiative, a concerted, international initiative endorsed by the Group of Seven Countries (G-7), the World Bank and the International Monetary Fund for addressing the debt problems of a group of countries identified as heavily indebted poor countries to ensure that re-

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NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

form efforts of these countries will not be put at risk by continued high external debt burdens. Under the HIPC Initiative, all bilateral and multilateral creditors are providing debt relief for countries that demonstrate good policy performance over an extended period in order to bring their debt service burdens to sustainable levels.

For the Bank, HIPC debt relief, comprised of HIPC I of 1998 and the enhanced HIPC Initiative approved by the Bank's Board of Governors in March 2001, will be for Bolivia, Guyana, Honduras and Nicaragua and is expected to total a net present value of approximately \$ 1.1 billion, which will be delivered from 1998 through 2019. This debt relief is being implemented through a combination of write-offs of FSO loans, transfers from the FSO general reserve to the IFF, conversion of Bank-held FSO local currencies to convertible currencies, and grants of member countries through the World Bank HIPC Trust Fund.

As part of HIPC I, in 1998 the FSO charged off loans to Bolivia and Guyana in the amount of \$ 177.1 million. In addition, the FSO will transfer the equivalent of \$138 million in convertible currencies during the period 1998 to 2010 from its general reserve to the IFF to provide for increased IFF subsidy payments during the period 1998 to 2015 on Ordinary Capital loans. Of this amount \$44,000,000 has already been transferred as of December 31, 2001.

Enhanced HIPC Initiative

As part of the enhanced HIPC, the FSO will deliver debt service relief by forgiving a portion of an eligible country's FSO debt service obligations as they become due. Additional debt service relief to be delivered from 2001 to 2008 will be funded by amounts received from the World Bank HIPC Trust Fund which, including any investment income thereon, are kept separately from the resources of the FSO in the HIPC Account to be used solely for the specific purpose of meeting debt service obligations of eligible countries with the FSO. These resources are not included in the financial statements and will not affect the operations of the FSO.

Under the enhanced HIPC, decision point is reached once the country has established a three-year policy track record. The completion point is achieved once the country has demonstrated continued strong policy performance. During the period between decision point and completion point, referred to as the interim period, partial debt relief, not to exceed one-third of the total relief amount, may be granted to a country. Such interim debt relief is revocable and is contingent upon the country making satisfactory progress towards a strong policy performance. Once a country reaches completion point, the debt relief to the country becomes irrevocable.

Because of its revocable nature, interim debt relief is recognized only when actual relief is delivered to the country. Once the Board of Directors determines that a country has reached completion point, the remaining nominal value of the principal component of the total debt relief to be provided from FSO resources to the country is recorded as a reduction in loans in the Special Purpose Statement of Assets, Liabilities and Fund Balance and as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve. The interest and other charges component of debt relief to be provided from the FSO resources, if any, is recognized as HIPC debt relief in the period the debt relief is delivered.

During 2001, the Board of Executive Directors determined that Bolivia had reached completion point. Accordingly, the FSO recognized as HIPC debt relief an amount of \$514,300,000 representing the estimated nominal value of the principal component of the total debt relief for Bolivia to be provided from FSO resources. During 2001, the Board of Executive Directors also determined that Honduras and Nicaragua had reached decision point and the FSO recognized as HIPC debt relief an amount of \$13,072,000 representing the principal component of debt relief delivered to those countries in 2001. The interest and other charges component of debt relief delivered to Bolivia, Honduras, and Nicaragua from FSO resources amounted to \$13,456,000 in 2001 and is included as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve.

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APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2001 and 2000

Expressed in thousands of United States dollars

Investments	2001		2000	
	Cost	Market value	Cost	Market value
Obligations of governments and agencies	\$ 99,606	\$ 99,830	\$ 3,566	\$ 3,568
Time deposits	337,029	337,029	815,483	815,501
Asset and mortgage-backed securities	604,724	604,820	—	—
	<u>\$1,041,359</u>	<u>\$1,041,679</u>	<u>\$819,049</u>	<u>\$819,069</u>

The freely convertible currencies of the above investments are as follows:

Currencies	2001	2000
British pounds sterling	\$ 43,647	\$ 76,082
Canadian dollars	—	8,613
Euro	1,868	—
Japanese yen	37,936	4,534
Swedish kronor	3,352	—
Swiss francs	1,013	3,856
United States dollars	953,863	725,984
	<u>\$1,041,679</u>	<u>\$819,069</u>

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APPENDIX II-2

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2001 and 2000

Expressed in thousands of United States dollars

Member in whose territory loans have been made	Loans		HIPC debt		Outstanding 2001	Currency in which outstanding portion of approved loans is collectible		Outstanding 2000
	approved, less cancellations	Principal collected ⁽¹⁾	relief	Undisbursed		Freely convertible currencies	Other currencies	
Argentina	\$ 644,904	\$ 461,096	\$ —	\$ 16,330	\$ 167,478	\$ 67	\$ 167,411	\$ 179,608
Barbados	40,750	22,050	—	—	18,700	18,520	180	20,224
Bolivia	1,785,342	301,609	612,744 ⁽²⁾	468,928	402,061	346,088	55,973	855,099
Brazil	1,558,308	1,098,099	—	36,715	423,494	1,845	421,649	447,087
Chile	202,992	194,439	—	—	8,553	3,600	4,953	10,655
Colombia	759,111	507,882	—	28,319	222,910	74,287	148,623	239,863
Costa Rica	346,734	222,732	—	—	124,002	113,933	10,069	135,715
Dominican Republic	698,559	275,784	—	13	422,762	400,434	22,328	436,827
Ecuador	927,620	309,812	—	11,970	605,838	550,431	55,407	606,714
El Salvador	737,140	199,718	—	1,206	536,216	509,197	27,019	555,788
Guatemala	614,796	218,842	—	11,085	384,869	329,176	55,693	388,319
Guyana	636,299	41,656	78,809	201,289	314,545	312,846	1,699	270,135
Haiti	743,748	104,120	—	212,579	427,049	412,263	14,786	431,681
Honduras	1,607,383	257,518	9,369	390,494	950,002	902,746	47,256	866,448
Jamaica	161,573	93,824	—	—	67,749	56,833	10,916	73,066
Mexico	558,986	524,770	—	—	34,216	—	34,216	39,045
Nicaragua	1,510,026	166,911	3,841	464,536	874,738	842,334	32,404	776,924
Panama	280,735	198,728	—	—	82,007	70,778	11,229	92,300
Paraguay	573,160	221,172	—	—	351,988	319,794	32,194	365,681
Peru	418,786	311,854	—	—	106,932	52,179	54,753	117,220
Suriname	2,271	493	—	234	1,544	—	1,544	1,672
Trinidad and Tobago	30,607	19,199	—	—	11,408	163	11,245	12,318
Uruguay	103,921	70,258	—	—	33,663	17,233	16,430	36,682
Venezuela	101,393	101,393	—	—	—	—	—	—
Regional	200,772	136,387	—	274	64,111	59,085	5,026	65,671
Total 2001	<u>\$15,245,916</u>	<u>\$6,060,346</u>	<u>\$704,763</u>	<u>\$1,843,972</u>	<u>\$6,636,835</u>	<u>\$5,393,832</u>	<u>\$1,243,003</u>	
Total 2000	<u>\$14,825,694</u>	<u>\$5,790,121</u>	<u>\$177,151</u>	<u>\$1,833,680</u>		<u>\$5,728,675</u>	<u>\$1,296,067</u>	<u>\$7,024,742</u>

⁽¹⁾ Includes full principal repayment of loans previously sold.⁽²⁾ Includes \$505,592 of debt relief to be delivered in future years.

The freely convertible currencies in which the outstanding portion of approved loans is collectible are as follows:

Currencies	2001	2000
British pounds sterling	\$ 100,689	\$ 90,694
Canadian dollars	378,408	366,977
Danish kroner	26,815	27,237
Euro	720,449	698,714
Japanese yen	203,301	210,771
Norwegian kroner	23,030	22,722
Swedish kronor	40,056	41,259
Swiss francs	45,756	41,243
United States dollars	4,333,333	4,199,473
Venezuelan bolivars	27,587	29,585
	5,899,424	5,728,675
Less: HIPC debt relief not delivered yet ⁽¹⁾	505,592	—
	<u>\$5,393,832</u>	<u>\$5,728,675</u>

⁽¹⁾ Represents the principal component of loans recognized as HIPC debt relief in the Special Purpose Statement of Changes in General Reserve, and as a reduction of loans outstanding in the Special Purpose Statement of Assets, Liabilities and Fund Balance for which debt service relief has not yet been delivered and, accordingly, the related currency of the debt service to be forgiven has not been determined.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-3

STATEMENT OF CONTRIBUTION QUOTAS – NOTE F

December 31, 2001 and 2000

Expressed in thousands of United States dollars

Members	Contribution quotas authorized and subscribed					Contribution quotas receivable from members 2001
	Subject to maintenance of value		Not subject to maintenance of value	Total 2001	Total 2000	
	Before adjustments	Adjustments				
Argentina	\$ 402,819	\$ 29,491	\$ 53,784	\$ 486,094	\$ 485,309	\$ —
Austria	10,955	—	6,357	17,312	17,619	—
Bahamas	8,800	—	1,583	10,383	10,327	—
Barbados	1,403	42	271	1,716	1,681	1
Belgium	27,098	—	13,058	40,156	40,786	—
Belize	—	—	7,472	7,472	7,442	—
Bolivia	32,535	9,671	5,752	47,958	47,723	—
Brazil	402,819	62,220	70,596	535,635	532,708	—
Canada	219,791	12,577	57,204	289,572	291,345	—
Chile	111,440	24,019	19,800	155,259	154,455	—
Colombia	111,385	20,077	19,800	151,262	150,458	—
Costa Rica	16,215	3,954	2,843	23,012	22,895	—
Croatia	3,121	—	1,943	5,064	5,149	—
Denmark	11,692	—	6,762	18,454	18,747	—
Dominican Republic	21,721	7,854	3,856	33,431	33,274	—
Ecuador	21,721	4,246	3,854	29,821	29,665	—
El Salvador	16,215	1,979	2,842	21,036	20,919	—
Finland	10,955	—	6,397	17,352	17,549	—
France	133,396	—	71,765	205,161	208,594	—
Germany	136,692	—	90,164	226,856	227,853	—
Guatemala	21,721	6,790	3,855	32,366	32,209	—
Guyana	6,980	—	1,221	8,201	8,157	6
Haiti	16,215	2,359	2,843	21,417	21,300	14
Honduras	16,215	7,116	2,843	26,174	26,056	—
Israel	10,794	—	7,019	17,813	17,886	—
Italy	133,396	—	63,353	196,749	199,713	—
Jamaica	21,721	2,737	3,855	28,313	28,157	—
Japan	148,825	—	382,836	531,661	586,208	—
Mexico	259,249	15,041	49,083	323,373	321,492	3,336
Netherlands	20,261	—	13,395	33,656	34,302	—
Nicaragua	16,215	4,758	2,835	23,808	23,690	—
Norway	11,692	—	6,775	18,467	18,510	—
Panama	16,215	5,946	2,843	25,004	24,887	—
Paraguay	16,215	8,504	2,843	27,562	27,444	—
Peru	54,492	14,340	9,743	78,575	78,184	—
Portugal	4,994	—	2,047	7,041	7,103	—
Slovenia	1,795	—	1,411	3,206	3,218	—
Spain	133,396	—	62,256	195,652	198,554	—
Suriname	5,280	—	915	6,195	6,171	143
Sweden	23,729	—	11,076	34,805	36,011	—
Switzerland	36,725	—	21,168	57,893	57,966	—
Trinidad and Tobago	16,215	1,532	2,843	20,590	20,472	—
United Kingdom	133,396	—	36,699	170,095	170,913	—
United States	4,100,000	243,666	471,031	4,814,697	4,806,442	—
Uruguay	43,502	3,714	7,714	54,930	54,619	—
Venezuela	250,060	12,109	48,370	310,539	309,058	—
Total before unallocated amount	7,220,071	504,742	1,666,975	9,391,788	9,443,220	3,500
Unallocated (see Note F)	5,447	3	83,075	88,525	115,790	81,880
Total 2001	<u>\$7,225,518</u>	<u>\$504,745</u>	<u>\$1,750,050</u>	<u>\$9,480,313</u>		<u>\$ 85,380</u>
Total 2000	<u>\$7,224,501</u>	<u>\$504,745</u>	<u>\$1,829,764</u>		<u>\$9,559,010</u>	<u>\$113,657</u>

INTERMEDIATE FINANCING FACILITY ACCOUNT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2001 and 2000, and the related statement of changes in fund balance for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States.

Washington, D.C.
February 13, 2002

Curtis Anderson LLP

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in thousands of United States dollars

	December 31,	
	2001	2000
ASSETS		
Cash and investments		
Cash	\$ 5,664	\$ 6,747
Investments	<u>237,704</u>	<u>252,324</u>
Accrued interest on investments	40	215
Total assets	<u>\$243,408</u>	<u>\$259,286</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued expenses	\$ 3,720	\$ 367
Fund balance		
Accumulated translation adjustments	\$ 26,855	\$ 34,887
Other changes in fund balance	<u>212,833</u>	<u>224,032</u>
Total liabilities and fund balance	<u>\$243,408</u>	<u>\$259,286</u>

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in thousands of United States dollars

	Years ended December 31,	
	2001	2000
Additions		
Allocations from Fund for Special Operations	\$ 54,500	\$ 66,500
Income from investments	<u>8,872</u>	<u>12,690</u>
Total additions	<u>63,372</u>	<u>79,190</u>
Deductions		
Interest and principal paid on behalf of Ordinary Capital borrowers	<u>74,571</u>	<u>70,820</u>
(Decrease) increase for the year	<u>(11,199)</u>	<u>8,370</u>
Translation adjustments	<u>(8,032)</u>	<u>(9,248)</u>
Decrease for the year, after translation adjustments	<u>(19,231)</u>	<u>(878)</u>
Fund balance, beginning of year	<u>258,919</u>	<u>259,797</u>
Fund balance, end of year	<u>\$239,688</u>	<u>\$258,919</u>

The accompanying notes are an integral part of these financial statements

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The principal purpose of the Bank is to promote economic and social development in Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Agreement Establishing the Bank (Agreement) provides for operations of the Bank to be conducted through the Fund for Special Operations (FSO) and the Ordinary Capital. In 1983, the Board of Governors of the Bank established the Intermediate Financing Facility Account (IFF) for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The IFF receives annual allocations from the FSO, as indicated in Note D.

In making decisions concerning operations of the IFF, the number of votes and percent of voting power for each member country are the same as determined for the Ordinary Capital.

Note B – Summary of Significant Accounting Policies

The IFF's financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of currencies

The IFF's financial statements are expressed in United States dollars; however, the IFF conducts its operations in various convertible currencies, including the United States dollar. Assets and liabilities denominated in currencies other than the United States dollar are translated at approximate market rates of exchange prevailing at the dates of the financial statements. Income and expenses in such currencies are translated at the approximate market rates of exchange prevailing during each month. The adjustments resulting from the translation of assets and liabilities are shown in the Statement of Changes in Fund Balance as translation adjustments.

Investments

All of the IFF's investment securities are in the trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments in the Statement of Changes in Fund Balance.

Administrative expenses

Administrative expenses of the IFF are paid by the Ordinary Capital and are allocated between the Ordinary Capital and the FSO pursuant to an allocation method approved by the Board of Executive Directors.

Fair values of financial instruments

The following methods and assumptions were used by the IFF in estimating its fair value disclosures for financial instruments:

Cash: The carrying amount reported in the Balance Sheet for cash approximates fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Note C – Investments

As part of its overall portfolio management strategy, the Bank invests IFF resources, both directly and indirectly through an investment pool managed by the Bank, in high quality securities. The Bank manages these resources in the same manner as its own investments. IFF investments include government, agency, bank and corporate obligations, time deposits and asset- and mortgage-backed securities with credit ratings ranging from A+ to AAA.

The Bank limits IFF activities of investing in securities to a list of authorized dealers and counterparties. Strict credit limits have been established for each counterparty.

Trading portfolio: Investment securities held in the trading portfolio are carried at market value as shown in the Summary Statement of Investments in Appendix III-1. Net unrealized gains on trading securities, held at December 31, 2001, of \$5,563,000 (2000—\$22,000) were included in income from investments. The average return on investments during 2001 and 2000, including realized and unrealized gains and losses, was 3.38% and 4.75%, respectively.

Note D – Fund Contributions

The IFF is funded primarily through transfers from the FSO. The IFF is also authorized to receive additional contributions from any member country.

For initial funding purposes, the equivalent of \$61,000,000 in convertible currencies of the general reserve of the FSO was transferred to the IFF on December 15, 1983. Actual and projected allocations from the general reserve of the FSO to the IFF

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

in accordance with various agreements of the Board of Governors are shown in the following table (in thousands):

Year	Capital increases ⁽¹⁾	HIPC initiative ⁽²⁾	Concessional resources agreement ⁽³⁾	Total
Through 1999	\$325,000	\$ 22,000	\$ —	\$ 347,000
2000	23,500	11,000	32,000	66,500
2001	23,500	11,000	20,000	54,500
2002	23,500	26,700	20,000	70,200
2003	30,000	11,000	20,000	61,000
2004	30,000	11,000	20,000	61,000
2005	30,000	11,000	20,000	61,000
2006	30,000	11,000	20,000	61,000
2007	30,000	11,000	20,000	61,000
2008	30,000	11,000	20,000	61,000
2009	30,000	11,000	20,000	61,000
2010	30,000	6,000	20,000	56,000
2011	30,000	—	20,000	50,000
2012	—	—	85,000	85,000
2013	—	—	80,000	80,000
2014 to 2019	—	—	390,000	390,000
Total	<u>\$665,500</u>	<u>\$153,700</u>	<u>\$807,000</u>	<u>\$1,626,200</u>

⁽¹⁾ Under the terms of the Sixth and Seventh General Capital Increases in the Resources of the Bank.

⁽²⁾ As part of the Heavily Indebted Poor Countries Initiative (HIPC), the IFF is increasing subsidy payments on Ordinary Capital loans to Bolivia, Guyana and Nicaragua. In order to fund these additional subsidy payments, the FSO is making additional annual transfers in convertible currencies from its general reserve to the IFF.

⁽³⁾ Mandated allocations under the Concessional resources agreement approved by the Board of Governors in 1999 amount to \$20 million annually from 2000 to 2012 and \$15 million in 2013. Additional transfers of approximately \$65 million annually from 2012 to 2019 will be necessary to fund the 2000–2008 IFF lending mandated under the Concessional resources agreement of 1999. The level of these additional transfers may change as assumptions are revised in future years.

Future allocations are subject to annual approvals by the Board of Governors and to adjustment for appropriate reasons related to the availability of funding for the IFF.

Note E – Accumulated Translation Adjustments

The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2001 and 2000 (in thousands):

	2001	2000
Balance at January 1,	\$34,887	\$44,135
Translation adjustments	(8,032)	(9,248)
Balance at December 31,	<u>\$26,855</u>	<u>\$34,887</u>

Note F – Commitments

The payment by the IFF of part of the interest due from borrowers is contingent on the availability of resources. At December 31, 2001, the amounts disbursed and outstanding and undisbursed, classified by country, under loans on which the IFF would pay part of the interest are as follows (in thousands):

Country	Disbursed and outstanding	Undisbursed
Bahamas	\$ 19,865	\$ —
Barbados	50,986	8,724
Bolivia	288,367	—
Costa Rica	121,883	19,357
Dominican Republic	129,537	222,926
Ecuador	165,529	197,941
El Salvador	211,552	114,631
Guatemala	196,375	150,704
Guyana	25,212	—
Honduras	4,348	—
Jamaica	203,543	188,304
Nicaragua	115,902	—
Panama	107,401	5,798
Paraguay	109,434	56,549
Suriname	25,497	36,777
Trinidad and Tobago	121,636	7,939
Uruguay	97,102	120
Regional	47,593	—
	<u>\$2,041,762</u>	<u>\$1,009,770</u>

The rate of IFF subsidy of interest due from certain borrowers on Ordinary Capital loans is set twice annually by the Board of Executive Directors. The amount of subsidy of the lending rate of IFF subsidized loans can be no more than 5% of eligible loans outstanding, subject to the effective rate paid by the borrowers being at least 1.5% above the convertible currency FSO average interest rate. For certain loans with increased subsidy under the HIPC I, the effective rate paid by the borrowers can be as low as the convertible currency FSO average interest rate. Under the enhanced HIPC, the IFF will subsidize 100% of certain debt service payments (both principal and interest) on Ordinary Capital loans to Nicaragua. Over time, the IFF intends to distribute all of its fund balance to subsidize part of the interest and principal payments for which certain Ordinary Capital borrowers are liable.

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX III-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2001 and 2000

Expressed in thousands of United States dollars

	2001		2000	
	Cost	Market value	Cost	Market value
Investments				
Investment Pool	\$146,434	\$151,997	\$ —	\$ —
Obligations of governments	40,212	40,212	26,086	26,107
Time deposits	45,495	45,495	226,216	226,217
	<u>\$232,141</u>	<u>\$237,704</u>	<u>\$252,302</u>	<u>\$252,324</u>

The freely convertible currencies of the above investments are as follows:

Currencies	2001	2000
Euro	\$ 27,588	\$ 41,487
Japanese yen	40,212	39,163
Swiss francs	17,907	10,215
United States dollars	151,997	161,459
	<u>\$237,704</u>	<u>\$252,324</u>

GOVERNORS AND ALTERNATE GOVERNORS

Country	Governor	Alternate Governor
ARGENTINA	Jorge Remes Lenicov	Roque Maccarone
AUSTRIA	Karl-Heinz Grasser	Thomas Wieser
BAHAMAS	Sir William C. Allen	Ruth Millar
BARBADOS	Reginald R. Farley, MP	Grantley Smith
BELGIUM	Didier Reynders	Frans Godts
BELIZE	Ralph Fonseca	Keith Arnold
BOLIVIA	Jacques Trigo Loubière	Bernardo Requena Blanco
BRAZIL	Martus Antônio Rodrigues Tavares	Dante Coelho de Lima
CANADA	John Manley	Bruce Montador
CHILE	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
COLOMBIA	Juan Manuel Santos	Juan Carlos Echeverri
COSTA RICA	Alberto Dent	Eduardo Lizano Fait
CROATIA	Mato Crkvenac	Josip Kulisic
DENMARK	Carsten Staur	Ove Ullerup
DOMINICAN REPUBLIC	Francisco M. Guerrero Prats-R.	Luis Manuel Piantini Munnigh
ECUADOR	Carlos Julio Emanuel	Jorge Morán Centeno
EL SALVADOR	Juan José Daboub	Rafael Barraza
FINLAND	Pertti Majanen	Matti Kääriäinen
FRANCE	Laurent Fabius	Jean-Pierre Jouyet
GERMANY	Uschi Eid	Rolf Wenzel
GUATEMALA	Eduardo H. Weymann Fuentes	Lizardo Sosa
GUYANA	Bharrat Jagdeo	Saisnarine Kowlessar
HAITI	Marc Bazin	Faubert Gustave
HONDURAS	Gabriela Núñez de Reyes	Victoria Asfura de Díaz
ISRAEL	David Klein	Dan Catarivas
ITALY	Giulio Tremonti	Vincenzo Desario
JAMAICA	Omar Davies, MP	Shirley Tyndall
JAPAN	Masajuro Shiokawa	Masaru Hayami
MEXICO	Francisco Gil Díaz	Agustín Carstens Carstens
NETHERLANDS	Gerrit Zalm	Eveline Herfkens
NICARAGUA	Francisco Aguirre Sacasa	Esteban Duque Estrada
NORWAY	Olav Kjørven	Age Grutle
PANAMA	Norberto Delgado Durán	Eduardo Antonio Quirós B.
PARAGUAY	Francisco Oviedo	James Spalding
PERU	Pedro Pablo Kuczynski G.	Kurt Burneo Farfán
PORTUGAL	Guilherme d'Oliveira Martins	Rodolfo Lavrador
SLOVENIA	Anton Rop	Andrej Kavcic
SPAIN	Rodrigo de Rato y Figaredo	Juan Costa Climent
SURINAME	Humphrey Stanley Hildenberg	Stanley Ramsaran
SWEDEN	Gun Britt Andersson	Ann Uustalu
SWITZERLAND	Oscar Knapp	Adrian Schläpfer
TRINIDAD AND TOBAGO	Gerald Yetming	Victoria Méndez-Charles
UNITED KINGDOM	Clare Short, MP	Hilary Benn, MP
UNITED STATES	Paul H. O'Neill	Alan P. Larson
URUGUAY	Alberto Bensión	Ariel Davrieux
VENEZUELA	Nelson Merentes	Jorge Giordani

As of December 31, 2001

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS

			Number of votes	Percentage of voting power
Ricardo R. Carciofi, ARGENTINA Martín Bès (Alternate), ARGENTINA	Elected by: Argentina Haiti		936,545	11.185
Orlando Ferreira Caballero, PARAGUAY Jorge Crespo-Velasco (Alternate) BOLIVIA	Elected by: Bolivia Paraguay Uruguay		205,291	2.452
José A. Fourquet, UNITED STATES	Appointed by: United States		2,512,664	30.008
Agustín García-López, MEXICO Héctor J. Santos (Alternate) DOMINICAN REPUBLIC	Elected by: Dominican Republic Mexico		627,122	7.489
Marcel Massé, CANADA Alan F. Gill (Alternate), CANADA	Elected by: Canada		335,022	4.001
Daniel Oliveira, BRAZIL Frederico Álvares (Alternate), BRAZIL	Elected by: Brazil Suriname		907,766	10.841
Jaime Pinto Tabini, PERU María Cecilia Otoyá (Alternate) COLOMBIA	Elected by: Colombia Peru		367,878	4.393
Germán Quintana, CHILE César Coronel (Alternate), ECUADOR	Elected by: Chile Ecuador		295,653	3.530
José Carlos Quirce, COSTA RICA José Carlos Castañeda (Alternate) GUATEMALA	Elected by: Belize Costa Rica El Salvador	Guatemala Honduras Nicaragua	202,692	2.420
Roderick G. Rainford, JAMAICA Luis Alberto Rodríguez (Alternate) TRINIDAD AND TOBAGO	Elected by: Bahamas Barbados Guyana	Jamaica Trinidad and Tobago	126,574	1.511
Álvaro Rengifo, SPAIN Pekka J. Hukka (Alternate), FINLAND	Elected by: Austria Denmark Finland France	Norway Spain Sweden	400,427	4.783
José Alejandro Rojas, VENEZUELA Eduardo Linares (Alternate), PANAMA	Elected by: Panama Venezuela		518,658	6.194
Yoshihisa Ueda, JAPAN Michael A. Power (Alternate) UNITED KINGDOM	Elected by: Croatia Japan Portugal	Slovenia United Kingdom	510,794	6.101
Michaela Zintl, GERMANY Theodorus B. Timmermans (Alternate) NETHERLANDS	Elected by: Belgium Germany Israel	Italy Netherlands Switzerland	426,204	5.089
TOTAL:			8,373,290	100.00*

Office of Evaluation and Oversight

Stephen A. Quick, Director
Sixto Felipe Aquino, Deputy Director

As of December 31, 2001

* The figures listed represent the sum of the individual countries' voting percentages, rounded to the nearest one-hundredth of one percent. Consequently, the total of 100% shown may not be identical to the sum of the individual percentages listed.

CHANNELS OF COMMUNICATION AND DEPOSITORIES

Member Country	Channels of Communication	Depository
ARGENTINA	Ministerio de Economía	Banco Central de la República Argentina
AUSTRIA	Federal Ministry of Finance	Österreichische Nationalbank
BAHAMAS	Ministry of Finance and Planning	Central Bank of the Bahamas
BARBADOS	Ministry of Economic Development	Central Bank of Barbados
BELGIUM	Administration de la trésorerie, Service des relations internationales	Banque Nationale de Belgique
BELIZE	Financial Secretary, Ministry of Finance	Central Bank of Belize
BOLIVIA	Banco Central de Bolivia	Banco Central de Bolivia
BRAZIL	Ministério do Planejamento, Orçamento e Gestão, Secretaria de Assuntos Internacionais–SEAIN	Banco Central do Brasil
CANADA	International Financial Institution, Multilateral Programs Branch, Canadian International Development Agency	Bank of Canada
CHILE	Ministerio de Hacienda	Banco Central de Chile
COLOMBIA	Ministerio de Hacienda y Crédito Público	Banco de la República
COSTA RICA	Ministerio de Hacienda	Banco Central de Costa Rica
CROATIA	Ministry of Finance	National Bank of Croatia
DENMARK	Danish International Development Agency (DANIDA)	Danmarks Nationalbank
DOMINICAN REPUBLIC	Banco Central de la República Dominicana	Banco Central de la República Dominicana
ECUADOR	Ministerio de Economía y Finanzas	Banco Central del Ecuador
EL SALVADOR	Casa Presidencial	Banco Central de Reserva de El Salvador
FINLAND	Ministry for Foreign Affairs	Bank of Finland
FRANCE	Ministère de l'Économie, des Finances et de l'Industrie	Banque de France
GERMANY	Federal Ministry for Economic Cooperation and Development	Deutsche Bundesbank
GUATEMALA	Banco de Guatemala	Banco de Guatemala
GUYANA	Ministry of Finance	Bank of Guyana
HAITI	Banque de la République d'Haïti	Banque de la République d'Haïti
HONDURAS	Banco Central de Honduras	Banco Central de Honduras
ISRAEL	Bank of Israel	Bank of Israel
ITALY	Ministry of the Economy and Finance	Banca d'Italia
JAMAICA	Ministry of Finance and Planning	Bank of Jamaica
JAPAN	Ministry of Finance	Bank of Japan
MEXICO	Secretaría de Hacienda y Crédito Público	Banco de México
NETHERLANDS	Ministry of Finance	De Nederlandsche Bank N.V.
NICARAGUA	Ministerio de Fomento, Industria y Comercio	Banco Central de Nicaragua
NORWAY	Royal Norwegian Ministry of Foreign Affairs	Bank of Norway
PANAMA	Ministerio de Economía y Finanzas	Banco Nacional de Panamá
PARAGUAY	Banco Central del Paraguay	Banco Central de Paraguay
PERU	Banco Central de Reserva del Perú	Banco Central de Reserva del Perú
PORTUGAL	Ministério das Finanças	Banco de Portugal
SLOVENIA	Ministry of Finance	Bank of Slovenia
SPAIN	Subdirección General de Instituciones Financieras Multilaterales, Ministerio de Economía	Banco de España
SURINAME	Ministry of Finance	Central Bank van Suriname
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As of December 31, 2001

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